THE CHILDREN'S TRUST
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and
Required Supplementary Information
June 30, 2021

(With Independent Auditors' Report Thereon)

THE CHILDREN'S TRUST
(A Component Unit of the Commonwealth of Puerto Rico)

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION
FISCAL YEAR ENDED JUNE 30, 2021

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INDEPENDENT AUDITORS' REPORT

To: The Members of the Board of Directors of
The Children's Trust

We have audited the accompanying financial statements of the governmental activities and each major fund of The Children's Trust, a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise The Children's Trust basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of The Children's Trust as of June 30, 2021, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 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.

San Juan, Puerto Rico
April 27, 2022.

RSM Puerto Rico

Stamp No. E490597 was affixed to
the original of this report.

As management of the Children's Trust (the Trust), we offer readers of the Trust's financial statements this narrative overview and analysis of the Trust's financial performance during the fiscal year ended June 30, 2021. Please read it in conjunction with the Trust's basic financial statements including the notes thereto, which follow this section.

1. FINANCIAL HIGHLIGHTS

- The Trust's government-wide net deficit for the fiscal year 2021 was approximately $1.35 billion, a net deficit increase of approximately $19.4 million, or approximately 1.5%, as compared to approximately $1.33 billion for fiscal year 2020.

- Government-wide revenues for fiscal year 2021 generated from the Global Settlement Agreement dated November 23, 1998 (the Tobacco Settlement) between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth of Puerto Rico (the Commonwealth) were approximately $80.6 million, an increase of approximately $8.9 million, or approximately 12.4%, as compared to approximately $71.7 million for fiscal year 2020.

- Operating expenses consist of payments for programs and activities permitted by the Trust's enabling legislation, Act 173 of July 30, 1999, as amended (Act 173). Total operating expenses were approximately $104 million, a net decrease of approximately $90 thousand or approximately 0.1%, as compared to approximately $104.1 million for fiscal year 2020. The decrease in expenses resulted from the net of an increase of approximately $1 million due to grant expenses incurred and the decrease of approximately $1.1 million in interest expense on long-term debt in fiscal year 2021.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements include the management's discussion and analysis section, the independent auditors' report, and the basic financial statements of the Trust. 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

Government-Wide Financial Statements – The statement of net position (deficit) and the statement of activities report information on all activities of the Trust. Only governmental activities are presented in the Trust's financial statements. Governmental activities generally are financed through nonexchange revenues. Following is a description of the Trust's government-wide financial statements:

- The statement of net position (deficit) presents the Trust's assets and deferred outflows of resources and the liabilities and deferred inflows of resources, with the difference reported as net position (deficit).

- The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include: (1) interest income on investments and interest-bearing deposits and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements – Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues and expenditures, as appropriate. The financial activities of the Trust reported in the accompanying basic financial statements were classified in two governmental funds. All funds of the Trust are major funds.

4. FINANCIAL ANALYSIS

The statement of net position (deficit) and the statement of activities report information about the Trust's activities in a way that will help understand whether the Trust, as a whole, is better or worse as a result of this year's activities. These two statements report the net deficit of the Trust and the changes in net deficit for the year.

The Trust's net position (deficit)—the difference between assets and the deferred outflows of resources, and liabilities and the deferred inflows of resources—is one way to measure the Trust's financial health or financial position. Over time, increases or decreases in the Trust's net position are one indicator of whether its financial health is improving or deteriorating. However, non-financial factors related to tobacco and general industries and changes in economic conditions and legislation need to be considered as well.

5. GOVERNMENT-WIDE FINANCIAL STATEMENTS ANALYSIS

The government-wide financial statements are designed so that the user could determine whether the Trust is in a better or worse financial position when compared to the prior year. The following is a condensed summary of net deficit of the Trust compared with prior year (in thousands):

	As of June 30,		Change	
	2021	2020	Amount	Percent
Assets:				
Current assets	$ 10,538	$ 11,417	$ (879)	(7.7%)
Non-current restricted assets	144,509	144,713	(204)	(0.1%)
Total assets	155,047	156,130	(1,083)	(0.7%)
Deferred outflows of resources	3,779	6,743	(2,964)	(44.0%)
Liabilities:				
Current liabilities	4,697	5,568	(871)	(15.6%)
Non-current liability	1,507,960	1,491,710	16,250	1.1%
Total liabilities	1,512,657	1,497,278	15,379	1.0%
Net deficit	$ (1,353,831)	$ (1,334,405)	$ (19,426)	1.5%

As previously explained, for fiscal year 2021, the Trust's net deficit increased by approximately $19.4 million, to approximately $1.35 billion, as compared to fiscal year 2020, due to the following:

- Net decrease in total assets of approximately $1.1 million, primarily related to a decrease in investments and investment contracts amounting to approximately $376,000 and a decrease in cash amounting to approximately $879,000, net of an increase in the account receivable from the Tobacco Settlement of approximately $177,000.

- Decrease in deferred outflows of resources of approximately $3 million mainly from the amortization of deferred loss on bonds refunding.

- Net increase in total liabilities of approximately $15.4 million, mainly from capital appreciation bonds from the net effect of interest capitalization for fiscal year 2021 of approximately $61 million and principal payment made amounting to $44.7 million, net of a decrease in current liabilities of approximately $871,000.

Condensed statements of activities are presented below (in thousands):

Function/Program	For the Year Ended June 30, 2021	For the Year Ended June 30, 2020	Change Amount	Change Percent
Expenses of governmental activities:				
Health	$ 1,047	$ -	$ 1,047	100%
Interest on long term debt and other - net	102,957	104,094	(1,137)	(1.1%)
Total	104,004	104,094	(90)	(0.1%)
Revenues of governmental activities:				
Investment earnings	3,402	3,715	(313)	(8.4%)
Global Settlement Agreement	80,577	71,669	8,908	12.4%
Other income	600	-	600	100%
Total	84,579	75,384	9,195	12.4%
Change in net deficit	$ (19,425)	$ (28,710)	$ 9,285	(32.3%)

For fiscal year 2021, the Trust had a net deficit decrease of approximately $9.3 million from approximately $28.7 million in fiscal year 2020 to approximately $19.4 million in fiscal year 2021. This net deficit decrease was mainly due to: (1) an increase in revenues of approximately $9.2 million and (2) a decrease in expenses related to governmental activities of approximately $90,000. The net increase in revenues was mainly attributed to an increase in the annual contribution from the Tobacco Settlement, which depends on the actual shipment of cigarettes each year. The net decrease in expenses mostly resulted from an increase of approximately $1 million due to grant expenses incurred, net of approximately a decrease in $1.1 million in interest on long-term debt in fiscal year 2021.

6. GOVERNMENTAL FUND FINANCIAL STATEMENTS ANALYSIS

The Trust's governmental funds reported fund balances of approximately $117.9 million as of June 30, 2021, which is approximately $690,000 less than the prior fiscal year ending June 30, 2020. The fund balance decrease in governmental funds was mainly due to a decrease in investments and investment contracts amounting to approximately $376,000 and a decrease in cash amounting to approximately $879,000.

The following is a rounded summary of fund balances of the Trust compared with the prior year (in thousands) in the government funds:

	As of June 30,		Change	
	2021	2020	Amount	Percent
Assets	$ 155,048	$ 156,130	$ (1,082)	(0.7%)
Liabilities and deferred inflows of resource	$ 37,103	$ 37,496	$ (393)	(1.0%)
Fund Balance	117,945	118,634	(689)	(0.6%)
Total liabilities, deferred inflows of resources and fund balances	$ 155,048	$ 156,130	$ (1,082)	(0.7%)

7. DEBT ADMINISTRATION

During the fiscal year ended June 30, 2021, principal payments on bonds payable amounted to approximately $44.7 million. As of June 30, 2021, the remaining balance on bonds was approximately $1.5 billion, net of approximately $13.5 million of non-accreted bond discount, due through fiscal year 2057.

8. CURRENTLY KNOWN FACTS

Commonwealth Plan of Adjustment

As described in Note 10, on January 18, 2022, the Title III Court entered its findings of fact and conclusions of law (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. 19812] (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.

The Commonwealth Plan of Adjustment discharges any claim related to budgetary appropriations, including appropriations for the repayment of certain loans held by the PET (defined below). For further information on the Commonwealth Plan of Adjustment refer to Note 10 and the Commonwealth Plan of Adjustment, Findings of Fact, and Commonwealth Confirmation Order, which are available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

COVID-19 Pandemic

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

As the Government observes and assesses the results of its measures to control the negative health and economic effects of COVID-19 on the people of Puerto Rico and Puerto Rico's economy, it will continually re-evaluate and further amend restrictions, if any, as necessary based on continued public health developments.

9. REQUEST FOR INFORMATION

This financial report is designed to provide those interested with a general overview of the Trust's finances and to enhance the Trust's accountability for the funds it receives. Questions about this report or requests for additional information should be addressed to the Trust, PO Box 42001, San Juan, Puerto Rico, 00940-2001.

THE CHILDREN'S TRUST
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION (DEFICIT)
JUNE 30, 2021

	Governmental Activities
ASSETS	
CURRENT ASSETS:	
Cash	$ 10,538,284
Total current assets	10,538,284
NON-CURRENT RESTRICTED ASSETS:	
Investments and investment contracts	107,049,224
Accrued interest receivable	442,271
Receivable from Global Settlement Agreement	37,017,831
Total noncurrent restricted assets	144,509,326
Total assets	155,047,610
DEFERRED OUTFLOWS OF RESOURCES -	
Deferred loss on bonds defeasance	3,779,101
LIABILITIES	
CURRENT LIABILITY:	
Accounts payable	84,499
NON-CURRENT LIABILITIES:	
Liabilities payable from restricted assets-	
Accrued interest payable	4,612,640
Bonds payable	1,507,960,217
Total liabilities	1,512,657,356
NET POSITION (DEFICIT)	
Restricted	139,896,686
Unrestricted	(1,493,727,331)
Total net deficit	$ (1,353,830,645)

See notes to basic financial statements.

THE CHILDREN'S TRUST
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

		Program Revenues		Net Revenues / (Expenses)
Functions/Programs	**Expenses**	**Investment Earnings**	**Operating Contributions**	**and Changes in Net Deficit**
GOVERNMENTAL ACTIVITIES:				
Health	$ 1,046,883	$ -	$ -	$ (1,046,883)
Debt service and other	102,957,301	3,396,050	80,576,977	(18,984,274)
Total governmental activities	$ 104,004,184	$ 3,396,050	$ 80,576,977	(20,031,157)
GENERAL REVENUES:				
Investment earnings				5,860
Other income				600,000
Total general revenues				605,860
CHANGE IN NET DEFICIT				(19,425,297)
NET DEFICIT – Beginning of year				(1,334,405,348)
NET DEFICIT – End of year				$ (1,353,830,645)

See notes to basic financial statements.

THE CHILDREN'S TRUST
(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET — GOVERNMENTAL FUNDS
JUNE 30, 2021

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash	$ 10,538,284	$ -	$ 10,538,284
Investment and investment contracts	-	107,049,224	107,049,224
Accrued interest receivable	-	442,271	442,271
Receivable from Global Settlement Agreement	-	37,017,831	37,017,831
Total assets	$ 10,538,284	$ 144,509,326	$ 155,047,610
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES – accounts payable	$ 84,499	$ -	$ 84,499
DEFERRED INFLOWS OF RESOURCES –			
Unearned revenue	-	37,017,831	37,017,831
FUND BALANCES:			
Restricted	10,089,415	107,491,495	117,580,910
Unassigned	364,370	-	364,370
Total fund balances	10,453,785	107,491,495	117,945,280
Total liabilities, deferred inflows of resources and fund balances	$ 10,538,284	$ 144,509,326	$ 155,047,610

See notes to basic financial statements.

THE CHILDREN'S TRUST
(A Component Unit of the Commonwealth of Puerto Rico)

RECONCILIATION OF BALANCE SHEET — GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION (DEFICIT)
JUNE 30, 2021

FUND BALANCES OF GOVERNMENTAL FUNDS	$	117,945,280
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES ARE DIFFERENT IN THE STATEMENT OF NET POSITION (DEFICIT) BECAUSE:		
Receivable from Global Settlement Agreement to be applied to debt service will not be received in the current period and, therefore, is reported as deferred inflows of resources in the fund financial statements.		37,017,831
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the fund financial statements.		-
Bonds payable are not due and payable in the current period and, therefore, are not reported in the fund financial statements.		(1,507,960,217)
Unamortized loss on bonds refunding is not reported as an expenditure in the governmental fund financial statements; however, such loss is deferred and amortized over the life of the bonds and is presented as deferred outflows of resources in the statement of net position (deficit).		3,779,101
NET DEFICIT OF GOVERNMENTAL ACTIVITIES	$	(1,349,218,005)

See notes to basic financial statements.

THE CHILDREN'S TRUST
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES:			
Investment earnings	$ 5,860	$ 3,396,050	$ 3,401,910
Other income	600,000	-	600,000
Revenue from Global Settlement Agreement	-	80,400,184	80,400,184
Total revenues	605,860	83,796,234	84,402,094
EXPENDITURES:			
Health	1,046,883	-	1,046,883
Other	82,578	-	82,578
Debt service:			
Principal	-	44,745,000	44,745,000
Interest	-	39,216,130	39,216,130
Total expenditures	1,129,461	83,961,130	85,090,591
OTHER FINANCING SOURCES/(USES) -			
Transfers in/(out)	215,441	(215,441)	-
NET CHANGES IN FUND BALANCES	(308,160)	(380,337)	(688,497)
FUND BALANCES - Beginning of year	10,761,945	107,871,832	118,633,777
FUND BALANCES - End of year	$ 10,453,785	$ 107,491,495	$ 117,945,280

See notes to basic financial statements.

THE CHILDREN'S TRUST
(A Component Unit of the Commonwealth of Puerto Rico)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS	$	(688,497)
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES ARE DIFFERENT IN THE STATEMENT OF ACTIVITIES BECAUSE:		
Net change in receivable from Global Settlement Agreement is reported as revenue in the statement of activities, but is not reported in the fund financial statement since it does not provide current financial resources.		176,792
Net change in interest payable reported in the statement of activities that does not require the use of current financial resources and, therefore, are not reported as an expenditure in the governmental funds.		300,630
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces bonds payable in the statement of net position; this is the amount of redemption on bond principal during the year.		44,745,000
Interest capitalization on the 2005 and 2008 Series of the Tobacco Settlement Asset-Backed Bonds do not require the use of current financial resources and, therefore, are not reported as expenditure in governmental funds.		(60,158,081)
The amortization of deferred loss on bonds refunded and the accretion of bonds discount do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds-		
Accretion of bond discount		(837,140)
Amortization of loss on refunding		(2,964,001)
CHANGE IN NET DEFICIT OF GOVERNMENTAL ACTIVITIES	$	(19,425,297)

See notes to basic financial statements.

1. REPORTING ENTITY

The Children's Trust (the Trust) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth) created by Act 173 of the Legislature of the Commonwealth on July 30, 1999, and an affiliate of the Government Development Bank of Puerto Rico (GDB), a component unit of the Commonwealth. The Trust was created for the purpose of developing programs aimed at promoting a better quality of life and the well-being of families, children, and youth in Puerto Rico, especially in the areas of education, recreation and health. These programs are financed with funds received by the Commonwealth from the Tobacco Settlement. Pursuant to Act 173, the Commonwealth assigned and transferred to the Trust the contributions that the Commonwealth is entitled to receive under the Tobacco Settlement. The Tobacco Settlement provides for annual payments through the year 2057, which will vary due to inflationary and volume adjustments. After 2057, the tobacco companies shall continue making contributions in perpetuity. Currently, all of the proceeds received from the Tobacco Settlement are pledged to cover the debt service requirements under three outstanding bond issuances of the Trust.

Act 173 also provides that GDB will act as the trustee of the Trust. However, GDB's prior functions are now carried out by the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF), as the new fiscal agent and financial advisor to the Commonwealth pursuant to Act 2 of January 18, 2017, as amended. Pursuant to Act 173, the Trust is exempt from taxation in Puerto Rico.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Bank conform to U.S. GAAP, as applicable to governmental entities. The Bank follows Governmental Accounting Standards Board (GASB) statements under the hierarchy established by Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* in the preparation of its basic financial statements.

The preparation of basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses/expenditures during the reported period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the account receivable from global settlement agreement and the related deferred inflow.

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

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements – The statement of net position (deficit) and the statement of activities report information on all balances and activities of the Trust. The effect of interfund balances has been removed from both statements. Governmental activities are financed through revenues from the Tobacco Settlement, intergovernmental revenues, and investment earnings.

The statement of net position (deficit) presents the Trust's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position (deficit).

Net position (deficit) is reported in three categories:

- Net investment in capital assets – consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets, if any. The Trust has no investment in capital assets.
- Restricted – results when constraints placed on net position use are either externally imposed by creditors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the Trust's policy to use restricted resources first and the unrestricted resources when they are needed.
- Unrestricted – consists of net position (deficit) that does not meet the definition of the two preceding categories. Unrestricted net position often is designated to indicate that management does not consider it to be available for general operations. Unrestricted net position often has constraints on resources, which are imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include earnings on investments. Other items not meeting the definition of program revenues are reported as general revenues.

Fund's Financial Statements – Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. All of the financial activities of the Trust are reported in the accompanying basic financial statements and have been classified as governmental. All funds of the Trust are major funds.

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

- Non-spendable – amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- Restricted – amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- Committed – amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority.
- Assigned – amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- Unassigned – amounts that are available for any purpose.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide 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 a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements imposed by the provider have been met.

Governmental Fund's Financial Statements – The governmental fund's financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Trust considers revenues to be available if they are to be collected within 120 days after the end of the current fiscal year-end. Expenditures are recorded when the related liability is incurred. An exception to this general rule includes principal and interest on general long-term debt, which is recognized when due.

The financial activities of the Trust that are reported in the accompanying basic financial statements have been classified into the following major governmental funds:

- *General Fund* – The general fund is used to account for grants awarded to promote a better quality of life and the well-being of families, children, and youth in Puerto Rico. During the fiscal year ended June 30, 2021, grants were awarded for health and other purposes.

- *Debt Service Fund* – This debt service fund is used to account for proceeds from the Tobacco Settlement and for the payment of interest and principal on long-term obligations.

Budgetary Accounting – The Trust is not required by Act 173 to submit a budget for approval by the Legislature of the Commonwealth; consequently, no formal budgetary accounting procedures are followed.

Cash Equivalents – Cash equivalents are defined as highly liquid investments with original maturities at the date of purchase of three months or less.

Investments and Investment Contracts – 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, carried at cost, which approximate fair value. Fair value is determined based on quoted market prices, and quotations received from independent broker/dealers or pricing services organizations.

GASB Statement No. 72, *Fair Value Measurement and Application,* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

This statement 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.

Long-term debt, bond issue costs and bond discounts – The liabilities reported in the government-wide financial statements are bonds payable. Bonds payable are reported net of the applicable bond premium or discount. In the government-wide financial statements and the governmental funds financial statements, the bond issue costs are recorded as expenditures when paid. Discount on bonds is accreted over the life of the debt using the effective interest method in the government-wide financial statements. Discount on bonds is accounted for in the governmental funds as expenditures when paid.

***Deferred Outflows/Inflows of Resources* -** In addition to assets, the statement of net position (deficit) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position (deficit) that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Trust has one major caption that qualifies for reporting in this category: the unamortized balance of loss on bonds defeasance, reported in the government-wide statement of net position (deficit). A loss on bond defeasance, or refunding, results from the difference in the carrying value of a refunded debt and its reacquisition price. This amount is capitalized and amortized over the shorter of the life of the refunded or refunding debt as a component of interest expense in the government-wide statement of activities. Further information about the balance of unamortized deferred refunding losses is discussed in Note 7.

In addition to liabilities, the statement of net position (deficit) and the governmental funds' balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position (deficit) and resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Trust has only one type of caption that qualifies for reporting in this category, and that is unearned revenue from the Tobacco Settlement, reported in the governmental fund balance sheet. Deferred inflows of resources at the governmental fund level arise when potential revenue does not meet the "available" criteria for revenue recognition in the current period under the accrual basis of accounting. In subsequent periods, when the revenue recognition criteria is met, or when the applicable resources become available, the deferred inflow of resources is removed from the balance sheet, and the revenue is recognized. Further information about the balance of unearned revenue is discussed below and in Note 9.

Receivable and Revenue from Tobacco Settlement – The Trust follows the GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue*, as amended by GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (the GASB 48), which provides accounting guidance for entities created to obtain the rights to all or a portion of future tobacco settlement resources and for the governments that create such entities.

GASB 48 indicates that the entity created to obtain the rights, which is called the Tobacco Settlement Authority (TSA), should be considered a component unit of the government that created it and that the component unit should be accounted for as a blended component unit. GASB 48 also states that the government receiving the payments from the tobacco companies under the Tobacco Settlement, which is called the settling government, should recognize a receivable and revenue for tobacco settlement resources when an event occurs. The event that results in the recognition of an asset and revenue by a settling government is the domestic shipment of cigarettes. GASB 48 indicates that accruals should be made by the settling government and TSA for estimated shipments from January 1 to their respective fiscal year-ends, since the annual payments are based on a calendar year. However, under the modified-accrual basis of accounting at the fund level, revenue should be recognized only to the extent that resources are available.

GASB 48 addresses the question of how the settling governments should report the receipt of the resources provided by the TSA's remittances of the proceeds of the bonds sold. Since the TSA should be reported as a blended component unit, GASB 48 indicates these remittances should be reported as transfers into the fund receiving the proceeds and transfers out of the fund that accounts for the activities of the TSA. Since the Trust has no contractual obligation, under its enabling legislation or elsewhere, to remit all bond proceeds or assets related to the Tobacco Settlement to the Commonwealth, the Trust recognizes as expenses amounts that are disbursed for grants to the Commonwealth (including its instrumentalities) or third parties.

Interfund transfers – Legally required transfers are reported when incurred as transfer in by the recipient fund and as transfer out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these advances, transfers, and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government-wide financial statements.

Risk Management - To minimize the risk of loss, the Trust is covered by AAFAF's insurance coverage for public liability, hazard, automobile, crime, and bonding.

During the fiscal year ended on June 30, 2021, 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 Trust.

GASB has issued the following accounting pronouncements that have an effective date after June 30, 2021:

(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 the Statement are effective for reporting periods after December 15, 2019, 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 Year End before 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 GASB 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 the Statement are effective for reporting periods after December 15, 2019, 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, 2020, 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 GASB Statement No. 87, *Leases*, and *Implementation Guide No. 2019-3*, *Leases*, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended*, and GASB 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 GASB Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The requirements of the Statement are effective for reporting periods 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 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*.

(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 GASB Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

(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 GASB Statement No. 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.

3. DEPOSITS PLACED WITH BANK

Custodial credit risk is the risk that in the event of a financial institution's failure, the Trust'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, 2021, none of the depository Trust balance is uninsured or uncollateralized, as indicated in the following table:

	Carrying Amount	Bank Balance	Amount uninsured and uncollaterized
Commercial bank	$ 10,538,284	$ 10,538,284	$ -

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 against GDB exchanged their claims for bonds issued by a newly created public instrumentality—the GDB Debt Recovery Authority (the GDB DRA)- and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets and its unencumbered cash. In addition, pursuant to the GDB Restructuring Act, claims on account of deposits held by the Commonwealth and other public entities were exchanged for interest in a newly formed trust titled the Public Entity Trust (the PET), created pursuant to Act 109-2017, also known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act).

Under the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates (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 received their pro rata share of interests in the PET, which was deemed to be 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 Trust received beneficial units of the PET amounting to $16.6 million in exchange for the deposits held at GDB.

The total assets of the PET (the PET Assets) consist of among other items, an unsecured claim against the Commonwealth of approximately $578 million, which is the subject of a proof of claim filed in the Commonwealth's Title III case. The Official Committee of Unsecured Creditors appointed in the Title III cases has objected to this PET Claim and, as of the date hereof, the Title III Court has not determined if the PET Claim is an allowed claim that will be entitled to a distribution. The 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. Claims that the Commonwealth and other governmental entities may have had against GDB have been released pursuant to the Qualifying Modification and the GDB Restructuring Act (except for as set forth therein).

As discussed in Note 10, 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 Trust's recovery of the PET units will depend on the payment of the claim filed in the Commonwealth's Title III case. As a result, units received from the PET are fully reserved.

5. INVESTMENTS AND INVESTMENT CONTRACTS

The Trust follows the investment guidelines promulgated by GDB under Act 113 of August 3, 1995, and Executive Order 1995-50A, which detail the categories for which the Trust may purchase or enter into investments, and establish limitations and other guidelines on maturities and amounts to be invested in the aforementioned investment categories and by issuer/counterparty and on exposure by country.

Therefore, the GDB's investment policies allow management to purchase or enter into the following investment instruments:

- U.S. government and agencies obligations
- Certificates of deposit and time deposits
- Bankers' acceptances
- Obligations of the Commonwealth of Puerto Rico, its agencies, municipalities, public corporations, and instrumentalities
- Federal funds sold
- Securities purchased under agreements to resell
- World Bank securities
- Mortgage-backed and asset-backed securities

- Corporate debt, including investment contracts
- External investment pools
- Stock of corporations created under the laws of the United States of America or the Commonwealth of Puerto Rico
- Options, futures, and interest-rate swap agreements for hedging and risk control purposes, as well as for the creation of synthetic products which qualify under any of the foregoing investment categories
- Open-end mutual funds with acceptable underlying assets and rated AAA by Standard & Poor's or its equivalent by Moody's Investors Service.

As of June 30, 2021, the Trust maintains approximately $107 million in investments and investment contracts, which are held as debt service reserves in trust accounts with US Bank (the trustee) that are governed by the applicable bond indenture. All of the funds used for debt service are held by the trustee in the name of the Trust with the exception of $83.7 million of non-participating investment contracts.

As of June 30, 2021, the Trust had the following recurring fair value measurements:

Investment type	Level 1	Level 2	Level 3	Total
External Investment pools- fixed income securities:				
First American Money Market Fund	$ 23,364,989	$ -	$ -	$ 23,364,989
Nonparticipating investment contracts-				
UniCredit Bank AG-Guaranteed Investment Contract	-	-	83,684,235	83,684,235
	$ 23,364,989	$ -	$ 83,684,235	$ 107,049,224

The following table summarizes the type and maturities of investments at fair value held by the Trust as of June 30, 2021. Based on concentration credit risk, investments by type in any one issuer representing 5% or more of total investments have been separately disclosed.

Investment type	Within One year	Within to Five Years	Within to Ten Years	After Ten Years	Total
External investment pools - fixed income securities:					
First American Money Market Fund	$ 23,364,989	$ -	$ -	$ -	$ 23,364,989
Nonparticipating investment contracts- UniCredit Bank AG-Guaranteed Investment Contract	-	-	-	83,684,235	83,684,235
	$ 23,364,989	$ -	$ -	$ 83,684,235	$ 107,049,224

The credit quality ratings for investments and investments contracts as of June 30, 2021, are as follows:

	Credit Risk Rating	
Counter Party	Standard & Poor's	Moody's
First American	AAAm	Aaa-mf
UniCredit SpA	BBB	Baa1

6. SERVICE AGREEMENT

On July 10, 2020, the Trust entered into an agreement with AAFAF whereby AAFAF provides managerial, administrative, and financial supporting services to the Trust. Pursuant to this agreement, the Trust was invoiced $30 thousand during the fiscal year ended June 30, 2021. Such amount was included in accounts payable as of June 30, 2021.

7. BONDS PAYABLE

On October 10, 2002, the Trust refunded its then outstanding $390,170,000 Tobacco Settlement Asset Backed Bonds, Series 2000 dated as of October 1, 2000, with new 2002 Series bonds (the Series 2002 Bonds) in the amount of $1,171,200,000. As of June 30, 2021, the outstanding balance of these bonds consists of single rated term bonds (the Term Bonds) maturing from May 15, 2025 to 2033 ($210,575,000 at 5.375%), from May 15, 2034 to 2039 ($310,380,000 at 5.5%) and from May 15, 2040 to 2043 (296,255,000 at 5.625%).

The Term Bonds are subject to mandatory redemption in whole or in part prior to their respective stated maturity dates from the Tobacco Settlement collections in excess of the minimum amount required to pay the scheduled annual debt service and administrative expenses may be used to redeem bonds at the redemption price of 100% of the principal amount thereof, together with interest accrued thereon, to the date fixed for redemption.

On June 30, 2005, the Trust issued a new series of Tobacco Settlement Asset-Backed Bonds, Series 2005A and 2005B (the Series 2005A and Series 2005B Bonds), for $108,209,446. The Series 2005A and Series 2005B Bonds consist of capital appreciation bonds maturing on May 15, 2026 ($74,523,431 at 6.50% plus accreted interest) and capital appreciation bonds maturing on May 15, 2028 ($33,686,016 at 7.25% plus accreted interest), respectively. As of June 30, 2021, the outstanding balances of Series 2005A and Series 2005B Bonds consist of $207,403,765 and $105,285,114, respectively.

On April 30, 2008, the Trust issued a new series of Tobacco Settlement Asset-Backed Bonds, Series 2008A and 2008B (the Series 2008A and Series 2008B Bonds), for $195,878,970. The Series 2008A and Series 2008B Bonds consist of capital appreciation bonds maturing on May 15, 2057 ($139,003,082 at 7.625% plus accreted interest), and capital appreciation bonds maturing on May 15, 2057 ($56,875,888 at 8.375% plus accreted interest), respectively. As of June 30, 2021, the outstanding balances of the Series 2008A and 2008B Bonds consist of $372,343,323 and $167,527,944, respectively.

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The Series 2008A and Series 2008B Bonds are subordinated and are not entitled to receive any payments until the date when the Series 2005A and Series 2005B Bonds are no longer outstanding. The Series 2005A and Series 2005B Bonds are subordinated and are not entitled to receive any payments until the date when the Series 2002 Bonds are no longer outstanding. In addition, the Series 2008B and Series 2005B Bonds are subordinated to the Series 2008A and Series 2005A Bonds, respectively, and are not entitled to receive any payments until the date when the Series 2008A or 2005A Bonds are no longer outstanding. All bonds are secured by 100% of the annual payments received under the Tobacco Settlement. As of June 30, 2021, principal and interest payments on all of the Trust's outstanding bonds are current.

Changes in bonds payable for the year ended June 30, 2021, are summarized as follows (in thousands):

	Balance at July 1, 2020	Additions	Debt Paid	Other Increases	Balance at June 30, 2021	Due Within One Year
Bonds payable	$ 1,506,062	$ -	$ (44,745)	$ 60,158	$ 1,521,475	$ -
Less:						
Unaccreted discount	(14,353)	-	-	838	(13,515)	-
Bonds payable	$ 1,491,709	$ -	$ (44,745)	$ 60,996	$ 1,507,960	$ -

Changes in deferred outflows of resources during the year ended June 30, 2021, are summarized as follows (in thousands):

Description	Balance at July 1, 2020	Accretion	Balance at June 30, 2021
Deferred loss on refunding	$ (6,743)	$ 2,964	$ (3,779)

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

Year Ending June 30,	Principal	Interest	Total
2022	$ -	$ 45,054	$ 45,054
2023	-	45,054	45,054
2024	-	45,054	45,054
2025	-	45,054	45,054
2026	-	45,054	45,054
2027-2031	65,600	213,405	279,005
2032-2036	201,480	167,632	369,112
2037-2041	310,725	99,045	409,770
2042-2046	158,215	13,478	171,693
2047-2051	-	-	-
2052-2056	-	-	-
2057	8,634,580	-	8,634,580
	$ 9,370,600	$ 718,830	$ 10,089,430
Less:			
Unaccreted discount	(13,515)		
Unaccreted interest	(7,849,125)		
Total Bonds payable	$ 1,507,960		

8. THE TOBACCO SETTLEMENT AGREEMENT

On November 23, 1998, the Tobacco Settlement was entered into by and between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The Tobacco Settlement calls for annual payments through the year 2057, which will vary due to inflationary and volume adjustments. After 2057, the tobacco companies shall continue making contributions in perpetuity.

Following is a summary of the projections of annual payments to be received by the Trust in each year through 2057 (unaudited, in thousands):

Year Ending June 30,	Amount
2022	$ 81,474
2023	82,372
2024	83,269
2025	84,167
2026	85,064
2027-2057	3,082,141
	$ 3,498,487

Actual collections from the Tobacco Settlement will fluctuate each fiscal year due to changes in future cigarette consumption, which could be affected by factors such as inflation, demographics, cigarette prices, disposable income, employment, advertising expenditures, and regulations, among others. During 2021, actual collections were $80,400,184 or 20% less than the projected amount in the master settlement agreement for the year 2021.

All of the revenue received under the Tobacco Settlement and investment earnings on certain accounts under the bond indentures are pledged as collateral for all bond issuances.

Net cash proceeds obtained under the bond issuances were used to finance the Trust's programs aimed at promoting a better quality of life and the well-being of families, children, and youth in Puerto Rico, especially in the areas of education, recreation, and health in the form of grants. Part of the proceeds from the Series 2008A and Series 2008B Bonds were used to pay certain operating expenses of the Commonwealth.

During the year ended June 30, 2021, pledged revenues amounted to $80,576,977, which were used to pay for $83,961,130 of related principal and interest of the bond issuances.

9. COMMITMENT AND GRANT AGREEMENTS

The Trust has established various grant agreements with Puerto Rico governmental entities and not-for-profit organizations in order to disburse funds as permitted by Act 173 and as authorized by the Board of Directors of the Trust.

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In October 2018, the Board of Directors of the Trust authorized a new grant agreement to the Corporación del Proyecto ENLACE del Caño Martín Peña (Corporación Enlace), a Puerto Rico governmental entity, with a grant termination date of February 2021. The amount of the new grant agreement was $1,167,345, which represented the amount of unspent funds pertaining to the grant agreement originally authorized in April 2014. As of June 30, 2021, this grant agreement with Corporación Enlace was spent entirely. The amount of spent funds of $1,046,883 is included in the statement of activities for the year ended June 30, 2021.

During October 2018, the Board of Directors of the Trust authorized a new grant agreement to the Puerto Rico Council of Boy Scouts of America, Inc. (Boy Scouts), a not-for-profit organization. The amount of this grant agreement was $197,632 and has a grant termination date of November 26, 2019. As of June 30, 2021, the amount of unspent funds under the grant agreement with the Boy Scouts was $133,509.

There were no additional outstanding grant agreements available to other corporate entities as of June 30, 2021.

10. SUBSEQUENT EVENTS

Subsequent events were evaluated through April 27, 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, 2021 financial statements. The subsequent events disclosed below relates to the 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 interests 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 benefits 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.