GOBIERNO DE PUERTO RICO
FIDEICOMISO DE LOS NIÑOS

A-2023-5038
SENADO DE PUERTO RICO
OFICINA DEL SECRETARIO
3 MAY 2023 PM 3:31

5 de mayo de 2023

Honorable José L. Dalmau Santiago
Presidente del Senado de Puerto Rico
Senado de Puerto Rico
El Capitolio
P.O. Box 9023431
San Juan, Puerto Rico 00902-3431

Estimado señor Presidente:

En virtud de la Ley Núm. 173 del 30 de julio de 1999, según enmendada ("Ley 173"), la misma dispone que el Fideicomiso de los Niños (el "Fideicomiso"), entregue a la Cámara de Representantes y al Senado de Puerto Rico los siguientes documentos:

1. Informe Anual sobre el estatus y actividades del Fideicomiso.

2. Estado financiero auditado del Fideicomiso.

A tales efectos y según dispone la Ley 173-1999, adjunto encontrará el Informe Anual del Fideicomiso para los años fiscales 2016 al 2022.

Atentamente,

Nelson J. Pérez
Director Ejecutivo

RECIBIDO MAY 3'23 PM 1:45
PRESIDENCIA DEL SENADO

GOBIERNO DE PUERTO RICO
FIDEICOMISO DE LOS NIÑOS

CERTIFICACIÓN

Yo, **JANICE V. ORTIZ VALENTÍN**, Secretaria Auxiliar de la Junta de Directores del Fideicomiso de los Niños, **CERTIFICO** que la **Resolución 2023-03** es una copia fiel y exacta de la original que se encuentra bajo mi custodia. La misma fue adoptada por la Junta de Directores del Fideicomiso de los Niños el 13 de abril de 2023.

CERTIFICO, ADEMÁS, que dicha Resolución no ha sido derogada, revocada o anulada y se encuentra en toda su fuerza y vigor.

RESOLUCIÓN 2023-03

POR CUANTO, el Fideicomiso de los Niños (el "Fideicomiso") es una instrumentalidad y corporación pública del Gobierno de Puerto Rico (el "Gobierno"), creada mediante la Ley 173 del 30 de julio de 1999, según enmendada (la "Ley 173-1999");

POR CUANTO, el Fideicomiso fue creado para apoyar aquellos proyectos y programas dirigidos a promover el bienestar de los ciudadanos de Puerto Rico, tales como en las áreas de educación, recreación, salud y, además, para mejorar el bienestar social de los niños, jóvenes y familias de Puerto Rico;

POR CUANTO, en virtud de las disposiciones de la Ley 173-1999, anualmente el Fideicomiso debe someter a la Asamblea Legislativa de Puerto Rico y a la Oficina del Contralor de Puerto Rico un informe anual sobre sus operaciones (el "Informe Anual");

POR CUANTO, según informado a esta Junta de Directores, debido a que no se prepararon informes anuales individuales para los años fiscales desde el 2016 al 2022, el Informe Anual aprobado por los Directores de esta Junta cubre siete (7) años fiscales, entiéndase desde el 30 de junio de 2016 al 30 de junio de 2022;

POR CUANTO, este Informe Anual incluye:

1. Copia de los estados financieros auditados del Fideicomiso para los años fiscales 2016, 2017, 2018, 2019, 2020, 2021, y 2022.

2. Informe de las actividades y relación de los Contratos de Servicios de Ayuda otorgados por el Fideicomiso desde el 30 de junio de 2016 al 30 de junio de 2022.

3. Estadística Histórica de Desembolso de Fondos bajo los Contratos de Servicios de Ayuda hasta el 30 de junio de 2022.

POR TANTO, RESUÉLVASE, por la Junta de Directores del Fideicomiso de los Niños, aprobar el Informe Anual, el cual cubre el periodo comprendido para los años fiscales concluidos desde del 30 de junio de 2016 al 30 de junio de 2022, y **AUTORIZAR** a la gerencia del Fideicomiso de los Niños a remitir dicho Informe Anual a la Asamblea Legislativa y a la Oficina del Contralor de Puerto Rico conforme requerido por la Ley 173-1999, según enmendada.

RESUÉLVASE, ADEMÁS, que esta Resolución entrará en vigor inmediatamente luego de su aprobación.

Y PARA QUE ASÍ CONSTE, suscribo y estampo el sello corporativo del Fideicomiso de los Niños. En San Juan, Puerto Rico, hoy 18 de abril de 2023.

JANICE V. ORTIZ VALENTÍN
SECRETARIA AUXILIAR

(SELLO)

GOBIERNO DE PUERTO RICO
FIDEICOMISO DE LOS NIÑOS

Informe Anual a la Asamblea Legislativa de Puerto Rico |
Oficina del Contralor de Puerto Rico

Años Fiscales, 30 de junio de 2016 al 30 de junio de 2022

FIDEICOMISO de los niños

PO Box 42001 • San Juan, PR 00940-2001 • Telephone (787) 722-2525

INTRODUCCIÓN

El Fideicomiso de los Niños (el "Fideicomiso") es una instrumentalidad y corporación pública del Gobierno de Puerto Rico (el "Gobierno"), creada mediante la Ley 173 del 30 de julio de 1999 (la "Ley 173-1999"), según enmendada. El Fideicomiso fue creado para apoyar aquellos proyectos y programas dirigidos a promover el bienestar de los ciudadanos de Puerto Rico, tales como en las áreas de educación, recreación, salud y, además, para mejorar el bienestar social de los niños, jóvenes y familias de Puerto Rico.

Según la Ley 173-1999 y el Reglamento Sobre los Requisitos de Elegibilidad y Criterios de Fiscalización del Fideicomiso (el "Reglamento"), el Fideicomiso puede proveer ayuda o donativos económicos mediante Contratos de Servicios de Ayuda ("CSA") a entidades corporativas que cualifiquen como Entidades Elegibles, según los parámetros, disposiciones, y requisitos de elegibilidad definidos en el Reglamento. Una Entidad Elegible puede ser: (i) entidad cívica o corporación sin fines de lucro, y (ii) entidad gubernamental.

Operación | Ingresos del Fideicomiso

Las operaciones corporativas del Fideicomiso no dependen de asignaciones presupuestarias del Gobierno. Los ingresos anuales del Fideicomiso provienen de desembolsos recibidos bajo el Acuerdo de Transacción Global o "Master Settlement Agreement" ("MSA") del 23 de noviembre de 1998. El MSA es un acuerdo legal y transaccional entre 46 estados de los EE.UU., cinco territorios y Puerto Rico, y ciertas empresas tabacaleras participantes del MSA.

Anualmente, el recibo de los fondos bajo el MSA está coordinado por la Oficina de Asuntos Monopolísticos del Departamento de Justicia del Gobierno de Puerto Rico. La gerencia del Fideicomiso y la Autoridad de Asesoría Financiera y Agencia Fiscal de Puerto Rico ("AAFAF") administra los fondos y procede con los desembolsos correspondientes.

Propósito del Informe Anual

El Artículo 18 de la Ley 173-1999 le requiere al Fideicomiso entregar un Informe Anual a la Asamblea Legislativa de Puerto Rico y a la Oficina del Contralor de Puerto Rico (el "Informe Anual"), relacionado con el año fiscal anterior terminado.

Como es de su conocimiento, el Gobierno de Puerto Rico ha estado inmerso en un intenso proceso de restructuración de su deuda que dio comienzo con la aprobación de la Ley Federal PROMESA. Como parte de la restructuración gubernamental, el Banco Gubernamental de Fomento (BGF) cesó sus operaciones. El 10 de agosto de 2018, el BGF inició una acción para reestructurar parte de su deuda de conformidad con el *GDB Qualifying Modification* bajo Titulo VI de PROMESA. A consecuencia de las distintas restructuraciones gubernamentales, la emisión de los estados financieros auditados y la remisión de los Informes Anuales a la Asamblea Legislativa de Puerto Rico y a la Oficina del Contralor de Puerto Rico se vieron retrasados. Con la emisión del estado financiero para el año terminado 30 de jUnio de 2022, el Fideicomiso está al día con sus estados financieros auditados y continuará sometiendo sus informes anuales según requerido por la Ley 173-1999.

El Informe Anual aquí presentado consolida este requisito para los años fiscales comprendidos desde el 30 de junio de 2016 al 30 de junio de 2022. Este Informe Anual incluye:

1. Los estados financieros auditados para los años fiscales 2016, 2017, 2018, 2019, 2020, 2021, y 2022.

2. Informe de las actividades y relación de CSA otorgados por el Fideicomiso desde el 30 de junio de 2016 al 30 de junio de 2022.

3. Estadística Histórica de Desembolso de Fondos bajo CSA hasta el 30 de junio de 2022.

I. Estado Financiero Auditado

La información abajo presentada corresponde al más reciente estado financiero auditado para el cierre del año fiscal 30 de junio de 2022. La gráfica en adelante resume los activos y pasivos del Fideicomiso:

Children's Trust Fund Summary Assets	Audited 30-Jun-22	Children's Trust Fund Summary Liabilities	Audited 30-Jun-22
Cash	$ 10,490,221	Accounts and accrued expenses	$ 4,393,934
Investments	105,499,106	Bonds payable	1,522,821,392
Accounts receivable (*)	37,229,238	**Tota Liabilities**	$ 1,527,215,326
Other Assets	469,672		
Total Assets	$ 153,688,237		
(*) La manera de contabilizar los pagos anuales del MSA.			

Los activos del Fideicomiso están representados por efectivo e inversiones mercadeables. El Fideicomiso no tiene activos muebles o inmuebles. En cuanto a los pasivos, el componente principal es el balance de principal adeudado de emisiones de bonos públicos exentos federales.

La siguiente gráfica provee detalle adicional sobre las emisiones de bonos vigentes del Fideicomiso al cierre del 30 de junio de 2022. El Fideicomiso está corriente con el pago de principal e intereses de su deuda pública:

Fecha de Emisión	Descripición Bonos	Importe Original	Balance Principal 30-Jun-22	Fecha de Vencimiento	Agente Fideicomiso
4-Oct-02	Series 2002 Bonds (1)	$ 1,171,200,000	$ 614,885,000	1-Jul-43	U.S. Bank, N.A.
30-Jun-05	Series 2005 A (2)	$ 74,523,431	$ 221,104,080	15-May-50	U.S. Bank, N.A.
30-Jun-05	Series 2005 B (2)	$ 33,686,016	$ 113,056,636	15-May-55	U.S. Bank, N.A.
23-Apr-08	Series 2008 A (3)	$ 139,003,082	$ 391,917,488	15-May-57	U.S. Bank, N.A.
23-Apr-08	Series 2008 B (4)	$ 56,875,888	$ 181,858,188	15-May-57	U.S. Bank, N.A.
	Total	**$ 1,475,288,416**	**$ 1,522,821,392**		

(1) Esta emisión de bonos contiene bonos de capitalización de intereses. Pagos de principal comenzaron en 2008.
(2) Esta emisión de bonos contiene bonos de capitalización de intereses. Pagos de principal comienzan en 2024.
(3) Esta emisión de bonos contiene bonos de capitalización de intereses. Pagos de principal comienzan en 2028.
(4) Esta emisión de bonos contiene bonos de capitalización de intereses. Pagos de principal comienzan en 2035.

II. Informe Actividades | Relación Contratos de Servicios de Ayuda

En esta sección detallamos los CSA otorgados por el Fideicomiso desde el 30 de junio de 2016 al 30 de junio de 2022. Al cierre del año fiscal 30 de junio de 2022, el Fideicomiso no tenía ningún CSA vigente.

La siguiente gráfica detalla los CSA otorgados para el periodo del 30 de junio de 2016 al 30 de junio de 2022. Cabe mencionar que se incluyó el CSA otorgado en el 2014 dado que el mismo venció en el 2017. Luego de la gráfica se provee una explicación de la naturaleza de los CSA otorgados:

Entidad	Contrato Número	Fecha de Otorgación	Fecha de Vencimiento	Importe Contrato	Fondos Disponibles
Corporación del Proyecto ENLACE Caño Martín Peña	2015-000002	16-Jul-14	16-Jul-17	$ 4,664,250.13	$ -
Puerto Rico Council of Boy Scouts of America, Inc.	2019-CTF001	26-Nov-18	26-Nov-19	$ 197,631.75	$ -
Corporación del Proyecto ENLACE Caño Martín Peña	2019-CTF002	25-Feb-19	25-Feb-21	$ 1,167,345.00	$ -

<u>Corporación del Proyecto ENLACE del Caño Martín Peña ("Corporación Enlace")</u>

La Corporación Enlace se estableció mediante la Ley Número 489 del 24 de septiembre de 2004. Las oficinas centrales de la Corporación Enlace están ubicadas en 1957 Avenida Ponce de León, en San Juan. La Corporación Enlace es la entidad gubernamental encargada de la implementación del Plan de Desarrollo Integral y Usos del Terreno para el sector conocido como el "Caño Martín Peña" (el "Proyecto Caño Martín Peña"), coordinando y ejecutando las iniciativas y trabajos de infraestructura y trabajos de coordinación y apoyo comunitario relacionados con los trabajos del dragado del Proyecto Caño Martín Peña.

Mediante la Resolución 2014-01 de la Junta de Directores del Fideicomiso, el 16 de julio de 2014 se firmó el Contrato de Servicios de Ayuda 2015-02 entre la Corporación Enlace y el Fideicomiso ("CSA 2015-02") por el importe de $4,664,250.13, cuyos fondos fueron otorgados para apoyar las funciones de la Corporación Enlace relacionadas a los trabajos del Proyecto Caño Martín Peña.

Mediante la Resolución 2018-02 de la Junta de Directores del Fideicomiso, la Corporación Enlace y el Fideicomiso firmaron el CSA 2019-CTF 002 por la cantidad de $1,167,345, que representa los fondos no utilizados del CSA 2015-02. Los fondos provistos por el CSA 2019-CTF 002 fueron para que la Corporación Enlace continuara con los trabajos del Proyecto Caño Martín Peña.

<u>Concilio de Puerto Rico de los Niños Escuchas de América ("Concilio")</u>

El Concilio de Puerto Rico de los Niños Escuchas de América (el "Concilio") fue fundado el 15 de noviembre de 1927 como parte de la región noreste de los "Boys Scouts of America". Las oficinas centrales están localizadas en 402 Avenida Esmeralda, Guaynabo.

Mediante la Resolución 2001-07 de la Junta de Directores del Fideicomiso, el 8 de febrero de 2002 se firmó el Contrato de Servicios de Ayuda 2002-18 entre el Concilio y el Fideicomiso ("CSA 2002-018") por el importe de $7,477,000. Los fondos del CSA 2002-018 se usaron para financiar varios proyectos de mejoras sustanciales y expansión del "Campamento Guajataka".

Mediante la Resolución 2018-02 de la Junta de Directores del Fideicomiso, el Concilio y el Fideicomiso firmaron un nuevo Contrato de Servicios de Ayuda, el 2019-CTF 001, por $197,631.75 que representaba los fondos no utilizados bajo el CSA 2002-18. Estos fondos fueron utilizados para terminar ciertos trabajos de reparaciones al Campamento Guajataka.

III. Estadísticas de Desembolsos de Fondos

Desde la creación del Fideicomiso hasta el 30 de junio de 2022, el Fideicomiso ha apoyado a cincuenta y una (51) entidades sin fines de lucro y a dieciocho (18) entidades gubernamentales. La tabla siguiente detalla el total de desembolsos de fondos por año fiscal hasta el 30 de junio de 2022:

Año Fiscal	Importe Desembolsado	
2001	$	75,211,960.35
2002	$	171,690,102.13
2003	$	483,762,894.97
2004	$	149,142,073.47
2005	$	182,975,610.14
2006	$	44,250,818.76
2007	$	96,800,748.97
2008	$	112,855,926.94
2009	$	11,236,966.30
2010	$	5,851,868.88
2011	$	8,443,371.59

Año Fiscal	Importe Desembolsado	
2012	$	3,944,976.19
2013	$	6,366,296.85
2014	$	2,760,148.97
2015	$	1,713,190.16
2016	$	277,410.60
2017	$	2,561,418.98
2018	$	-
2019	$	780,611.33
2020	$	120,461.58
2021	$	1,105,013.00
2022	$	-

Los desembolsos de fondos hechos durante los años fiscales 2016 al 2021 corresponden a los CSA a la Corporación Enlace y al Concilio. Posterior al 30 de junio de 2021 no hay vigentes CSA a ninguna Entidad Elegible.

RSM Puerto Rico

The Children's Trust

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information as of and for the Year Ended June 30, 2016, and Independent Auditors' Report

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

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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, 2016, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, 2016, 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.

RSM

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 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 who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Juan, Puerto Rico
April 4, 2017.

Stamp No. [redacted]72836 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, 2016. Please read it in conjunction with the Trust's basic financial statements including the notes thereto, which follow this section.

1. FINANCIAL HIGHLIGHTS

- Government-wide net position (deficit) deteriorated by approximately $37.2 million to approximately $1,247 million as of June 30, 2016, or approximately 3.1%, from approximately $1,209 million as of June 30, 2015.

- Government-wide revenues from the Global Settlement Agreement for the fiscal year 2016 amounted to approximately $70.7 million, an increase of approximately $4.5 million, or approximately 6.8%, from fiscal year 2015 of approximately $66.2 million.

- Operating expenses consist of payments for programs and activities permitted by the enabling legislation. Funds granted during 2016 accounted in the government-wide financials, totaled approximately $728 thousand, a decrease of approximately $222 thousand, or approximately 23.7%, from approximately $950 thousand during 2015. The net increase in expenses of approximately $17.9 million on governmental activities was mainly due to a loss on impairment on deposits in the Bank amounting to $16.6 million and increase in interest on long term debt amounting to $1.5 million.

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 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, other non-financial factors on tobacco and general industries, as are changes in economic conditions and government legislations need to be considered.

5. GOVERNMENT-WIDE FINANCIAL 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	
	2016	2015	Amount	Percent
Assets:				
Current assets	$ 14,703	$ 32,256	$ (17,553)	(54.4%)
Non-current restricted assets	146,602	145,541	1,061	0.7%
Total assets	161,305	177,797	(16,492)	(9.3%)
Deferred outflows of resources	18,599	21,563	(2,964)	(13.7%)
Liabilities:				
Current liabilities	6,137	6,230	(93)	(1.5%)
Non-current liability	1,420,370	1,402,549	17,821	1.3%
Total liabilities	1,426,507	1,408,779	17,728	1.3%
Net deficit	$ (1,246,603)	$ (1,209,419)	$ (37,184)	3.1%

As noted, the Trust's net deficit increased by approximately $37.2 million, from a deficit of approximately $1,209 million in 2015, to a deficit of approximately $1,247 million in 2016. This deterioration results from the net effect of:

- Net decrease in total assets of approximately $16.5 million, which is related mainly to a loss on impairment on deposits on the Bank amounting to approximately $16.6 million.
- Decrease in deferred outflows of resources of approximately $2.9 million, mainly from the amortization of deferred loss on bonds refunding.
- Net increase in total liabilities of approximately $17.7 million, mainly due to the net effect of interest capitalization for fiscal year 2016 of approximately $41.6 million and the payment of principal on bonds of approximately $24.9 million.

Condensed program activities and change in net deficit are presented below (in thousands):

Function/Program	For the Year Ended June 30, 2016	2015	Change Amount	Percent
Expenses of governmental activities:				
Education	$ 58	$ -	$ 58	100.0%
Health	397	109	288	264.2%
Recreation	80	779	(699)	(89.7%)
Intergovernmental grants	193	62	131	211.3%
Impairment loss	16,603	-	16,603	100.0%
Interest on long term debt and other - net	93,989	92,472	1,517	1.6%
Total	111,320	93,422	17,898	19.2%
Revenues of governmental activities:				
Investment earnings	3,471	3,405	66	1.9%
Global Settlement Agreement	70,665	66,192	4,473	6.8%
Total	74,136	69,597	4,539	6.5%
Change in net deficit	$ (37,184)	$ (23,825)	$ (13,359)	56.1%

While comparative statements of net position (deficit) show the changes in financial position, the statement of activities provides answers as to the nature and source of these changes. The increase in net deficit of approximately $13.3 million is mainly related to: (1) an increase on revenues of approximately $4.5 million, net of (2) an increase on expenses related to governmental activities of approximately $17.8 million.

The increase in total revenues of approximately $4.5 million was mainly due to the increase of the Global Settlement Agreement contribution. The total amount to be received under the Global Settlement Agreement depends on the actual shipment of cigarettes.

The net increase in expenses of approximately $17.8 million on governmental activities was mainly due to a loss on impairment on deposits in the Bank amounting to approximately $16.6 million and increase in interest on long term debt amounting to approximately $1.5 million.

6. GOVERNMENTAL FUND FINANCIAL ANALYSIS

The Trust's governmental funds reported fund balances of approximately $124.2 million as of June 30, 2016, which is approximately $18.0 million less than in prior year. The decrease in fund balance in the governmental funds is mainly due to a loss on impairment on deposits in the Bank amounting to approximately $16.6 million.

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

	As of June 30,		Change	
	2016	2015	Amount	Percent
Assets	$ 161,305	$ 177,797	$ (16,492)	(9.3%)
Liabilities and deferred inflows of resources	$ 37,070	$ 42,764	$ (5,694)	(13.3%)
Fund balances	124,235	142,297	(18,062)	(12.7%)
Total liabilities, deferred inflows of resources and fund balances	$ 161,305	$ 185,061	$ (23,756)	(12.8%)

7. DEBT ADMINISTRATION

During the year ended June 30, 2016, principal payments on bonds payable amounted to approximately $24.9 million. As of June 30, 2016, the remaining balance on bonds was approximately $1,420 million, net of approximately $16.3 million of non-accreted bond discount, due through year 2057.

8. CURRENTLY KNOWN FACTS

On April 6, 2016, the Commonwealth approved Act No. 21 known as "Puerto Rico Emergency Moratorium and Financial Rehabilitation" ("Act 21"). Act 21 authorizes the Governor of Puerto Rico to declare a moratorium on debt service payments for a temporary period for the Commonwealth, the Bank and the Economic Development Bank for Puerto Rico ("EDB").

On April 6, 2016, pursuant to Act 21, the Governor of Puerto Rico signed Executive Order No. 2016-010 ("EO No. 2016-010"), declaring the Bank to be in a state of emergency. In accordance with the emergency powers vested to the Governor in Act 21, EO No. 2016-010 implemented a regulatory framework governing the Bank's operations and liquidity, including prohibiting loan disbursements by the Bank and establishing a procedure with respect to governmental withdrawals, payments, and transfer requests with respect to funds held on deposit at the Bank.

On June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), which grants the Commonwealth and its component units access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. In broad strokes, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a control board, relief from creditors and lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

On June 30, 2016, the Governor signed an Executive Order, EO-2016-030 ("EO No. 2016-30"), declaring the Commonwealth to be in state of emergency and declaring a moratorium on the Commonwealth's obligation to make payments on bonds, and notes issued or guaranteed by the Commonwealth. EO No. 2016-30 suspends any obligation of the Office of Management and Budget of the Commonwealth to include an appropriation in the proposed budget submitted to the Legislative Assembly for the payments of bonds issued by the Public Finance Corporation.

On October 16, 2016, the Puerto Rico Department of Treasury issued Circular Letter 1300-08-17 whereby it is declaring that Bank's management understand that there is a substantial doubt as to the Bank's ability to continue as a going concern. Further, the Circular Letter requires the Corporations and Municipalities to perform an impairment analysis of its deposits on the Bank, in which the unrealizable deposits need to be accounted as an impairment loss.

The Trust maintains all cash in the Bank. Management believes that the Bank faces financial challenges and uncertainties relating its operation, as a result an impairment loss of approximately $16.6 million was recognized in the Trust's financial statements as of June 30, 2016. Refer to Note 3 of the basic financial statements for further information.

On January 29, 2017, the Governor signed Act No. 5 of 2017 (Act 5), Puerto Rico Financial Emergency and Fiscal Responsibility Act, superseding and amending Act 21. The Act 5 is intended to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the Puerto Rico Fiscal Agent and Financial Advisory Authority, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. The Act 5 authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico.

Based on the Act 5, an emergency period commencing on the effective date of the Act and ending upon May 1, 2017, which term may be extended by the Governor pursuant to an executive order for one additional period of three (3) months, was declared. Section 203 of the Act 5 provides, among other, that, during the emergency period:

- the Governor shall pay debt service to the extent (a) possible after all essential services of the Commonwealth of Puerto Rico have been provided for; or (b) ordered to do so by the Oversight Board or any other board created under federal law. In the event that the provisions of the Act 5 are in conflict with the provisions of any other law, the provisions of this Act 5 shall prevail.
- the Governor may issue executive orders requiring the use of available resources to be deposited in a lockbox account under the sole control of the Puerto Rico Fiscal Agent and Financial Advisory Authority to pay for essential services as the Governor deems necessary to protect the health, safety, and welfare of the residents of Puerto Rico. The Governor may take any and all actions that the Governor deems reasonable and necessary to preserve the ability of the Commonwealth or an instrumentality of the Commonwealth to continue providing essential services to residents of Puerto Rico.
- the Governor may issue executive orders establishing priority rules for the disbursement of public funds when resources available for a fiscal year are insufficient to cover the appropriations made for that fiscal year.
- notwithstanding Section 4(c) of Act No. 147 of June 18, 1980, as amended, the Governor may reprioritize certain services and expenses to a higher payment priority.
- the Governor may issue executive orders as the Governor deems necessary or advisable to assure the payment of a debt obligation of the Commonwealth or an instrumentality of the Commonwealth.

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)

RSM

STATEMENT OF NET POSITION (DEFICIT)
JUNE 30, 2016

		Governmental Activities
ASSETS		
CURRENT ASSETS:		
Interest-bearing deposits with Government Development Bank for Puerto Rico	$	210,101
Certificate of deposit		66,909
Investments and investment contracts		14,424,967
Accrued interest receivable		1,378
Total current assets		14,703,355
NONCURRENT RESTRICTED ASSETS:		
Investments and investment contracts		109,380,042
Accrued interest receivable		456,685
Receivable from Global Settlement Agreement		36,764,733
Total noncurrent restricted assets		146,601,460
Total assets		161,304,815
DEFERRED OUTFLOWS OF RESOURCES — Deferred loss on bonds defeasance		18,599,104
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable		304,786
Liabilities payable from restricted assets- Accrued interest payable		5,832,026
Total current liabilities		6,136,812
NONCURRENT LIABILITY — Bonds payable - due in more than one year		1,420,370,220
Total liabilities		1,426,507,032
NET POSITION (DEFICIT)		
Restricted		140,769,434
Unrestricted		(1,387,372,547)
Total net deficit	$	(1,246,603,113)

See notes to basic financial statements.

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

RSM

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues — Investment Earnings	Program Revenues — Operating Contributions	Net Revenues/(Expenses) and Changes in Net Deficit
GOVERNMENTAL ACTIVITIES:				
Health	$ 396,992	$ -	$ -	$ (396,992)
Recreation	80,062	-	-	(80,062)
Education	57,645	-	-	(57,645)
Intergovernmental grants	193,106	-	-	(193,106)
Impairment loss	16,603,032	-	-	(16,603,032)
Debt service and other	93,989,386	3,416,661	70,664,513	(19,908,212)
Total governmental activities	$ 111,320,223	$ 3,416,661	$ 70,664,513	(37,239,049)
GENERAL REVENUES — Investment earnings				54,760
CHANGE IN NET DEFICIT				(37,184,289)
NET DEFICIT — Beginning of year				(1,209,418,824)
NET DEFICIT — End of year				$ (1,246,603,113)

See notes to basic financial statements.

RSM

BALANCE SHEET — GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Interest-bearing deposits with Government Development Bank for Puerto Rico	$ 210,101	$ -	$ 210,101
Certificate of deposit	66,909	-	66,909
Investments and investment contracts	14,424,967	109,380,042	123,805,009
Accrued interest receivable	1,378	456,685	458,063
Receivable from Global Settlement Agreement	-	36,764,733	36,764,733
Total assets	$ 14,703,355	$ 146,601,460	$ 161,304,815
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES — accounts payable	$ 304,786	$ -	$ 304,786
DEFERRED INFLOWS OF RESOURCES — Deferred revenue	-	36,764,733	36,764,733
FUND BALANCES:			
Restricted	-	109,836,727	109,836,727
Committed	25,486,852	-	25,486,852
Assigned	2,851,324	-	2,851,324
Unassigned	(13,939,607)	-	(13,939,607)
Total fund balances	14,398,569	109,836,727	124,235,296
Total liabilities, deferred inflows of resources and fund balances	$ 14,703,355	$ 146,601,460	$ 161,304,815

See notes to basic financial statements.

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

RSM

RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION (DEFICIT)
JUNE 30, 2016

FUND BALANCES OF GOVERNMENTAL FUNDS	$	124,235,296
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.		36,764,733
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the fund financial statements.		(5,832,026)
Bonds payable are not due and payable in the current period and, therefore, are not reported in the fund financial statements.		(1,438,655,296)
Discount on bonds issued is reported as an other financing use in the governmental funds financial statements; however, such discount is deferred and accreted over the life of the bonds and is included within bonds payable in the statement of net deficit.		18,285,076
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 deficit.		18,599,104
NET DEFICIT OF GOVERNMENTAL ACTIVITIES	$	(1,246,603,113)

See notes to basic financial statements.

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

RSM

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES:			
Investment earnings	$ 54,760	$ 3,416,661	$ 3,471,421
Revenue from Global Settlement Agreement	-	70,770,624	70,770,624
Total revenues	54,760	74,187,285	74,242,045
EXPENDITURES:			
Health	396,992	-	396,992
Recreation	80,062	-	80,062
Education	57,645	-	57,645
Intergovernmental	193,106	-	193,106
Other	365,012	-	365,012
Impairment loss	16,603,032	-	16,603,032
Debt service:			
Principal	-	24,950,000	24,950,000
Interest	-	48,056,872	48,056,872
Total expenditures	17,695,849	73,006,872	90,702,721
OTHER FINANCING SOURCES/(USES) —			
Transfers in/(out)	13,782	(13,782)	-
NET CHANGES IN FUND BALANCES	(17,627,307)	1,166,631	(16,460,676)
FUND BALANCES — Beginning of year	32,025,876	108,670,096	140,695,972
FUND BALANCES — End of year	$ 14,398,569	$ 109,836,727	$ 124,235,296

See notes to basic financial statements.

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

RSM

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, 2016

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS	$	(16,460,676)
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.		(106,110)
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.		167,633
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.		24,950,000
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.		(41,622,190)
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		(1,148,946)
Amortization of loss on refunding		(2,964,000)
CHANGE IN NET DEFICIT OF GOVERNMENTAL ACTIVITIES	$	(37,184,289)

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, as amended, (the "Act 173"), and an affiliate of the Government Development Bank for Puerto Rico (the "Bank"), 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 moneys received by virtue of the Commonwealth from the Global Settlement Agreement dated November 23, 1998 (the "Agreement") between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. Pursuant to the Act 173, the Commonwealth assigned and is transferring to the Trust the contributions, which the Commonwealth is entitled to receive under the Agreement. The Agreement calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. After 2025, the tobacco companies shall continue making contributions in perpetuity. Currently, all of the proceeds received from the Agreement are pledged for debt service.

The Act 173 provides that the Bank will act as the trustee of the Trust. Pursuant to the 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 Trust conform to Accounting Principles Generally Accepted in the United States of America ("GAAP") for governments, as prescribed by the Governmental Accounting Standards Board ("GASB").

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of changes in net position (deficit), and activities during the reporting period. Actual results could differ from those estimates.

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 Agreement, 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:

- Nonspendable — 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 year ended June 30, 2016, grants were awarded for health, recreation, and educational activities.

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

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

Use of Estimates — The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

Bond Issue Costs and Bond Discounts — 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.

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

Deferred Revenue — Deferred revenue at the governmental fund level arises when potential revenue does not meet the "available" criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before the Trust has a legal claim to them, as when grant moneys are received prior to incurring the qualifying expenditures. In subsequent periods, when the revenue recognition criteria is met, or when the Trust has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet, and the revenue is recognized. Deferred revenue at the government wide level arises only when the Trust receives resources before it has a legal claim to them. The deferred revenue is reported on the governmental funds balance sheet as deferred inflows of resources.

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 tha tobacco companies under the Agreement, 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 in 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 Agreement to the settling government (the Commonwealth), the Trust recognizes as expenses amounts that are disbursed for grants to its settling government (including its instrumentalities) or third parties. GASB has issued the following accounting pronouncements that have effective date after June 30, 2016:

(a) 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*, which is effective for fiscal years beginning after June 15, 2015, except those provisions that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016.

(b) GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is effective for fiscal years beginning after June 15, 2016.

(c) GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for fiscal years beginning after June 15, 2017.

(d) GASB Statement No. 77, *Tax Abatement Disclosures,* which is effective for periods beginning after December 15, 2015.

(e) GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,* is effective for fiscal years beginning after December 15, 2015.

(f) GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, is effective for fiscal years beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial risk, and shadow pricing. Those provisions are effective for fiscal years beginning after December 15, 2015.

(g) GASB Statement No. 80 *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. The requirements of this statement are effective for fiscal years beginning after June 15, 2016.

(h) GASB Statement No. 81 *Irrevocable Split-Interest Agreements.* The requirements of this statement are effective for fiscal years beginning after December 15, 2016.

(i) GASB Statement No. 82 *Pensions Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73.* The requirements of this statement are affective for fiscal years beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are affective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

(j) GASB Statement No. 83 *Certain Asset Retirement Obligations.* The requirements of this statement are effective for fiscal years beginning after June 15, 2018.

(k) GASB Statement No. 84 *Fiduciary Activities.* The requirements of this statement are effective for fiscal years beginning after December 15, 2018.

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

3. CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the Trust's deposits may not be returned. The Trust does not have a deposit policy for custodial credit risk. As of June 30, 2016, all of the Trust's depository bank balance, aggregating approximately $17,262,000, was exposed to custodiel credit risk since such deposits, all of which are maintained at the Bank, are uninsured and uncollateralized.

As a result of reduction in liquidity experienced subsequent to June 30, 2014, the Bank took a number of liquidity enhancing and conservation measures and consummated tha sale of assets and other alternatives to address its liquidity needs. In lights of the Bank's significant debt service obligations during fiscal year 2016, these measures, however are not expected to be sufficient to maintain the Bank's operations in the ordinary course absent the completion of a capital market transaction, a restructuring of Bank's debt and the timely payment of the Commonwealth debt service appropriation.

Accordingly, the Bank was not in a position to pay the principal on its debts obligations due on May 1, 2016 and continue operations in the ordinary course.

On April 8, 2016, the Governor signed Executive Order No. 2016-010 ("EO No. 2016-010"), declaring the Bank to be in a state of emergency pursuant to Act 21 of April 6, 2016. In accordance with the emergency powers provided for in Act 21, EO No. 2016-010 implemented a regulatory framework governing tha Bank's operations and liquidity, including prohibiting loan disbursements by the Bank and establishing a procedure with respect to governmental withdrawals, payments, and transfer requests with respect to funds held on deposit at the Bank. To that effect, EO No. 2016-010 restricts the withdrawal, payment and transfer of funds held on deposit at the Bank to those reasonable and necessary to ensure the provision of essential services and authorizes the Bank to establish weekly limits on the aggregate amount of such disbursements. Moreover, EO No. 2016-010 prohibits tha Bank's depositors from printing or writing checks creditable against their accounts at the Bank, unless they obtain a temporary waiver from the Bank. As the Bank serves as the depositary of Trust's funds, the Trust's cash and time deposits, pursuant to EO No. 2016-10, will be subject to strict restrictions and limitations, as described herein.

Management believes that the Bank faces significant risk and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations as they become due, as a result, an impairment loss amounting to approximately $16.6 million was recognized in the Trust's financial statements as of June 30, 2016.

4. INVESTMENTS AND INVESTMENT CONTRACTS

The Trust follows the investment guidelines promulgated by the Bank under the authority provided by Act No. 113 of August 3, 1995 and Executive Order 1995-50A. which detail which investments categories may be purchased or entered by the Trust. The Bank's investment policies 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 Bank'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.

The service agreement with the Bank provides that the Bank's Asset Liability Management Committee ("ALCO") is responsible for implementing and monitoring the interest rate risk policies and strategies. The ALCO meets on a monthly basis to coordinate and monitor the interest rate risk management of interest sensitive assets and interest sensitive liabilities, including matching of their anticipated level and maturities, consistent with the Trust's liquidity, capital edequacy, risk, and profitability goals set by the Trust's board of directors.

As of June 30, 2016, the Trust maintains approximately $109.3 million in investments and investments contracts which are held as debt service reserves in trusted accounts that are governed by the applicable bond indenture. All of the funds used for debt services are held by the trustee in the name of the Trust with the exception of $83.7 million of nonparticipating investments contracts.

At June 30, 2016, fair value of investments based on the hierarchy of inputs are determined as follows:

Investment Type	Level 1	Level 2	Level 3	Total
Internal investment pools- fixed income securities:				
Puerto Rico Government InvestmentTrust Fund	$ -	$ 14,424,967	$ -	$ 14,424,967
External investment pools- fixed income securities:				
U.S. Bank-Money Market	25,695,807	-	-	25,695,807
Nonparticipating investment contracts-				
UniCredit Bank AG-Guaranteed Investment				
Contract	-	-	83,684,235	83,684,235
	$ 25,695,807	$ 14,424,967	$ 83,684,235	$ 123,805,009

The following table summarizes the type and maturities of investments at fair value held by the Trust at June 30, 2016. 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	After One to Five Years	After Five to Ten Years	After Ten Years	Total
Internal investment pools- fixed income securities:					
Puerto Rico Government InvestmentTrust Fund	$ 14,424,967	$ -	$ -	$ -	$ 14,424,967
External investment pools- fixed income securities:					
U.S. Bank-Money Market	-	-	-	25,695,807	25,695,807
Nonparticipating investment contracts-					
UniCredit Bank AG-Guaranteed Investment					
Contract	-	-	-	83,684,235	83,684,235
	$ 14,424,967	$ -	$ -	$ 109,380,042	$ 123,805,009
Reconciliation to the government-wide statement of net deficit:					
Unrestricted investments and investment contracts					$ 14,424,967
Restricted investments and investment contracts					109,380,042
Total					$ 123,805,009

The credit quality ratings for investments and investments contracts as of June 30, 2016, are as follows:

Counter Party	Credit Risk Rating Standard & Poor's	Moody's
Puerto Rico Government		
Investment Trust Fund	AAAm	-
US Bank	A+/A-1	A-1/P-1
UniCredit Bank AG	BBB-/A-3	Baa1/P-2

5. SERVICE AGREEMENT

The Trust has an agreement with the Bank whereby the Bank provides managerial, administrative and financial services to the Trust. Pursuant to this agreement, the Trust was charged $200,000 during fiscal year ended June 30, 2016. Such amount was included in accounts payable as of June 30, 2016.

6. 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, 2016, the outstanding balance of these bonds consist of single rated term bonds (the "Term Bonds") maturing from May 15, 2025 to 2033 ($240,390,000 at 5.375%), from May 15, 2034 to 2039 ($310,380,000 at 5.5%) and from May 15, 2040 to 2043 ($298,255,000 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 Agreement collections in excess of the minimum amount required to pay the scheduled annual debt service and administrative expenses may been 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 2005B Bonds"), for $108,209,446. The Series 2005A and 2005B consist of capital appreciation bonds maturing on May 15, 2050 ($74,523,430 at 6.50% plus accreted interest) and capital appreciation bonds maturing on May 15, 2055 ($33,686,016 at 7.25% plus accreted interest), respectively. As of June 30, 2016, the outstanding balances of Series 2005A and 2005B consist of $150,631,579 and $73,743,123, 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 2008B Bonds"), for $195,878,970. The Series 2008A and 2008B 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, 2016, the outstanding balances of Series 2008A and 2008B consist of $258,102,814 and $111,152,780, respectively.

The Series 2008A and 2008B Bonds are subordinated and are not entitled to receive any payments until the date when the Series 2005A and 2005B Bonds are no longer outstanding. The Series 2005A and 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 2005B Bonds are subordinated to the Series 2008A and 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 Agreement.

Changes in bonds payable for the year ended June 30, 2016, are summarized as follow (in thousands):

	Balance at July 1, 2015	Additions	Debt Paid	Other Increases	Balance at June 30, 2016	Due Within One Year
Bonds payable	$ 1,421,983	$ -	$ (24,950)	$ 41,622	$ 1,438,655	$ -
Less:						
Unaccreted discount	(19,434)	-	-	1,149	(18,285)	-
Bonds payable	$ 1,402,549	$ -	$ (24,950)	$ 42,771	$ 1,420,370	$ -

Changes in deferred outflows of resources during the year ended June 30, 2016, are summarized as follow (in thousands):

	Balance at July 1, 2015	Accretion	Balance at June 30, 2016
Deferred loss on refunding	$ (21,563)	$ 2,964	$ (18,599)

As of June 30, 2016, debt service requirements for bonds outstanding were as follow (in thousands):

Year Ending June 30,	Principal	Interest	Total
2017	$ -	$ 46,656	$ 46,656
2018	-	46,656	46,656
2019	-	46,656	46,656
2020	-	46,656	46,656
2021	-	46,656	46,656
2022-2026	12,480	233,281	245,761
2027-2031	186,632	214,336	400,968
2032-2036	266,185	193,794	459,979
2037-2041	334,210	81,782	415,992
2042-2046	81,395	4,578	85,973
2047-2051	-	-	-
2052-2056	-	-	-
2057-2061	8,624,580	-	8,624,580
	9,505,482	$ 961,051	$ 10,466,533
Less:			
Unaccreted discount	(18,285)		
Unaccreted interest	(8,066,827)		
Total Bonds payable	$ 1,420,370		

7. COMMITMENTS

At June 30, 2016, the Trust had approved commitments to provide assistance to several entities through twenty-four contracts with balances amounting to approximately $17.0 million for health, recreation and educational activities.

8. GLOBAL SETTLEMENT AGREEMENT

On November 23, 1998, the Agreement 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 Agreement calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. After 2025, the tobacco companies shall continue making contributions in perpetuity.

Following is a summary of projected collections amounts in the official statement that should be received by the Trust through the year ending June 30, 2025 (unaudited, in thousands):

Year Ending June 30,	Amount
2017	$ 84,617
2018	95,824
2019	96,937
2020	98,014
2021	99,208
2022-2025	409,068
Amount to be collected through the year ending June 30, 2025	$ 883,868

Actual collections from the Agreement will fluctuate due to 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 2016, actual collections were $70,770,623 or 15% less than the projected amount in the master settlement agreement for the year 2016.

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

Amounts received under the bond issuances are used to finance 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 form of grants. Part of the proceeds from the Series 2008A and 2008B Bonds were used to pay certain operating expenses of the Commonwealth.

During the year ended June 30, 2016, pledged revenues amounted to $70,770,624, which were used to pay for $73,007,872 of related principal and interest of the bond issuances.

9. INTERGOVERNMENTAL GRANTS

The Trust has established intergovernmental agreements in order to disburse funds assigned by the Board of Directors of the Trust. The intergovernmental grant of approximately $193,000 incurred during the year ended on June 30, 2016, was paid to the Office for the Improvement of Public Schools.

Below is a summary of each intergovernmental agreement that provide a basis and legal context for disbursing the funds. The Trust has reserved its rights to amend any of the intergovernmental agreements in consultation with the corresponding governmental entities in order to take into consideration changes in the specific projects or redirecting the funds to other projects:

Public Building Authority ("PBA")

On December 27, 2005, the Trust signed an agreement with the Department of Education ("DE") for the assignment of $10 million, to perform structural improvements on six (6) schools for the amount of $6.3 million and the construction of ramps and improvements to the wastewater disposal system for $3.7 million.

On October 6, 2008, the DE signed an agreement with the Puerto Rico Infrastructure Financing Authority ("PRIFA") in which DE agreed to transfer $3.7 million to PRIFA for the construction of ramps and improvements to the wastewater disposal system in schools. As of June 30, 2016, the Trust has disbursed $2.6 million from the assigned funds. All projects were completed. The remaining $1.1 million is available to be used in other projects of the DE.

Office of the Improvement of Public Schools

Effective on November 5, 2002, the Trust entered into an agreement with the Office for the Improvements of Public Schools ("OMEP", by its Spanish acronym) for the assignment of $29 million. From this amount, $8 million were assigned for the construction and structural improvements of schools located in designated special communities, $5.2 million for schools requiring immediate improvements under the project one thousand, $3 million for rehabilitation of schools to comply with the code of seismic resistant, $6.5 million for the project of vocational schools, $4 million for schools under a special project called school renovation, and $2.8 million for the purchase of trucks to support brigades employed in activities related with the improvements, and routine maintenance of public schools. As of June 30, 2016, a total of $28.9 million were disbursed, therefore, $131 thousand are available for the completion of those projects.

10. SUBSEQUENT EVENTS

On June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), which grants the Commonwealth and its component units access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. In broad strokes, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a control board, relief from creditors and lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

On June 30, 2016, the Governor signed an Executive Order, EO-2016-030 ("EO No. 2016-30"), declaring the Commonwealth to be in state of emergency and declaring a moratorium on the Commonwealth's obligation to make payments on bonds, and notes issued or guaranteed by the Commonwealth. EO No. 2016-30 suspends any obligation of the Office of Management and Budget of the Commonwealth to include an appropriation in the proposed budget submitted to the Legislative Assembly for the payments of bonds issued by the Public Finance Corporation.

On October 16, 2016, the Puerto Rico Department of Treasury issued Circular Letter 1300-08-17 whereby it is declaring that Bank's management understand that there is a substantial doubt as to the Bank's ability to continue as a going concern. Further, the Circular Letter requires the Corporations and Municipalities to perform an impairment analysis of its deposits on the Bank, in which the unrealizable deposits need to be accounted as an impairment loss.

On January 29, 2017, the Governor signed Act No. 5 of 2017 (Act 5), Puerto Rico Financial Emergency and Fiscal Responsibility Act, superseding and amending Act 21. The Act 5 is intended to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the Puerto Rico Fiscal Agent and Financial Advisory Authority, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. The Act 5 authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico.

Based on the Act 5, an emergency period commencing on the effective date of the Act and ending upon May 1, 2017, which term may be extended by the Governor pursuant to an executive order for one additional period of three (3) months, was declared. Section 203 of the Act 5 provides, among other, that, during the emergency period:

- the Governor shall pay debt service to the extent (a) possible after all essential services of the Commonwealth of Puerto Rico have been provided for; or (b) ordered to do so by the Oversight Board or any other board created under federal law. In the event that the provisions of the Act 5 are in conflict with the provisions of any other law, the provisions of this Act 5 shall prevail.

- the Governor may issue executive orders requiring the use of available resources to be deposited in a lockbox account under the sole control of the Puerto Rico Fiscal Agent and Financial Advisory Authority to pay for essential services as the Governor deems necessary to protect the health, safety, and welfare of the residents of Puerto Rico. The Governor may take any and all actions that the Governor deems reasonable and necessary to preserve the ability of the Commonwealth or an instrumentality of the Commonwealth to continue providing essential services to residents of Puerto Rico.

- the Governor may issue executive orders establishing priority rules for the disbursement of public funds when resources available for a fiscal year are insufficient to cover the appropriations made for that fiscal year.

- notwithstanding Section 4(c) of Act No. 147 of June 18, 1980, as amended, the Governor may reprioritize certain services and expenses to a higher payment priority.

- the Governor may issue executive orders as the Governor deems necessary or advisable to assure the payment of a debt obligation of the Commonwealth or an instrumentality of the Commonwealth.

Subsequent events were evaluated through April 4, 2017, 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, 2016 financial statements.

RSM Puerto Rico

THE CHILDREN'S TRUST

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information
As of and for the Year Ended June 30, 2017,
and Independent Auditors' Report

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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, 2017, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the govemmental activities and each major fund of The Children's Trust as of June 30, 2017, 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 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 who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Juan, Puerto Rico
July 19, 2019.

RSM Puerto Rico

Stamp No. E392259 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, 2017. Please read it in conjunction with the Trust's basic financial statements including the notes thereto, which follow this section.

1. FINANCIAL HIGHLIGHTS

- Government-wide net deficit for the fiscal year 2017 amounted to approximately $1,269 million, an increase of approximately $22 million, or approximately 1.8%, from fiscal year 2016 of approximately $1,247 million.

- Government-wide revenues from the Global Settlement Agreement for the fiscal year 2017 amounted to approximately $72.3 million, an increase of approximately $1.6 million, or approximately 2.3%, from fiscal year 2016 of approximately $70.7 million.

- Operating expenses consist of payments for programs and activities permitted by the enabling legislation. Funds granted during 2017 accounted in the government-wide financials, totaled approximately $2.7 million, a decrease of approximately $14.6 million, or approximately 84.4%, from approximately $17.3 million during 2016.

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 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, other non-financial factors on tobacco and general industries, as are changes in economic conditions and government legislations need to be considered.

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	
	2017	2016	Amount	Percent
Assets:				
Current Assets	$ 11,818	$ 14,703	$ (2,885)	(19.6%)
Non-current restricted assets	145,725	146,602	(877)	(0.6%)
Total assets	157,543	161,305	(3,762)	(2.3%)
Deferred outflows of resources	15,635	18,599	(2,964)	(15.9%)
Liabilities:				
Current liabilities	5,835	6,137	(302)	(4.9%)
Non-current liability	1,436,463	1,420,370	16,093	1.1%
Total liabilities	1,442,298	1,426,507	15,791	1.1%
Net deficit	$ (1,269,120)	$ (1,246,603)	$ (22,517)	1.8%

As noted, the Trust's net deficit increased by approximately $22 million, for the fiscal year 2017 amounted to approximately $1,269 million and for fiscal year 2016 amounted to approximately $1,247 million. This deterioration results from the net effect of:

- Net decrease in total assets of approximately $3.8 million, related to a to change in investments and investments contracts.
- Decrease in deferred outflows of resources of approximately $2.9 million, mainly from the amortization of deferred loss on bonds refunding.
- Net increase in total liabilities of approximately $15.8 million, resulted due to the net effect of interest capitalization for fiscal year 2017 of approximately $44.8 million.

Condensed program activities and change in net deficit are presented below (in thousands):

Function/Program	For the Year Ended June 30, 2017	2016	Change Amount	Percent
Expenses of governmental activities:				
Education	$ -	$ 58	$ (58)	$ (100%)
Health	2,478	397	2,081	524.2%
Recreation	69	80		(13.8)
Intergovernmental grants	129	193	(64)	(33.2%)
Impairment loss	-	16,603	(16,603)	(100%)
Interest on long term debt and other - net	95,715	93,989	1,726	1.8%
Total	98,391	111,320	(12,929)	(11.6%)
Revenue of governmental activities:				
Investment earnings	3,597	3,471	126	3.6%
Global Settlement Agreement	72,266	70,665	1,601	2.3%
Impairment recovery on deposits held in GDB	12	-	12	100%
Total	75,875	74,136	1,739	2.3%
Change in net deficit	$ (22,516)	$ (37,184)	$ 14,668	(39.4%)

While comparative statements of net position (deficit) show the changes in financial position, the statement of activities provides answers as to the nature and source of these changes. The decrease in change in net deficit of approximately $14.6 million is mainly related to: (1) an increase on revenues of approximately $1.7 million, and (2) a decrease on expenses related to governmental activities of approximately $12.9 million.

The increase on total revenues of approximately $1.7 million was mainly due to the increase of the Global Settlement Agreement contribution. The total amount to be received under the Global Settlement Agreement depends on the actual shipment of cigarettes.

The net decrease in expenses of approximately $12.9 million on governmental activities was mainly attributed to a decrease in loss on impairment on deposits in the Government Development Bank for Puerto Rico (the Bank) amounting to $16.6 million, net of an increase in interest on long term debt amounting to $ 1.7 million.

6. GOVERNMENTAL FUND FINANCIAL STATEMENTS ANALYSIS

The Trust's governmental funds reported fund balances of approximately $121 million as of June 30, 2017, which is approximately $3.2 million less than in prior year. The decrease in fund balance in the governmental funds is mainly due to an increase in health expenditures of approximately $2 million and an increase in interest on debt service of approximately $1.7 million.

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

	As of June 30,		Change	
	2017	2016	Amount	Percent
Assets	$ 157,543	$ 161,305	$ (3,762)	(2.3%)
Liabilities and deferred inflows of resource	$ 36,547	$ 37,070	$ (523)	(1.4%)
Fund Balance	120,996	124,235	$ (3,239)	(2.6%)
Total liabilities, deferred inflows of resources ans fund balances	$ 157,543	$ 161,305	$ (3,762)	(2.3%)

7. DEBT ADMINISTRATION

During the year ended June 30, 2017, principal payments on bonds payable amounted to approximately $29.8 million. As of June 30, 2017, the remaining balance on bonds was approximately $1,436 million, net of approximately $17.2 million of non-accreted bond discount, due through year 2061.

8. CURRENTLY KNOWN FACTS

On April 6, 2016, the Commonwealth approved Act No. 21 known as "Puerto Rico Emergency Moratorium and Financial Rehabilitation" ("Act 21"). Act 21 authorized the Govemor of Puerto Rico to declare a moratorium on debt service payments for a temporary period for various government entities, including the Commonwealth and the Bank.

On April 8, 2016, pursuant to Act 21, the Govemor of Puerto Rico signed Executive Order No. 2016-010 ("EO No. 2016-010"), declaring the Bank to be in a state of emergency. In accordance with the emergency powers vested to the Govemor in Act 21, EO No. 2016-010 implemented a regulatory framework goveming the Bank's operations and liquldity, including prohibiting loan disbursements by the Bank and establishing a procedure with respect to govemmental withdrawals, payments, and transfer requests with respect to funds held on deposit at the Bank.

On June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), which grants the Commonwealth and its component governmental entities access to an orderly mechanism to restructure their respective debts in exchange for significant federal oversight over the Commonwealth's finances. In general terms, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"), relief from creditors and lawsuits through the enactment of a temporary stay on litigation, and two altemative methods to adjust unsustainable debt. PROMESA is applicable to all public corporations and instrumentalities of the Commonwealth, including the Trust, and the Trust (together with all other Puerto Rico govemment entities) has been designated as a "covered territorial instrumentality" by the Oversight Board, thereby making its subject to its fiscal oversight authority.

On October 16, 2016, the Puerto Rico Department of Treasury issued Circular Letter 1300-08-17 whereby it informed that the Bank's management understood that there was substantial doubt as to the Bank's ability to continue as a going concern. Further, the Circular Letter required the Commonwealth's public corporations and municipalities to perform an impairment analysis of their respective deposits with the Bank, and to account for unrealizable deposits as an impairment loss.

On January 29, 2017, the Governor signed Act No. 5 of 2017 (Act 5), Puerto Rico Financial Emergency and Fiscal Responsibility Act, superseding and amending Act 21. The Act 5's purpose was to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF), on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities (Act 2-2017 had previously repealed Chapter 6 of Act 21, which was AAFAF's original enabling act, and replaced it with a new enabling statute for AAFAF). The Act 5 authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico. Act 5 also provided that the Executive Orders enacted pursuant to Act 21 would continue in effect until amended, repealed or superseded. Therefore, the restrictions on the disbursements of deposits from the Bank continued to be in effect notwithstanding the repeal of Act 21.

On November 29, 2018, the Bank completed a restructuring of its financial liabilities, including its deposits, pursuant to a proceeding under Title VI of PROMESA and to Act No. 109-2017, as amended. In connection with such restructuring, the deposits of public corporations that were net depositors of the Bank (i.e., their deposits with the Bank exceeded their loans with the Bank) were transferred to a newly created public trust known as the GDB Public Entity Trust (the "PET"), together with certain assets of the Bank (consisting mainly of loans payable from legislative appropriations). The Trust has a claim of approximately $16,607,000 against the PET in respects of its deposits with the Bank. Such claim is payable from the revenues, if any, generated by the PET's assets. The revenues to be generated by the PET assets, if any, are uncertain at this time and, therefore, no assurances can be provided that the Trust will be able to collect on its claim against the PET.

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.

RSM

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

STATEMENT OF NET POSITION (DEFICIT)
JUNE 30, 2017

	Governmental Activities
ASSETS	
CURRENT ASSETS:	
Certificate of deposit	$ 67,166
Investments and investment contracts	11,749,893
Accrued interest receivable	1,389
Total current assets	11,818,448
NON-CURRENT RESTRICTED ASSETS:	
Investments and investment contracts	108,900,599
Accrued interest receivable	480,555
Receivable from Global Settlement Agreement	36,343,509
Total noncurrent restricted assets	145,724,663
Total assets	157,543,111
DEFERRED OUTFLOWS OF RESOURCES –	
Deferred loss on bonds defeasance	15,635,104
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	203,120
Liabilities payable from restricted assets-	
Accrued interest payable	5,631,706
Total current liabilities	5,834,826
NON-CURRENT LIABILITY – Bonds payable - due in more than one year	1,436,463,061
Total liabilities	1,442,297,887
NET POSITION (DEFICIT)	
Restricted	140,092,957
Unrestricted	(1,409,212,629)
Total net deficit	$ (1,269,119,672)

See notes to basic financial statements.

RSM

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues: Investment Earnings	Program Revenues: Operating Contributions	Net Revenues/ (Expenses) and Changes in Net Deficit
GOVERNMENTAL ACTIVITIES:				
Health	$ 2,478,379	$ -	$ -	$ (2,478,379)
Recreation	68,948	-	-	(68,948)
Intergovernmental grants	129,224	-	-	(129,224)
Debt service and other	95,715,204	3,492,586	72,265,794	(19,956,824)
Total governmental activities	$ 98,391,755	$ 3,492,586	$ 72,265,794	(22,633,375)
GENERAL REVENUES:				
Investment earnings				104,489
Impairment recovery on deposits held in GDB				12,327
CHANGE IN NET DEFICIT				(22,516,559)
NET DEFICIT – Beginning of year				(1,246,603,113)
NET DEFICIT – End of year				$(1,269,119,672)

See notes to basic financial statements.

RSM

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

BALANCE SHEET — GOVERNMENTAL FUNDS
JUNE 30, 2017

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Certificate of deposit	$ 67,166	$ -	$ 67,166
Investments and investment contracts	11,749,893	108,900,599	120,650,492
Accrued interest receivable	1,389	480,555	481,944
Receivable from Global Settlement Agreement	-	36,343,509	36,343,509
Total assets	$ 11,818,448	$ 145,724,663	$ 157,543,111
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES – accounts payable	$ 203,120	$ -	$ 203,120
DEFERRED INFLOWS OF RESOURCES – Deferred revenue	-	36,343,509	36,343,509
FUND BALANCES:			
Restricted	-	109,381,154	109,381,154
Committed	11,751,282	-	11,751,282
Unassigned	(135,954)	-	(135,954)
Total fund balances	11,615,328	109,381,154	120,996,482
Total liabilities, deferred inflows of resources and fund balances	$ 11,818,448	$ 145,724,663	$ 157,543,111

See notes to basic financial statements.

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

RSM

RECONCILIATION OF BALANCE SHEET- GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION (DEFICIT)
JUNE 30, 2017

FUND BALANCES OF GOVERNMENTAL FUNDS	$ 120,996,482
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.	36,343,509
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the fund financial statements.	(5,631,706)
Bonds payable are not due and payable in the current period and, therefore, are not reported in the fund financial statements.	(1,453,665,317)
Discount on bonds issued is reported as an other financing use in the governmental funds financial statements; however, such discount is deferred and accreted over the life of the bonds and is included within bonds payable in the statement of net deficit.	17,202,256
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 deficit.	15,635,104
NET DEFICIT OF GOVERNMENTAL ACTIVITIES	$ (1,269,119,672)

See notes to basic financial statements.

RSM

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, 2017

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES:			
Investment earnings	$ 104,489	$ 3,492,586	$ 3,597,075
Impairment recovery on deposits held in GDB	12,327	-	12,327
Revenue from Global Settlement Agreement	-	72,687,019	72,687,019
Total revenues	116,816	76,179,605	76,296,421
EXPENDITURES:			
Health	2,478,379	-	2,478,379
Recreation	68,948	-	68,948
Other	387,478	-	387,478
Intergovernmental grants	129,224	-	129,224
Debt service:			
Principal	-	29,815,000	29,815,000
Interest	-	46,656,206	46,656,206
Total expenditures	3,064,029	76,471,206	79,535,235
OTHER FINANCING SOURCES/(USES) – Transfers in/(out)	163,972	(163,972)	-
NET CHANGES IN FUND BALANCES	(2,783,241)	(455,573)	(3,238,814)
FUND BALANCES – Beginning of year	14,398,569	109,836,727	124,235,296
FUND BALANCES – End of year	$ 11,615,328	$ 109,381,154	$ 120,996,482

See notes to basic financial statements.

RSM

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, 2017

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS	$	(3,238,814)
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.		(421,223)
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.		200,320
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.		29,815,000
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.		(44,825,020)
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		(1,082,821)
Amortization of loss on refunding		(2,964,001)
CHANGE IN NET DEFICIT OF GOVERNMENTAL ACTIVITIES	$	(22,516,559)

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, as amended, ("Act 173"), and an affiliate of the Government Development Bank for Puerto Rico (the "Bank"), 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 moneys received by the Commonwealth from the Global Settlement Agreement dated November 23, 1998 (the "Agreement") between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. Pursuant to the Act 173, the Commonwealth assigned and transferred to the Trust the contributions, which the Commonwealth is entitled to receive under the Agreement. The Agreement calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. After 2025, the tobacco companies shall continue making contributions in perpetuity. Currently, all of the proceeds received from the Agreement are pledged to cover for debt service requirement of three outstanding bond issuances of the Trust.

The Act 173 provided that the Bank will act as the trustee of the Trust. However, the Bank'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 Puerto Rico government entities pursuant to Act 2-2017. Pursuant to the 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 Trust conform to Accounting Principles Generally Accepted in the United States of America ("GAAP") for governments, as prescribed by the Governmental Accounting Standards Board ("GASB").

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of changes in net position (deficit), and activities during the reporting period. Actual results could differ from those estimates.

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 Agreement, 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:

- Nonspendable – 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 year ended June 30, 2017, grants were awarded for health, and recreational activities.

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

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

Use of Estimates – The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

Bond Issue Costs and Bond Discounts – 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.

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

Deferred Revenue – Deferred revenue at the governmental fund level arises when potential revenue does not meet the "available" criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before the Trust has a legal claim to them, as when grant moneys are received prior to incurring the qualifying expenditures. In subsequent periods, when the revenue recognition criteria is met, or when the Trust has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet, and the revenue is recognized. Deferred revenue at the government wide level arises only when the Trust receives resources before it has a legal claim to them. The deferred revenue is reported on the governmental funds balance sheet as deferred inflows of resources.

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 Agreement, 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 in 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 Agreement to the settling government (the Commonwealth), the Trust recognizes as expenses amounts that are disbursed for grants to its settling government (including its instrumentalities) or third parties.

GASB has issued the following accounting pronouncements that have effective date after June 30, 2017:

(a) GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for fiscal years beginning after June 15, 2017.

(b) GASB Statement No. 81 *Irrevocable Split Interest Agreements*. The requirements of this statement are effective for fiscal years beginning after December 15, 2016.

(c) GASB Statement No. 82 *Pensions Issues an amendment of GASB Statements No. 67, No. 68 and No. 73*. The requirements of this statement are effective for fiscal years beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

(d) GASB Statement No. 83 *Certain Asset Retirement Obligations*. The requirements of this statement are effective for fiscal years beginning after June 15, 2018.

(e) GASB Statement No. 84 *Fiduciary Activities*. The requirements of this statement are effective for fiscal years beginning after December 15, 2018.

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

3. CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the Trust's deposits may not be returned. The Trust does not have a deposit policy for custodial credit risk. As June 30, 2017, the Trust had approximately $16,592,000 in funds deposited with the Bank for uses permitted under Act 173. The Bank was facing significant financial difficulties and eventually became unable to pay its obligations, including its deposit liabilities, as they came due in 2016.

On April 8, 2016, then Governor Alejandro García Padilla issued an executive order under Act 21-2016 to, among other things, suspend the withdrawal of deposits from the Bank. The Bank continued to face significant financial difficulties, and, on November 29, 2018, it completed a restructuring of its financial liabilities, including its deposits, pursuant to a proceeding under Title VI of PROMESA and to Act No. 109-2017, as amended. In connection with such restructuring, the deposits of public corporations that were net depositors of the Bank (i.e., their deposits with the Bank exceeded their loans with the Bank) were transferred to GDB Public Entity Trust (the "PET"), together with certain assets of the Bank (consisting mainly of loans payable from legislative appropriations). The Trust has a claim of approximately $16,592,000 against the PET in respects of its deposits with the Bank. Such claim is payable from the revenues, if any, generated by the PET's assets. The revenues to be generated by the PET assets, if any, are uncertain at this time and, therefore, no assurances can be provided that the Trust will be able to collect on its claim against the PET.

4. INVESTMENTS AND INVESTMENT CONTRACTS

The Trust follows the investment guidelines promulgated by the Bank under the authority provided by Act No. 113 of August 3, 1995 and Executive Order 1995-50A, which detail which investments categories may be purchased or entered by the Trust, which 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 Bank'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, 2017, the Trust maintains approximately $108.9 million in investments and investments contracts which are held as debt service reserves in trusted accounts that are governed by the applicable bond indenture. All of the funds used for debt services are held by the trustee in the name of the Trust with the exception of $83.7 million of nonparticipating investments contracts.

At June 30, 2017, the Trust had the following recurring fair value measurements:

Investment type	Level 1	Level 2	Level 3	Total
Internal investment pools – fixed income Securities				
Puerto Rico Government Investment Trust Fund	$ -	$ 11,749,893	$ -	$ 11,749,893
External investment pools – fixed income securities:				
U.S. Bank – Money Market	25,216,365	-	-	25,216,365
Nonparticipating Investment contacts – UniCredit Bank AG- Guaranteed investment Contract	-	-	83,684,234	83,684,234
	$ 25,216,365	$ 11,749,893	$ 83,684,234	$ 120,650,492

The following table summarizes the type and maturities of investments at fair value held by the Trust at June 30, 2017. 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
Internal investment pools – fixed income securities					
Puerto Rico Government Investment Trust Fund	$ 11,749,893	$ -	$ -	$ -	$ 11,749,893
External investment pools – fixed income securities:					
U.S. Bank – Money Market	-	-	-	25,216,365	25,216,365
Nonparticipating investment contacts – UniCredit Bank AG- Guaranteed investment Contract	-	-	-	83,684,234	83,684,234
	$ 11,749,893	$ -	$ -	$ 108,900,599	$ 120,650,492

The credit quality ratings for investments and investments contracts as of June 30, 2017, are as follows:

Counter Party	Credit Risk Rating: Standard & Poor's	Credit Risk Rating: Moody's
Puerto Rico Government Investment Trust Fund	AAAm	-
U.S. Bank	A+/A-1	A-1/P-1
UniCredit Bank AG	BBB-/A-3	Baa1/P-2

5. SERVICE AGREEMENT

The Trust has an agreement with the Bank whereby the Bank provides managerial, administrative and financial services to the Trust. Pursuant to this agreement, the Trust was charged $200,000 during fiscal year ended June 30, 2017. Such amount was included in accounts payable as of June 30, 2017. Subsequently to June 30, 2017, the managerial, administrative and financial services to the Trust are provided by AAFAF.

6. 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, 2017, the outstanding balance of these bonds consist 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 Agreement collections in excess of the minimum amount required to pay the scheduled annual debt service and administrative expenses may been 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 2005B Bonds"), for $108,209,446. The Series 2005A and 2005B consist of capital appreciation bonds maturing on May 15, 2050 ($74,523,430 at 6.50% plus accreted interest) and capital appreciation bonds maturing on May 15, 2055 ($33,686,016 at 7.25% plus accreted interest), respectively. As of June 30, 2017, the outstanding balances of Series 2005A and 2005B consist of $160,581,736 and $79,186,403, 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 2008B Bonds"), for $195,878,970. The Series 2008A and 2008B 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, 2017, the outstanding balances of Series 2008A and 2008B consist of $276,028,589 and $120,658,588 respectively.

The Series 2008A and 2008B Bonds are subordinated and are not entitled to receive any payments until the date when the Series 2005A and 2005B Bonds are no longer outstanding. The Series 2005A and 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 2005B Bonds are subordinated to the Series 2008A and 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 Agreement. As of June 30, 2017, principal and interest payments on all of the Trust's outstanding bonds are current.

Changes in bonds payable for the year ended June 30, 2017, are summarized as follow (in thousands):

	Balance at July 1,2016	Additions	Debt Paid	Other Increases	Balance at June 30, 2017	Due Within One Year
Bond Payable	$ 1,438,655	$ -	$ (29,815)	$ 44,825	$ 1,453,665	$ -
Less:						
Unaccreted discount	(18,285)	-	-	1,083	(17,202)	-
	$ 1,420,370	$ -	$ (29,815)	$ 45,908	$ 1,436,463	$ -

Changes in deferred outflows of resources during the year ended June 30, 2017, are summarized as follow (in thousands):

	Balance at July 1, 2016	Accretion	Balance at June 30, 2017
Deferred loss on refunding	$ (18,599)	$ 2,964	$ 15,635

As of June 30, 2017, debt service requirements for bonds outstanding were as follow (in thousands):

Year Ending June 30,	Principal	Interest	Total
2018	$ -	$ 45,054	$ 45,054
2019	-	45,054	45,054
2020	-	45,054	45,054
2021	-	45,054	45,054
2022	-	45,054	45,054
2023-2027	9,855	225,268	235,123
2028-2032	161,615	206,126	367,741
2033-2037	230,135	156,019	386,154
2038-2042	334,210	81,782	415,992
2043-2047	81,395	4,578	85,973
2048-2052	-	-	-
2053-2057	-	-	-
2057-2061	8,634,580	-	8,634,580
	$ 9,451,790	$ 899,043	$ 10,350,833
Less:			
Unaccreted discount	(17,202)		
Unaccreted interest	(7,998,125)		
Total Bonds payable	$ 1,436,463		

7. COMMITMENTS

As of June 30, 2017, the Trust had only one approved commitment, or grant agreement, with one entity, as explained in Note 9.

8. GLOBAL SETTLEMENT AGREEMENT

On November 23, 1998, the Agreement 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 Agreement calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. After 2025, the tobacco companies shall continue making contributions in perpetuity.

Following is a summary of projected collections amounts in the official statement that should be received by the Trust through the year ending June 30, 2025 (unaudited, in thousands):

Year ending June 30,	Amount
2018	$ 97,014
2019	98,140
2020	99,231
2021	100,439
2022	101,638
2023-2025	312,712
	$ 809,174

Actual collections from the Agreement will fluctuate due to 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 2017, actual collections were $72,687,019 or 15% less than the projected amount in the master settlement agreement for the year 2017.

All of the revenue received under the Agreement and investment earnings on certain accounts under the bond indentures are pledged as collateral for all bond issuances.
Amounts received under the bond issuances are used to finance 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 form of grants. Part of the proceeds from the Series 2008A and 2008B Bonds were used to pay certain operating expenses of the Commonwealth.

During the year ended June 30, 2017, pledged revenues amounted to $72,687,019, which were used to pay for $76,471,206 of related principal and interest of the bond issuances.

9. INTERGOVERNMENTAL GRANTS

The Trust has established intergovernmental agreements with various Puerto Rico governmental entities in order to disburse funds as permitted by Act 173 and as authorized by the Board of Directors of the Trust. As of June 30, 2017, the Board of Directors of the Trust has approved $1,324,317,710 in funds disbursed under grant agreements to several Puerto Rico governmental entities, disbursing approximately $1,314,516,521, with a balance of $9,801,189 of unused grant monies. Of the amounts in unused grant monies to governmental entities, in April 2014, the Board of Directors of the Trust authorized reassigning $4,664,250 to the Corporación del Proyecto ENLACE del Caño Martín Peña ("Corporación Enlace") under a grant agreement between the Corporación Enlace and the Trust. As of June 30, 2017, the amount of unspent funds under the grant agreement with the Corporación Enlace was $1,888,883 with a grant termination date as of June 30, 2018. There were no outstanding grant agreements available for other Puerto Rico governmental entities as of June 30, 2017.

10. SUBSEQUENT EVENTS

The following subsequent events were evaluated through July 19, 2019, 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, 2017 financial statements:

1. At June 30, 2017, the Trust had approximately $16,592,000 in funds deposited with the Bank. On November 29, 2018, the Bank completed a restructuring of its financial liabilities, including its deposits, pursuant to a proceeding under Title VI of PROMESA and to Act No. 109-2017, as amended. In connection with such restructuring, the deposits of public corporations that were net depositors of the Bank (i.e., their deposits with the Bank exceeded their loans with the Bank) were transferred to the PET, together with certain assets of the Bank (consisting mainly of loans payable from legislative appropriations). The Trust has a claim of approximately $16,592,000 against the PET in respects of its deposits with the Bank. Such claim is payable from the revenues, if any, generated by the PET's assets. The revenues to be generated by the PET assets, if any, are uncertain at this time and, therefore, no assurances can be provided that the Trust will be able to collect on its claim against the PET.

2. In December 2017, the Trust opened two commercial bank accounts with an FDIC insured commercial bank in Puerto Rico. The two new bank accounts were funded with $11.9 million in unspent cash that the Trust had available to support the execution of grant agreements, as permitted by Act 173, and to cover general operating expenses. Since December 2017, the two commercial bank accounts have been used by the Trust to support its outstanding grant agreements and to cover its general operating expenses.

3. In October 2018, the Board of Directors of the Trust authorized a new grant agreement to the Corporación Enlace, which is subsequent to the grant agreement that was approved in April 2014 which had a termination date of June 30, 2018. 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. The new grant agreement with the Corporación Enlace has a termination date as of February 25, 2021.

4. In 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") in the amount of $197,632. The new grant agreement with the Boy Scouts has a termination date as of November 26, 2019.

5. On November 29, 2018, the Bank completed a restructuring of its financial liabilities, including its deposits, pursuant to a proceeding under Title VI of PROMESA and to Act No. 109-2017, as amended. In connection with such restructuring, the deposits of public corporations that were net depositors of the Bank (i.e., their deposits with the Bank exceeded their loans with the Bank) were transferred to a newly created public trust known as the GDB Public Entity Trust (the "PET"), together with certain assets of the Bank (consisting mainly of loans payable from legislative appropriations). The Trust has a claim of approximately $16,607,000 against the PET in respects of its deposits with the Bank. Such claim is payable from the revenues, if any, generated by the PET's assets. The revenues to be generated by the PET assets, if any, are uncertain at this time and, therefore, no assurances can be provided that the Trust will be able to collect on its claim against the PET.

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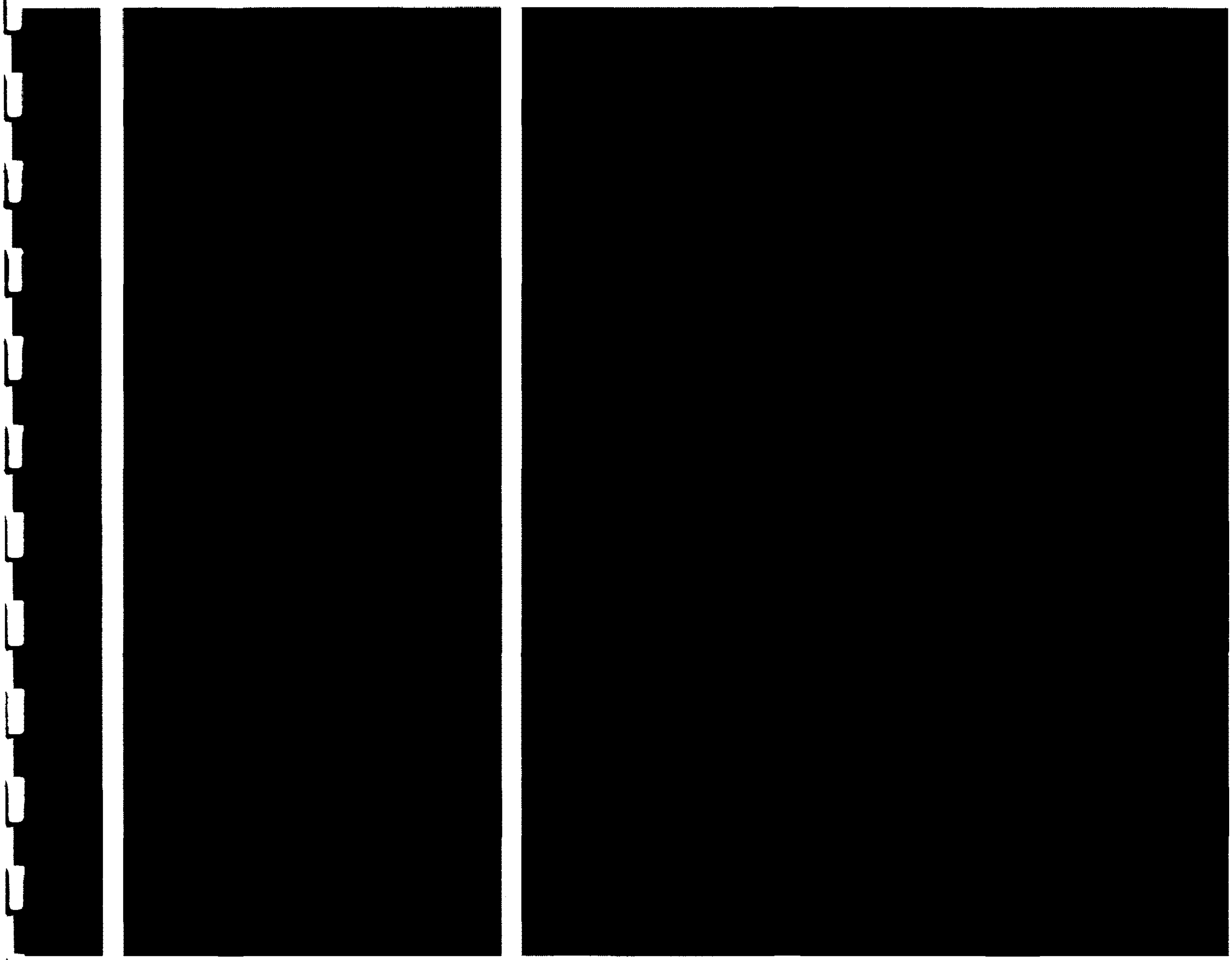

THE CHILDREN'S TRUST

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

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

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BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION
FISCAL YEAR ENDED JUNE 30, 2018

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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, 2018, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, 2018, 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 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.

San Juan, Puerto Rico
April 21, 2020.

RSM Puerto Rico

Stamp No. E411168 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, 2018. 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 2018 was approximately $1,285 million, an increase of approximately $16.3 million, or approximately 1.3%, as compared to approximately $1,269 million in fiscal year 2017.

- Government-wide revenues for fiscal year 2018 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 $77.8 million, an increase of approximately $5.5 million, or approximately 7.7%, as compared to approximately $72.3 million in fiscal year 2017.

- Operating expenses consist of payments for programs and activities permitted by the Trust's enabling legislation, Act No. 173 of July 30, 1999, as amended ("Act 173"). The total aggregate amount of funds granted during fiscal year 2018 accounted in the government-wide financials was approximately $555,000, a decrease of approximately $2.1 million, or approximately 79.3%, as compared to approximately $2.7 million during fiscal year 2017.

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 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, other non-financial factors on tobacco and general industries, as are changes in economic conditions and government legislations need to be considered.

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	
	2018	2017	Amount	Percent
Assets:				
Current Assets	$ 12,065	$ 11,818	$ 247	2.1%
Non-current restricted assets	145,438	145,725	(287)	(0.2%)
Total assets	157,503	157,543	(40)	(0.03%)
Deferred outflows of resources	12,671	15,635	(2,964)	(19%)
Liabilities:				
Current liabilities	6,342	5,835	507	8.7%
Non-current liability	1,449,224	1,436,463	12,761	0.9%
Total liabilities	1,455,566	1,442,298	13,268	0.9%
Net deficit	$ (1,285,392)	$ (1,269,120)	$ (16,272)	1.3%

As previously mentioned, for fiscal year 2018, the Trust's balance sheet net deficit increased by approximately $16.3 million to approximately $1,285 million, as compared to fiscal year 2017, due to the following:

- Net decrease in total assets of approximately $40,000, related to a to change in investments and investments contracts.

- Decrease in deferred outflows of resources of approximately $2.9 million, mainly from the amortization of deferred loss on bonds refunding.

- Net increase in total liabilities of approximately $13.2 million, mainly from capital appreciation bonds from the net effect of interest capitalization for fiscal year 2018 of approximately $48 million.

Condensed program activities and change in net deficit are presented below (in thousands):

Function/Program	For the Year Ended June 30, 2018	2017	Change Amount	Percent
Expenses of governmental activities:				
Health	$ 555	$ 2,478	$ (1,923)	(77.6%)
Recreation	-	69	(69)	(100%)
Intergovernmental grants	-	129	(129)	(100%)
Custodial credit risk loss	16	-	16	100%
Interest on long term debt and other - net	97,322	95,715	1,607	1.7%
Total	97,893	98,391	(498)	(0.5%)
Revenue of governmental activities:				
Investment earnings	3,778	3,597	181	5.0%
Global Settlement Agreement	77,843	72,266	5,577	7.7%
Impairment recovery on deposits held in GDB	-	12	(12)	(100%)
Total	81,621	75,875	5,746	7.6%
Change in net deficit	$ (16,272)	$ (22,516)	$ 6,244	(27.7%)

For fiscal year 2018, the $6.2 million decrease in net deficit to $16.3 million is mainly due to: (1) an increase on revenues of approximately $5.7 million and (2) a decrease on expenses related to governmental activities of approximately $498,000. The revenue increase was mainly attributed to a higher annual contribution from the Tobacco Settlement. The total amount to be received under the Tobacco Settlement depends on the actual shipment of cigarettes. The net decrease in expenses mostly came from $2.1 million in lower grant expenses, net of the $1.6 million increase in interest on long-term debt.

6. GOVERNMENTAL FUND FINANCIAL STATEMENTS ANALYSIS

The Trust's governmental funds reported fund balances of approximately $119.6 million as of June 30, 2018, which is approximately $1.3 million less than the prior fiscal year ending June 30, 2017. The fund balance decrease for governmental funds was mainly due to an increase in interest on debt service of approximately $1.6 million.

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

	As of June 30, 2018	2017	Change Amount	Percent
Assets	$ 157,502	$ 157,543	$ (41)	(0.03%)
Liabilities and deferred inflows of resource	$ 37,813	$ 36,547	$ 1,266	3.46%
Fund Balance	119,689	120,996	(1,307)	(1.08%)
Total liabilities, deferred inflows of resources and fund balances	$ 157,502	$ 157,543	$ (41)	(0.03%)

7. DEBT ADMINISTRATION

During the fiscal year ended June 30, 2018, principal payments on bonds payable amounted to approximately $36.4 million. As of June 30, 2018, the remaining balance on bonds was approximately $1,449 million, net of approximately $16.1 million of non-accreted bond discount, due through year 2061.

8. CURRENTLY KNOWN FACTS

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

On May 1, 2017, the stay under Title IV of PROMESA expired, permitting the substantial litigation brought by bondholders and other creditors against the Commonwealth and its component units to resume. As a result, on May 3, 2017, the Oversight Board, at the request of the Governor of Puerto Rico (the "Governor"), commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the "Title III Court"). Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to the Title III cases pursuant to PROMESA section 301(a).

On February 28, 2020, the Oversight Board filed its Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 11946] (the "Amended Plan") and an amended disclosure statement related thereto [ECF No. 11947] (the "Amended Disclosure Statement"), which amended the Oversight Board's initial plan of adjustment filed in September 2019. The Amended Plan and Amended Disclosure Statement do not reflect the potential impact from the on-going outbreak of a respiratory illness caused by a novel (new) coronavirus known as COVID-19. On March 23, 2020, the Oversight Board filed an urgent motion requesting to adjourn consideration of the Amended Disclosure Statement—currently scheduled for June 3 and June 4, 2020—until further notice. The Title III Court granted the motion on March 27, 2020, requiring the Oversight Board to file a status report on May 1, 2020. The Joint Plan and Disclosure Statement remain subject to future amendments and Title III Court approval, and it is not certain that the Title III Court will ultimately confirm the Amended Plan. For additional information on the Amended Plan, refer to Note 10 to the basic financial statements.

On November 29, 2018, Government Development Bank for Puerto Rico ("GDB") completed a restructuring of its financial liabilities, including its deposits, pursuant to Qualifying Modification under under Title VI of PROMESA (the "Qualifying Modification") and Act No. 109 of August 24, 2017, known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the "GDB Restructuring Act"). The GDB Restructuring Act created two special purpose entities -the GDB Debt Recovery Authority and the Public Entity Trust (the "PET") -into which the GDB would divide and irrevocably transfer its assets. Under the Qualifying Modification, holders of certain bond and deposit claims against GDB exchanged their claims for bonds issued by 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 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 interests of the PET. The assets of the PET (the "PET Assets") consist of among other items, an unsecured claim against the Commonwealth of approximately $580 million, which is the subject of a proof of claim filed in the Commonwealth's Title III case. On November 6, 2018, the United States District Court for the District of Puerto Rico approved GDB's Qualifying Modification under Title VI of PROMESA and the Qualifying Modification became effective as of November 29, 2018. The Trust has a claim of approximately $16,607,000 against the PET in respect of its deposits with GDB. Such claim is payable from the revenues, if any, generated by the PET Assets. The revenues to be generated by the PET Assets, if any, are uncertain at this time and, therefore, no assurances can be provided that the Trust will be able to collect on its claim against the PET. For additional information on the GDB Qualifying Modification, refer to Note 10 to the basic financial statements.

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, 2018

	Governmental Activities
ASSETS	
CURRENT ASSETS:	
Cash	$ 11,995,523
Certificate of deposit	67,719
Accrued interest receivable	1,365
Total current assets	12,064,607
NON-CURRENT RESTRICTED ASSETS:	
Investments and investment contracts	108,099,286
Accrued interest receivable	481,192
Receivable from Global Settlement Agreement	36,857,452
Total noncurrent restricted assets	145,437,930
Total assets	157,502,537
DEFERRED OUTFLOWS OF RESOURCES –	
Deferred loss on bonds defeasance	12,671,103
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	955,589
Liabilities payable from restricted assets-	
Accrued interest payable	5,386,841
Total current liabilities	6,342,430
NON-CURRENT LIABILITY – Bonds payable - due in more than one year	1,449,223,981
Total liabilities	1,455,566,411
NET POSITION (DEFICIT)	
Restricted	140,051,089
Unrestricted	(1,425,443,860)
Total net deficit	$ (1,285,392,771)

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, 2018

Functions/Programs	Expenses	Program Revenues		Net Revenues/ (Expenses) and Changes in Net Deficit
		Investment Earnings	Operating Contributions	
GOVERNMENTAL ACTIVITIES:				
Health	$ 555,588	$ -	$ -	$ (555,588)
Custodial credit risk loss	16,596	-	-	(16,596)
Debt service and other	97,322,135	3,657,798	77,842,970	(15,821,367)
Total governmental activities	$ 97,894,319	$ 3,657,798	$ 77,842,970	(16,393,551)
GENERAL REVENUES:				
Investment earnings				120,452
CHANGE IN NET DEFICIT				(16,273,099)
NET DEFICIT – Beginning of year				(1,269,119,672)
NET DEFICIT – End of year				$ (1,285,392,771)

See notes to basic financial statements.

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

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BALANCE SHEET — GOVERNMENTAL FUNDS
JUNE 30, 2018

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash	$ 11,995,523	$ -	$ 11,995,523
Certificate of deposit	67,719	-	67,719
Investment and investment contracts	-	108,099,286	108,099,286
Accrued interest receivable	1,365	481,192	482,557
Receivable from Global Settlement Agreement	-	36,857,452	36,857,452
Total assets	$ 12,064,607	$ 145,437,930	$ 157,502,537
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES – accounts payable	$ 955,589	$ -	$ 955,589
DEFERRED INFLOWS OF RESOURCES –			
Deferred revenue	-	36,857,452	36,857,452
FUND BALANCES:			
Restricted	-	108,580,478	108,580,478
Committed	11,996,888	-	11,996,888
Unassigned	(887,870)	-	(887,870)
Total fund balances	11,109,018	108,580,478	119,689,496
Total liabilities, deferred inflows of resources and fund balances	$ 12,064,607	$ 145,437,930	$ 157,502,537

See notes to basic financial statements.

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

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RECONCILIATION OF BALANCE SHEET- GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION (DEFICIT)
JUNE 30, 2018

FUND BALANCES OF GOVERNMENTAL FUNDS	$ 119,689,496
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.	36,857,452
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the fund financial statements.	(5,386,841)
Bonds payable are not due and payable in the current period and, therefore, are not reported in the fund financial statements.	(1,449,223,981)
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 deficit.	12,671,103
NET DEFICIT OF GOVERNMENTAL ACTIVITIES	$ (1,285,392,771)

See notes to basic financial statements.

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

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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES:			
Investment earnings	$ 120,452	$ 3,657,798	$ 3,778,250
Revenue from Global Settlement Agreement	-	77,329,028	77,329,028
Total revenues	120,452	80,986,826	81,107,278
EXPENDITURES:			
Health	555,588	-	555,588
Other	429,901	-	429,901
Debt service:			
Principal	-	36,445,000	36,445,000
Interest	-	44,983,775	44,983,775
Total expenditures	985,489	81,428,775	82,414,264
OTHER FINANCING SOURCES/(USES) – Transfers in/(out)	358,727	(358,727)	-
NET CHANGES IN FUND BALANCES	(506,310)	(800,676)	(1,306,986)
FUND BALANCES – Beginning of year	11,615,328	109,381,154	120,996,482
FUND BALANCES – End of year	$ 11,109,018	$ 108,580,478	$ 119,689,496

See notes to basic financial statements.

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

RSM

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, 2018

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS	$	(1,306,986)
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.		513,943
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.		244,865
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.		36,445,000
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.		(48,195,007)
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		(1,010,912)
Amortization of loss on refunding		(2,964,001)
CHANGE IN NET DEFICIT OF GOVERNMENTAL ACTIVITIES	$	(16,273,098)

See notes to basic financial statements.

1. REPORTING ENTITY

The Trust is a component unit of the Commonwealth created by the Legislative Assembly of the Commonwealth under Act 173 of the Legislature of the Commonwealth on July 30, 1999, and an affiliate of the Govemment 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 the 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 No. 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 Trust conform to Accounting Principles Generally Accepted in the United States of America ("GAAP") for govemments, as prescribed by the Governmental Accounting Standards Board ("GASB").

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of changes in net position (deficit), and activities during the reporting period. Actual results could differ from those estimates.

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

Government-Wide and Fund Financial Statements

Govemment-Wide Financial Statements – The statement of net position (deficit) and the statement of activities report information on all balances and activities ofthe 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:

- Nonspendable – 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 year ended June 30, 2018, grants were awarded for health, and other..

- *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 the Act 173 to submit a budget for approval by the Legislature of the Commonwealth; consequently, no formal budgetary accounting procedures are followed.

Use of Estimates – The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

Bond Issue Costs and Bond Discounts – 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.

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

Deferred Revenue – Deferred revenue at the governmental fund level arises when potential revenue does not meet the "available" criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before the Trust has a legal claim to them, as when grant moneys are received prior to incurring the qualifying expenditures. In subsequent periods, when the revenue recognition criteria is met, or when the Trust has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet, and the revenue is recognized. Deferred revenue at the government wide level arises only when the Trust receives resources before it has a legal claim to them. The deferred revenue is reported on the governmental funds balance sheet as deferred inflows of resources.

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 in 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 settling government (the Commonwealth), the Trust recognizes as expenses amounts that are disbursed for grants to its settling government (including its instrumentalities) or third parties.

GASB has issued the following accounting pronouncements that have effective date after June 30, 2018:

(a) *GASB Statement No. 83, Certain Asset Retirement Obligations.* The requirements of this statement are effective for fiscal years beginning after June 15, 2018.

(b) *GASB Statement No. 84, Fiduciary Activities.* The requirements of this statement are effective for fiscal years beginning after December 15, 2018.

(c) *GASB Statement No. 87, Leases.* The requirements of this statement are effective for fiscal years beginning after December 15, 2019.

(d) *GASB Statement No. 88, Certain Disclosures Related to Debt including Direct Borrowings and Direct Placements.* The requirements of this statement are effective for fiscal years beginning after June 15, 2018.

(e) *GASB Statement No. 89, Accounting for Interest Cost Incurred before year End before a Construction Period.* The requirements of this statement are effective for fiscal years beginning after December 15, 2019.

(f) *GASB Statement No. 90, Majority EquityAccounting for Interests* – an amendment of GASB Statements No. 14 and No. 61. The requirements of this statement are effective for fiscal years beginning after December 15, 2018.

(g) *GASB Statement No. 91, Conduit Debt Obligations.* The requirements of this statement are effective for fiscal years beginning after December 15, 2020.

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

3. CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the Trust's deposits may not be returned. The Trust does not have a deposit policy for custodial credit risk. As of June 30, 2018, the Trust had approximately $16.6 million in funds deposited with GDB for uses permitted under Act 173. GDB was facing significant financial difficulties and eventually became unable to pay its obligations, including its deposit liabilities, as they came due in 2017.

On April 8, 2016, then-Governor Alejandro García Padilla issued an executive order under Act 21-2016 to, among other things, suspend the withdrawal of deposits from GDB. GDB continued to face significant financial difficulties, and, on November 29, 2018, it completed a restructuring of its financial liabilities, including its deposits, pursuant to a Qualifying Modification under Title VI of PROMESA and the GDB Restructuring Act. In connection with the Qualifying Modification, the deposits of public corporations that were net depositors of GDB (i.e., their deposits with GDB exceeded their loans with GDB) were transferred to PET, together with certain assets of GDB (consisting mainly of loans payable from legislative appropriations). The Trust has a claim of approximately $16.6 million against the PET in respects of its deposits with GDB. Such claim is payable from the revenues, if any, generated by the PET Assets. The revenues to be generated by the PET Assets, if any, are uncertain at this time and, therefore, no assurances can be provided that the Trust will be able to collect on its claim against the PET. See Note 10 (b).

4. INVESTMENTS AND INVESTMENT CONTRACTS

The Trust follows the investment guidelines promulgated by GDB under the authority provided by Act No. 113 of August 3, 1995 and Executive Order 1995-50A, which detail which investments categories may be purchased or entered by the Trust, which 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, 2018, the Trust maintains approximately $108 million in investments and investments contracts which are held as debt service reserves in trusted accounts that are governed by the applicable bond indenture. All of the funds used for debt services are held by the trustee in the name of the Trust with the exception of $83.7 million of nonparticipating investments contracts.

At June 30, 2018, the Trust had the following recurring fair value measurements:

Investment type	Level 1	Level 2	Level 3	Total
External Investment pools- fixed income securities:				
U.S. Bank-Money Market	$ 24,415,051	$ -	$ -	$ 24,415,051
Nonparticipating investment contracts-				
UniCredit Bank AG-Guaranteed Investment Contract	-	-	83,684,235	83,684,235
	$ 24,415,051	$ -	$ 83,684,235	$ 108,099,286

The following table summarizes the type and maturities of investments at fair value held by the Trust at June 30, 2018. 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:					
U.S. Bank-Money Market	$ 24,415,051	$ -	$ -	$ -	$ 24,415,051
Nonparticipating investment contracts-					
UniCredit Bank AG-Guaranteed Investment Contract	-	-	-	83,684,235	83,684,235
	$ 24,415,051	$ -	$ -	$ 83,684,235	$ 108,099,286

The credit quality ratings for investments and investments contracts as of June 30, 2018, are as follows:

Counter Party	Credit Risk Rating: Standard & Poor's	Credit Risk Rating: Moody's
U.S. Bank		
UniCredit Bank AG	BBB	A3
	NR	Ba

5. SERVICE AGREEMENT

The Trust had an agreement with GDB whereby GDB provided managerial, administrative, and financial supporting services to the Trust. Pursuant to this agreement, the Trust was invoiced $200,000 during the fiscal year ended June 30, 2018. Such amount was included in accounts payable as of June 30, 2018. Since June 30, 2018, the managerial, administrative, and financial supporting services to the Trust were provided by AAFAF.

6. 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, 2018, the outstanding balance of these bonds consist of single rated term bonds (the "Term Bonds") maturing from May 15, 2025 to 2033 ($174,130,000 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 been 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 2005B Bonds"), for $108,209,446. The Series 2005A and 2005B consist of capital appreciation bonds maturing on May 15, 2050 ($74,523,430 at 6.50% plus accreted interest) and capital appreciation bonds maturing on May 15, 2055 ($33,686,016 at 7.25% plus accreted interest), respectively. As of June 30, 2018, the outstanding balances of Series 2005A and 2005B consist of $171,189,164 and $85,031,474, 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 2008B Bonds"), for $195,878,970. The Series 2008A and 2008B 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, 2018 and 2017, the outstanding balances of Series 2008A and 2008B consist of $297,454,594 and $130,975,092 respectively.

The Series 2008A and 2008B Bonds are subordinated and are not entitled to receive any payments until the date when the Series 2005A and 2005B Bonds are no longer outstanding. The Series 2005A and 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 2005B Bonds are subordinated to the Series 2008A and 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, 2018, principal and interest payments on all of the Trust's outstanding bonds are current.

Changes in bonds payable for the year ended June 30, 2018, are summarized as follow (in thousands):

	Balance at July 1, 2017	Additions	Debt Paid	Other Increases	**Balance at June 30, 2018**	Due Within One Year
Bonds payable	$ 1,453,665	$ -	$ (36,445)	$ 48,195	**$ 1,465,415**	$ -
Less:						
Unaccreted discount	(17,202)	-	-	1,011	**(16,191)**	-
Bonds payable	$ 1,436,463	$ -	$ (36,445)	$ 49,206	**$ 1,449,224**	$ -

Changes in deferred outflows of resources during the year ended June 30, 2018, are summarized as follow (in thousands):

Description	Balance at July 1, 2017	Accretion	**Balance at June 30, 2018**
Deferred loss on refunding	$ (15,635)	$ 2,964	**$ (12,671)**

As of June 30, 2018, debt service requirements for bonds outstanding were as follow (in thousands):

Year Ending June 30,	Principal	Interest	Total
2019	$ -	$ 45,054	$ $45,054
2020	-	45,054	45,054
2021	-	45,054	45,054
2022	-	45,054	45,054
2023	-	45,054	45,054
2024-2028	3,170	224,739	227,909
2029-2033	170,960	197,439	368,399
2034-2038	248,500	143,411	391,911
2039-2043	358,135	63,132	421,267
2044-2048	-	-	-
2049-2053	-	-	-
2054-2058	-	-	-
2059-2061	8,634,580	-	8,634,580
	$ 9,415,345	$ 853,991	$ 10,269,336
Less:			
Unaccreted discount	(16,191)		
Unaccreted interest	(7,949,930)		
Total Bonds payable	$ 1,449,224		

7. COMMITMENTS

As of June 30, 2018, the Trust had only one approved commitment, or grant agreement, with one entity, as explained in Note 9.

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 projetions of annual payments to be received by the Trust in each year through 2057 (unaudited, in thousands):

Year ending June 30,		Amount
2019	$	98,140
2020		99,231
2021		100,439
2022		101,638
2023		102,889
2024-2028		534,584
2029-2033		571,164
2034-2038		609,192
2039-2043		648,829
2044-2048		690,211
2049-2053		735,434
2054-2057		622,644
	$	$4,914,395

Actual collections from the Tobacco Settlement will fluctuate due to 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 2018, actual collections were $77,842,970 or 20% less than the projected amount in the master settlement agreement for the year 2018.

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.

Amounts received under the bond issuances are used to finance 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 form of grants. Part of the proceeds from the Series 2008A and 2008B Bonds were used to pay certain operating expenses of the Commonwealth.

During the year ended June 30, 2018, pledged revenues amounted to $77,842,970, which were used to pay for $81,428,775 of related principal and interest of the bond issuances.

9. INTERGOVERNMENTAL GRANTS

The Trust has established intergovernmental agreements with various Puerto Rico governmental entities in order to disburse funds as permitted by Act 173 and as authorized by the Board of Directors of the Trust. As of June 30, 2018, the Board of Directors of the Trust has approved $1,324,317,710 in funds disbursed under grant agreements to several Puerto Rico governmental entities, disbursing approximately $1,314,516,521, with a balance of $9,801,189 of unused grant monies. Of the amounts in unused grant monies to governmental entities, in April 2014, the Board of Directors of the Trust authorized reassigning $4,664,250 to the Corporación del Proyecto ENLACE del Caño Martín Peña ("Corporación Enlace") under a grant agreement between the Corporación Enlace and the Trust. As of June 30, 2018, the amount of unspent funds under the grant agreement with the Corporación Enlace was $1,888,883 with a grant termination date as of June 30, 2018. There were no outstanding grant agreements available for other Puerto Rico governmental entities as of June 30, 2018.

10. SUBSEQUENT EVENTS

The following subsequent events were evaluated through April 21, 2020, 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, 2018 financial statements:

(a) New Grant Agreements

In October 2018, the Board of Directors of the Trust authorized a new grant agreement to the Corporación Enlace, which replaced the grant agreement that was approved in April 2014. 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. The new grant agreement with the Corporación Enlace has a termination date as of February 25, 2021.

In 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") in the amount of $197,632. The new grant agreement with the Boy Scouts has a termination date as of November 26, 2019.

(b) GDB Qualifying Modification and Title VI Approval Process

On March 23, 2018, GDB ceased its operations. 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 (each a "Participating Bond Claim") 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 owned assets and its unencumbered cash.

The Qualifying Modification was approved by the United States District Court for Puerto Rico pursuant to section 601(m)(2) of PROMESA. Pursuant to PROMESA, the Qualifying Modification is valid and binding on any person or entity asserting claims or other rights, including a beneficial interest (directly or indirectly, as principal, agent, counterpart, subrogee, insurer or otherwise) in respect of Participating Bond Claims, and any trustee, any collateral agent, any indenture trustee, any fiscal agent, and any bank that receives or holds funds related to such Participating Bonds. The Qualifying Modification, including all settlements, compromises, releases, discharges, and injunctions, were deemed by the District Court to be full, final, complete, binding, and conclusive as to the Commonwealth, all Commonwealth instrumentalities, and any creditors of such entities, and is not subject to any collateral attack or other challenge by any such entities in any court or other forum.

Pursuant to Act No. 109-2017, also known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the "GDB Restructuring Act") and the terms of the Qualifying Modification, claims on account of deposits held by the Commonwealth and other public entities were exchanged for beneficial units in the "Public Entity Trust" created pursuant to the GDB Restructuring Act. Specifically, under the provisions of the GDB Restructuring Act, on the closing date of the Qualifying Modification (the "Closing Date"), the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliated (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 Public Entity Trust, which was deemed to be full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB. In addition, claims that the Commonwealth and other governmental entities may have had against GDB have been released pursuant to the GDB Restructuring Act.

As of the date hereof, the assets of the PET consist of a $578 million claim against the Commonwealth, which is the subject of a proof of claim filed in the Commonwealth Title III case (the "PET Claim"). The Official Committee of Unsecured Creditors appointed in the Commonwealth Title III Case has objected to the PET Claim and, as of the date hereof, the Court has not determined if the PET Claim is an allowed claim that will be entitled to a distribution.

(c) COVID-19

On March 11, 2020, the World Health Organization declared the Coronavirus disease ("COVID-19") as a global pandemic. As a result of the health threat and to contain the virus spread across the island, 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, well-being 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 PROMB 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 sharing information with the municipalities. Subsequent executive orders, including curfew directives and other protective measures have been issued in response to the COVID-19 spread. Also, 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 and small businesses, including individuals and businesses in Puerto Rico, in response to the economic distress caused by the COVID-19 pandemic.

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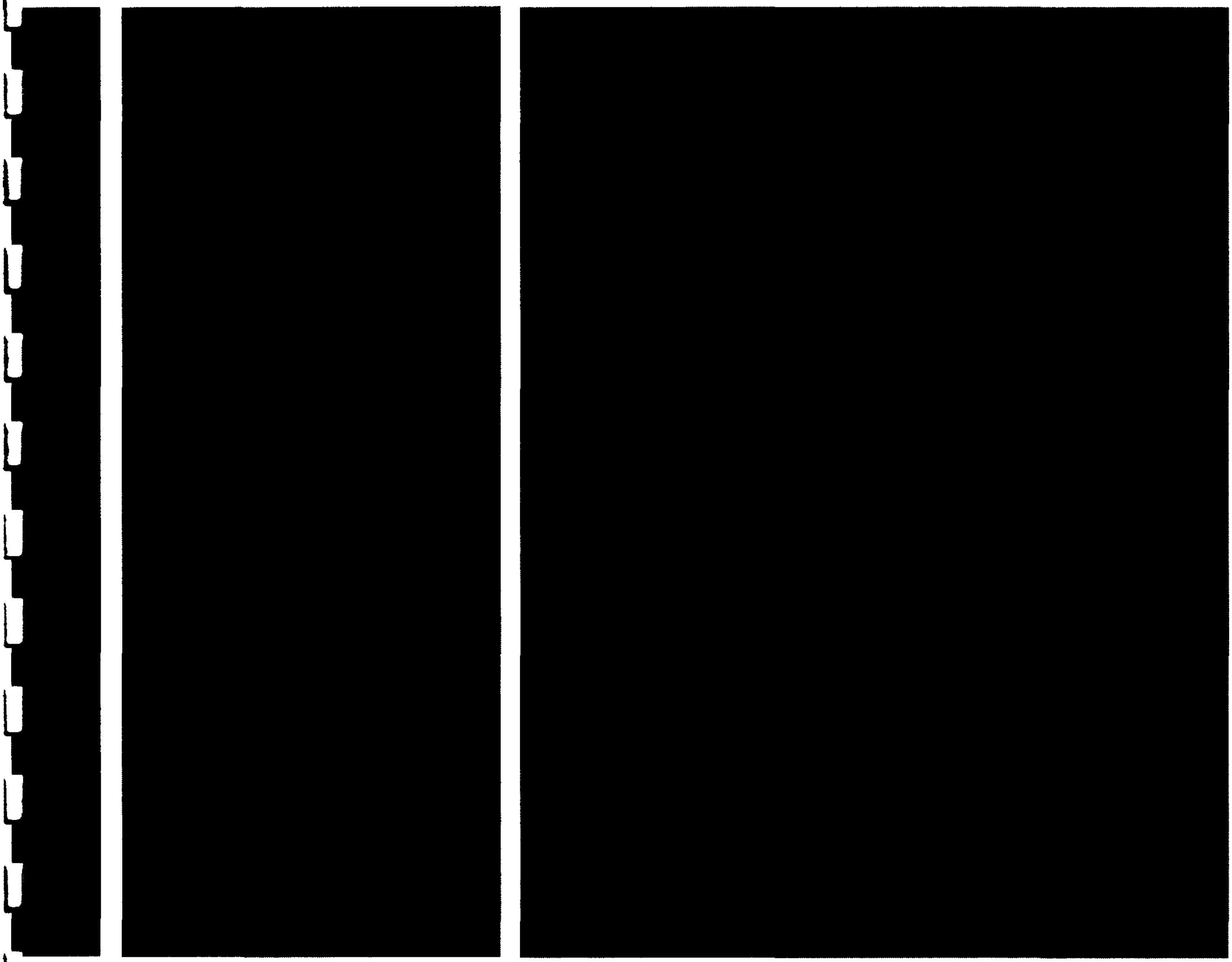

THE CHILDREN'S TRUST
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information For the Fiscal Year Ended June 30, 2019

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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, 2019

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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, 2019, and the related notes to the financial statements, which collectively comprise The Chidren'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

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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, 2019, 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
September 29, 2021.

Stamp No. E467494 was affixed to
the original of this report.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2019

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, 2019. 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 2019 was approximately $1,306 million, a increase of approximately $20.2 million, or approximately 1.6%, as compared to approximately $1,285 million for fiscal year 2018.

- Government-wide revenues for fiscal year 2019 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 $75.2 million, a decrease of approximately $2.7 million, or approximately 3.4%, as compared to approximately $77.8 million for fiscal year 2018.

- 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). The total aggregate amount of funds granted during fiscal year 2019 accounted in the government-wide financials was approximately $345 thousand, a decrease of approximately $210 thousand, or approximately 37.8%, as compared to approximately $555 thousand granted during fiscal year 2018.

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	
	2019	2018 (As restated)	Amount	Percent
Assets:				
Current Assets	$ 11,523	$ 11,997	$ (474)	(4.0%)
Non-current restricted assets	144,486	145,438	(952)	(0.7%)
Total assets	156,009	157,435	(1,426)	(0.9%)
Deferred outflows of resources	9,707	12,671	(2,964)	(23.4%)
Liabilities:				
Current liabilities	5,911	6,342	(431)	(6.8%)
Non-current liability	1,465,500	1,449,224	16,276	1.1%
Total liabilities	1,471,411	1,455,566	15,845	1.1%
Net deficit	$ (1,305,695)	$ (1,285,460)	$ (20,235)	1.6%

As previously explained, for fiscal year 2019, the Trust's balance sheet net deficit increased by approximately $20.2 million to approximately $1,306 million, as compared to fiscal year 2018, due to the following:

- Net decrease in total assets of approximately $1.4 million, primarily related to a decrease in investments and investment contracts amounting to approximately $1 million and a decrease in cash amounting to approximately $474 thousand.

- 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 $15.8 million, mainly from capital appreciation bonds from the net effect of interest capitalization for fiscal year 2019 of approximately $51.9 million.

Condensed program activities and change in net deficit are presented below (in thousands):

Function/Program	For the Year Ended June 30, 2019	2018 (As restated)	Change Amount	Change Percent
Expenses of governmental				
Health	$ 345	$ 555	$ (210)	(37.8%)
Custodial credit risk loss	-	84	(84)	(100%)
Interest on long term debt and other - net	98,990	97,322	1,668	1.7%
Total	99,335	97,961	1,374	1.4%
Revenues of governmental activities:				
Investment earnings	3,937	3,778	159	4.2%
Global Settlement Agreement	75,163	77,843	(2,680)	(3.4%)
Total	79,100	81,621	(2,521)	(3.1%)
Change in net deficit	$ (20,235)	$ (16,340)	$ (3,895)	23.8%

For fiscal year 2019, the net deficit increase by approximately $3.9 million from approximately $16.3 million in fiscal year 2018 to approximately $20.2 million in fiscal year 2019. This change was mainly due to: (1) a decrease in revenues of approximately $2.5 million and (2) an increase in expenses related to governmental activities of approximately $1.4 million. The net revenue decrease was mainly attributed to a lower annual contribution from the Tobacco Settlement. The total amount to be received under the Tobacco Settlement depends on the actual shipment of cigarettes. The net increase in expenses mostly resulted from an increase of approximately $1.7 million in interest on long-term debt, net of approximately $210 thousand decrease due to lower grant expenses.

6. GOVERNMENTAL FUND FINANCIAL STATEMENTS ANALYSIS

The Trust's governmental funds reported fund balances of approximately $118.3 million as of June 30, 2019, which is approximately $1.3 million less than the prior fiscal year ending June 30, 2018. The fund balance decrease in governmental funds was mainly due to a decrease in cash and investments and investment contracts of approximately $1.4 million.

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, 2019	2018 (As restated)	Change Amount	Change Percent
Assets	$ 156,009	$ 157,435	$ (1,426)	(0.9%)
Liabilities and deferred inflows of resource	$ 37,668	$ 37,813	$ (145)	(0.4%)
Fund Balance	118,341	119,622	(1,281)	(1.1%)
Total liabilities, deferred inflows of resources and fund balances	$ 156,009	$ 157,435	$ (1,426)	(0.9%)

7. DEBT ADMINISTRATION

During the fiscal year ended June 30, 2019, principal payments on bonds payable amounted to approximately $36.6 million. As of June 30, 2019, the remaining balance on bonds was approximately $1,465 million, net of approximately $15.2 million of non-accreted bond discount, due through year 2061.

8. CURRENTLY KNOWN FACTS

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

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

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.

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

STATEMENT OF NET POSITION (DEFICIT)
JUNE 30, 2019

	Governmental Activities
ASSETS	
CURRENT ASSETS:	
Cash	$ 11,522,611
Total current assets	11,522,611
NON-CURRENT RESTRICTED ASSETS:	
Investments and investment contracts	107,099,431
Accrued interest receivable	487,904
Receivable from Global Settlement Agreement	36,898,838
Total noncurrent restricted assets	144,486,173
Total assets	156,008,784
DEFERRED OUTFLOWS OF RESOURCES –	
Deferred loss on bonds defeasance	9,707,103
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	769,362
Liabilities payable from restricted assets-	
Accrued interest payable	5,142,219
Total current liabilities	5,911,581
NON-CURRENT LIABILITY – Bonds payable	1,465,499,978
Total liabilities	1,471,411,559
NET POSITION (DEFICIT)	
Restricted	139,343,954
Unrestricted	(1,445,039,626)
Total net deficit	$ (1,305,695,672)

See notes to basic financial statements.

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

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STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Expenses	Program Revenues: Investment Earnings	Program Revenues: Operating Contributions	Net Revenues / (Expenses) and Changes in Net Deficit
GOVERNMENTAL ACTIVITIES:				
Health	$ 345,484	$ -	$ -	$ (345,484)
Debt service and other	98,989,724	3,791,254	75,162,800	(20,035,670)
Total governmental activities	$ 99,335,208	$ 3,791,254	$ 75,162,800	(20,381,154)
GENERAL REVENUES:				
Investment earnings				145,972
CHANGE IN NET DEFICIT				(20,235,182)
NET DEFICIT – Beginning of year (as restated)				(1,285,460,490)
NET DEFICIT – End of year				$ (1,305,695,672)

See notes to basic financial statements.

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

BALANCE SHEET — GOVERNMENTAL FUNDS
JUNE 30, 2019

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash	$ 11,522,611	$ -	$ 11,522,611
Investment and investment contracts	-	107,099,431	107,099,431
Accrued interest receivable	-	487,904	487,904
Receivable from Global Settlement Agreement	-	36,898,838	36,898,838
Total assets	$ 11,522,611	$ 144,486,173	$ 156,008,784
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES – accounts payable	$ 769,362	$ -	$ 769,362
DEFERRED INFLOWS OF RESOURCES –			
Uneamed revenue	-	36,898,838	36,898,838
FUND BALANCES:			
Restricted	11,204,205	107,587,335	118,791,540
Committed	-	-	-
Unassigned	(450,956)	-	(450,956)
Total fund balances	10,753,249	107,587,335	118,340,584
Total liabilities, deferred inflows of resources and fund balances	$ 11,522,611	$ 144,486,173	$ 156,008,784

See notes to basic financial statements.

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RECONCILIATION OF BALANCE SHEET — GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION (DEFICIT)
JUNE 30, 2019

FUND BALANCES OF GOVERNMENTAL FUNDS	$ 118,340,584
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.	36,898,838
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the fund financial statements.	(5,142,219)
Bonds payable are not due and payable in the current period and, therefore, are not reported in the fund financial statements.	(1,465,499,978)
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).	9,707,103
NET DEFICIT OF GOVERNMENTAL ACTIVITIES	$ (1,305,695,672)

See notes to basic financial statements.

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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, 2019

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES:			
Investment earnings	$ 145,972	$ 3,791,254	$ 3,937,226
Revenue from Global Settlement Agreement	-	75,121,414	75,121,414
Total revenues	145,972	78,912,668	79,058,640
EXPENDITURES:			
Health	345,484	-	345,484
Other	374,492	-	374,492
Debt service:			
Principal	-	36,595,000	36,595,000
Interest	-	43,024,857	43,024,857
Total expenditures	719,976	79,619,857	80,339,833
OTHER FINANCING SOURCES/(USES) –			
Transfers in/(out)	285,954	(285,954)	-
NET CHANGES IN FUND BALANCES	(288,050)	(993,143)	(1,281,193)
FUND BALANCES – Beginning of year (as restated)	11,041,299	108,580,478	119,621,777
FUND BALANCES – End of year	$ 10,753,249	$ 107,587,335	$ 118,340,584

See notes to basic financial statements.

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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, 2019

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS	$ (1,281,193)
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.	41,386
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 govemmental funds.	244,622
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.	36,595,000
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 govemmental funds.	(51,922,124)
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 govemmental funds-	
Accretion of bond discount	(948,873)
Amortization of loss on refunding	(2,964,000)
CHANGE IN NET DEFICIT OF GOVERNMENTAL ACTIVITIES	$ (20,235,182)

See notes to basic financial statements.

1. REPORTING ENTITY

The Trust is a component unit of 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 Trust conform to Accounting Principles Generally Accepted in the United States of America ("GAAP") for governments, as prescribed by the Governmental Accounting Standards Board ("GASB").

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of changes in net position (deficit), and activities during the reporting period. Actual results could differ from those estimates.

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:

- Nonspendable – 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 year ended June 30, 2019, 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 can be found in Note 8.

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 can be found below and in Note 10.

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 settling government (the Commonwealth), the Trust recognizes as expenses amounts that are disbursed for grants to its settling government (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, as well as medical and workmen's insurance for employees of the Trusts.

GASB has issued the following accounting pronouncements that have an effective date after June 30, 2019:

(a) **GASB Statement No. 83, *Certain Asset Retirement Obligations***. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of the Statement are effective for reporting periods after June 15, 2018, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance.*

(b) **GASB Statement No. 84, *Fiduciary Activities***. This statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purpose and how those activities should be reported. The requirements of the Statement are effective for reporting periods after December 15, 2018, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance.*

(c) **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.*

(d) **GASB Statement No. 88, *Certain Disclosures Related to Debt including Direct Borrowings and Direct Placements*.** The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of the Statement are effective for reporting periods after June 15, 2018, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*.

(e) **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 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.*

(f) **GASB Statement No. 90, *Majority Equity Accounting for Interests*** – an amendment of GASB Statements No. 14 and No. 61. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The requirements of the Statement are effective for reporting periods after December 15, 2018, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance.*

(g) **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.*

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

(i) **GASB Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*.** The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR, most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021, 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.*

(j) **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.

(k) **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.

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

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

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

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

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

3. RESTATEMENT

During 2018, the Trust identified and corrected an overstatement in the valuation of the certificate of deposit with the Government Development Bank due to custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, the Trust's deposits may not be returned. The Trust does not have a deposit policy for custodial credit risk. As of June 30, 2018, the Trust had approximately $68 thousand in a certificate of deposit with GDB.

On April 8, 2016, then-Governor Alejandro García Padilla issued an executive order under Act 21-2016 to, among other things, suspend the withdrawal of deposits from GDB. GDB continued to face significant financial difficulties. On March 23, 2018, the Bank ceased its operations and management initiated an orderly wind down process. The wind down process involved, among other things, a comprehensive restructuring of substantially all of GDB's obligations pursuant to the Title VI Qualifying Modification. The United States District Court for the District of Puerto Rico approved GDB's proposed restructuring on November 6, 2018, and the Qualifying Modification went effective on November 29, 2018. Due to the explanation above, the Trust's certificate of deposit with GDB was determined to be impaired.

The following tables summarize these changes to net position (deficit) and fund balance at the beginning of the year, as previously reported:

Government-Wide Financial Statements

	Governmental Activities
Net deficit - July 1, 2018, as previously reported	$ (1,285,392,771)
Overstatement of Certificate of deposit	(67,719)
Net deficit - July 1, 2018, as restated	$ (1,285,460,490)

Fund Financial Statements

	General Fund
Fund Balance - July 1, 2018, as previously reported	$ 119,689,496
Overstatement of Certificate of deposit	(67,719)
Fund Balance - July 1, 2018, as restated	$ 119,621,777

4. 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, 2019, 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	$ 11,522,611	$ 11,522,611	$ -

5. CLAIM RECEIVABLE FROM THE PUBLIC ENTITY TRUST

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

Pursuant to Act 109-2017, also known as the *Government Development Bank for Puerto Rico Debt Restructuring Act* (the GDB Restructuring Act) and the terms of the Qualifying Modification, claims on account of deposits held by the Commonwealth and other public entities, including the Trust, were exchanged for beneficial units in the "Public Entity Trust" created pursuant to the GDB Restructuring Act. Specifically, under the provisions of the GDB Restructuring Act, on the closing date of the Qualifying Modification (*i.e.*, November 29, 2018) (the Closing Date), the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Trust (each a Non-Municipal Government Entity) and GDB was determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. Those Non-Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment, which included the Trust, received their pro rata share of interests on the Public Entity Trust (or PET), which was deemed to be in full satisfaction of any and all claims such Non-Municipal Government Entity may have had against GDB. The assets of the PET (the PET Assets) consist of, among other items, a claim in the amount of approximately $578 million against the Commonwealth, which is the subject of a proof of claim filed in the Commonwealth's Title III case.

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 assets of the PET (the PET Assets) consist of, among other items, a claim in the amount of approximately $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). The Official Committee of Unsecured Creditors appointed in the Commonwealth Title III Case has objected to the PET Claim and, as of the date hereof, the Court has not determined if the PET Claim is an allowed claim that will be entitled to a distribution.

The 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.

6. INVESTMENTS AND INVESTMENT CONTRACTS

The Trust follows the investment guidelines promulgated by GDB under the authority provided by Act 113 of August 3, 1995, and Executive Order 1995-50A, which detail which investment categories may be purchased or entered by the Trust, which 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, 2019, the Trust maintains approximately $107.1 million in investments and investment contracts, which are held as debt service reserves in trusted accounts with US Bank that are governed by the applicable bond indenture. All of the funds used for debt services are held by the trustee in the name of the Trust with the exception of $83.7 million of nonparticipating investment contracts.

As of June 30, 2019, 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	$ 23,415,196	$ -	$ -	$ 24,415,196
Nonparticipating investment contracts-				
UniCredit Bank AG-Guaranteed Investment Contract	-	-	83,684,235	83,684,235
	$ 23,415,196	$ -	$ 83,684,235	$ 107,099,431

The following table summarizes the type and maturities of investments at fair value held by the Trust as of June 30, 2019. 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	$ 23,415,196	$ -	$ -	$ -	$ 23,415,196
Nonparticipating investment contracts- UniCredit Bank AG-Guaranteed Investment Contract	-	-	-	83,684,235	83,684,235
	$ 23,415,196	$ -	$ -	$ 83,684,235	$ 107,099,431

The credit quality ratings for investments and investments contracts as of June 30, 2019, are as follows:

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

7. SERVICE AGREEMENT

The Trust had an agreement with GDB whereby GDB provided managerial, administrative, and financial supporting services to the Trust. Pursuant to this agreement, the Trust was invoiced $200,000 during the fiscal year ended June 30, 2019. Such amount was included in accounts payable as of June 30, 2019. Since May 7, 2020, the managerial, administrative, and financial supporting services to the Trust are provided by AAFAF.

8. 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, 2019, the outstanding balance of these bonds consists of single rated term bonds (the "Term Bonds") maturing from May 15, 2025 to 2033 ($174,130,000 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 been 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 2005B Bonds"), for $108,209,446. The Series 2005A and 2005B 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, 2019, the outstanding balances of Series 2005A and 2005B consist of $182,497,279 and $91,307,993, 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 2008B Bonds"), for $195,878,970. The Series 2008A and 2008B 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, 2019, the outstanding balances of Series 2008A and 2008B consist of $320,585,406 and $142,181,772, respectively.

The Series 2008A and 2008B Bonds are subordinated and are not entitled to receive any payments until the date when the Series 2005A and 2005B Bonds are no longer outstanding. The Series 2005A and 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 2005B Bonds are subordinated to the Series 2008A and 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, 2019, principal and interest payments on all of the Trust's outstanding bonds are current.

Changes in bonds payable for the year ended June 30, 2019, are summarized as follows (in thousands):

	Balance at July 1, 2018	Additions	Debt Paid	Other Increases	Balance at June 30, 2019	Due Within One Year
Bonds payable	$ 1,465,415	$ -	$ (36,595)	$ 51,922	$ 1,480,742	$ -
Less:						
Unaccreted discount	(16,191)	-	-	948	(15,243)	-
Bonds payable	$ 1,449,224	$ -	$ (36,595)	$ 52,870	$ 1,465,499	$ -

Changes in deferred outflows of resources during the year ended June 30, 2019, are summarized as follows (in thousands):

Description	Balance at July 1, 2018	Accretion	**Balance at June 30, 2019**
Deferred loss on refunding	$ (12,671)	$ 2,964	**$ (9,707)**

As of June 30, 2019, debt service requirements for bonds outstanding were as follows (in thousands):

Year Ending June 30,	Principal	Interest	Total
2020	$ -	$ 45,054	$ 45,054
2021	-	45,054	45,054
2022	-	45,054	45,054
2023	-	45,054	45,054
2024	-	45,054	45,054
2025-2029	-	222,609	222,609
2030-2034	179,919	188,250	368,169
2035-2039	267,995	129,746	397,741
2040-2044	296,255	43,064	339,319
2045-2049	-	-	-
2050-2054	-	-	-
2055-2059	-	-	-
2060-2061	8,634,580	-	8,634,580
	$ 9,378,749	$ 808,939	$ 10,187,688
Less:			
Unaccreted discount	(15,243)		
Unaccreted interest	(7,898,007)		
Total Bonds payable	$ 1,465,499		

9. COMMITMENTS

As of June 30, 2019, the Trust had two approved commitments, or grant agreements, with two entities, respectively, as explained in Note 11.

10. 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
2020	$ 99,231
2021	100,439
2022	101,638
2023	102,889
2024	104,124
2025-2057	4,307,934
	$ 4,816,255

Actual collections from the Tobacco Settlement will fluctuate due to 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 2019, actual collections were $75,121,414 or 3.5% less than the projected amount in the master settlement agreement for the year 2019.

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 2008B Bonds were used to pay certain operating expenses of the Commonwealth.

During the year ended June 30, 2019, pledged revenues amounted to $75,162,800, which were used to pay for $79,619,857 of related principal and interest of the bond issuances.

11. GRANT AGREEMENTS

The Trust has established various grant agreements with Puerto Rico govemmental 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.

In October 2018, the Board of Directors of the Trust authorized a new grant agreement to the Corporación del Proyecto ENLACE del Caño Martin 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, 2019, the amount of unspent funds under the grant agreement with Corporación Enlace was $1,046,883.

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, 2019, 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, 2019.

12. SUBSEQUENT EVENTS

The following subsequent events were evaluated through September 29, 2021, 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, 2019 financial statements:

COVID-19

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. As a result of the health threat and to contain the virus's spread across the island, 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 ofthe citizens of Puerto Rico. The executive order authorizes the Commonwealth's Secretary of the Treasury and the Executive Director of thePuerto Rico Office of Management and Budget to set up a special budget, from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and the sharing of information with the municipalities. Subsequent executive orders, including the reopening of certain economic areas, curfew directives and other protective measures have been issued in response to the COVID-19 spread. In addition, economic stabilization measures have been implemented by both the Government of Puerto Rico and the U.S. Government to provide support and stimulus to frontline workers, educators and students, hospitals, municipalities and small businesses, including individuals and businesses in Puerto Rico, in response to the economic distress caused by the COVID-19 pandemic.

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

RSM Puerto Rico

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

Basic Financial Statements and Required Supplementary Information
For the Fiscal Year Ended June 30, 2020

RSM

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, 2020

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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, 2020, 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.

RSM

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the govemmental activities and each major fund of The Children's Trust as of June 30, 2020, 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
December 15, 2021.

Stamp No. E477607 was affixed to
the original of this report.

RSM Puerto Rico

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, 2020. 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 2020 was approximately $1,334 million, a net deficit increase of approximately $29 million, or approximately 2.2%, as compared to approximately $1,306 million for fiscal year 2019.

- Government-wide revenues for fiscal year 2020 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 $71.7 million, a decrease of approximately $3.5 million, or approximately 4.6%, as compared to approximately $75.2 million for fiscal year 2019.

- 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 increase of approximately $4.8 million or approximately 4.8%, as compared to approximately $99.3 million for fiscal year 2019. The net increase in expenses mostly resulted from an increase of approximately $5.1 million in interest on long-term debt, net of approximately $345,000 thousand decrease due to no grant expenses for 2020.

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	
	2020	2019	Amount	Percent
Assets:				
Current Assets	$ 11,417	$ 11,523	$ (106)	(0.9%)
Non-current restricted assets	144,713	144,486	227	0.2%
Total assets	156,130	156,009	121	0.1%
Deferred outflows of resources	6,743	9,707	(2,964)	(30.5%)
Liabilities:				
Current liabilities	5,568	5,911	(343)	(5.8%)
Non-current liability	1,491,710	1,465,500	26,210	1.8%
Total liabilities	1,497,278	1,471,411	25,867	1.8%
Net deficit	$ (1,334,405)	$ (1,305,695)	$ (28,710)	2.2%

As previously explained, for fiscal year 2020, the Trust's balance sheet net deficit increased by approximately $28.7 million to approximately $1,334 million, as compared to fiscal year 2019, due to the following:

- Net increase in total assets of approximately $121 thousand, primarily related to an increase in investments and investment contracts amounting to approximately $227 thousand and a decrease in cash amounting to approximately $106 thousand.

- 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 $25.9 million, mainly from capital appreciation bonds from the net effect of interest capitalization for fiscal year 2020 of approximately $55.8 million and principal payment made amounting to $30.5 million.

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

	For the Year Ended June 30,		Change	
Function/Program	**2020**	**2019**	**Amount**	**Percent**
Expenses of governmental				
Health	$ -	$ 345	$ (345)	(100.0%)
Interest on long term debt and other - net	104,094	98,990	5,104	5.2%
Total	104,094	99,335	4,759	4.8%
Revenues of governmental activities:				
Investment earnings	3,715	3,937	(222)	(5.6%)
Global Settlement Agreement	71,669	75,163	(3,494)	(4.6%)
Total	75,384	79,100	(3,716)	(4.7%)
Change in net deficit	$ (28,710)	$ (20,235)	$ (8,475)	41.9%

For fiscal year 2020, the Trust had a net deficit increase of approximately $8.5 million from approximately $20.2 million in fiscal year 2019 to approximately $28.7 million in fiscal year 2020. This net deficit increase was mainly due to: (1) a decrease in revenues of approximately $3.7 million and (2) an increase in expenses related to governmental activities of approximately $4.8 million. The net decrease in revenues was mainly attributed to a lower annual contribution from the Tobacco Settlement, which depends on the actual shipment of cigarettes each year. The net increase in expenses mostly resulted from an increase of approximately $5.1 million in interest on long-term debt, net of approximately $345 thousand decrease in grant expenses in fiscal year 2020.

6. GOVERNMENTAL FUND FINANCIAL STATEMENTS ANALYSIS

The Trust's governmental funds reported fund balances of approximately $118.6 million as of June 30, 2020, which is approximately $293 thousand more than the prior fiscal year ending June 30, 2019. The fund balance increase in governmental funds was mainly due to a increase in cash and investments and investment contracts of approximately $121 thousand.

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	
	2020	**2019**	**Amount**	**Percent**
Assets	$ 156,130	$ 156,009	$ 121	0.1%
Liabilities and deferred inflows of resource	$ 37,496	$ 37,668	$ (172)	(0.5%)
Fund Balance	118,634	118,341	293	0.2%
Total liabilities, deferred inflows of resources and fund balances	$ 156,130	$ 156,009	$ 121	0.1%

7. DEBT ADMINISTRATION

During the fiscal year ended June 30, 2020, principal payments on bonds payable amounted to approximately $30.5 million. As of June 30, 2020, the remaining balance on bonds was approximately $1,492 million, net of approximately $14.4 million of non-accreted bond discount, due through fiscal year 2057.

8. CURRENTLY KNOWN FACTS

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

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

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, 2020

	Governmental Activities
ASSETS	
CURRENT ASSETS:	
Cash	$ 11,416,945
Total current assets	11,416,945
NON-CURRENT RESTRICTED ASSETS:	
Investments and investment contracts	107,425,364
Accrued interest receivable	446,468
Receivable from Global Settlement Agreement	36,841,039
Total noncurrent restricted assets	144,712,871
Total assets	156,129,816
DEFERRED OUTFLOWS OF RESOURCES –	
Deferred loss on bonds defeasance	6,743,102
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	655,000
Liabilities payable from restricted assets-	
Accrued interest payable	4,913,270
Total current liabilities	5,568,270
NON-CURRENT LIABILITY – Bonds payable	1,491,709,996
Total liabilities	1,497,278,266
NET POSITION (DEFICIT)	
Restricted	139,799,601
Unrestricted	(1,474,204,949)
Total net deficit	$ (1,334,405,348)

See notes to basic financial statements.

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THE CHILDREN'S TRUST

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

Functions/Programs	Expenses	Program Revenues: Investment Earnings	Program Revenues: Operating Contributions	Net Revenues / (Expenses) and Changes in Net Deficit
GOVERNMENTAL ACTIVITIES:				
Debt service and other	$ 104,093,906	$ 3,625,430	$ 71,669,300	$ (28,799,176)
Total governmental activities	$ 104,093,906	$ 3,625,430	$ 71,669,300	(28,799,176)
GENERAL REVENUES:				
Investment earnings				89,500
CHANGE IN NET DEFICIT				(28,709,676)
NET DEFICIT – Beginning of year				(1,305,695,672)
NET DEFICIT – End of year				$ (1,334,405,348)

See notes to basic financial statements.

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THE CHILDREN'S TRUST

(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET — GOVERNMENTAL FUNDS
JUNE 30, 2020

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash	$ 11,416,945	$ -	$ 11,416,945
Investment and investment contracts	-	107,425,364	107,425,364
Accrued interest receivable	-	446,468	446,468
Receivable from Global Settlement Agreement	-	36,841,039	36,841,039
Total assets	11,416,945	144,712,871	156,129,816
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES – accounts payable	655,000	-	655,000
DEFERRED INFLOWS OF RESOURCES –			
Unearned revenue	-	36,841,039	36,841,039
FUND BALANCES:			
Restricted	11,141,512	107,871,832	119,013,344
Unassigned	(379,566)	-	(379,566)
Total fund balances	10,761,946	107,871,832	118,633,778
Total liabilities, deferred inflows of resources and fund balances	$ 11,416,946	$ 144,712,871	$ 156,129,817

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, 2020

FUND BALANCES OF GOVERNMENTAL FUNDS	$	118,633,778
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.		36,841,039
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the fund financial statements.		(4,913,270)
Bonds payable are not due and payable in the current period and, therefore, are not reported in the fund financial statements.		(1,491,709,996)
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).		6,743,102
NET DEFICIT OF GOVERNMENTAL ACTIVITIES	$	(1,334,405,347)

See notes to basic financial statements.

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

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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES:			
Investment earnings	$ 89,500	$ 3,625,430	$ 3,714,930
Revenue from Global Settlement Agreement	-	71,727,099	71,727,099
Total revenues	89,500	75,352,529	75,442,029
EXPENDITURES:			
Other	132,429	-	132,429
Debt service:			
Principal	-	30,510,000	30,510,000
Interest	-	44,506,407	44,506,407
Total expenditures	132,429	75,016,407	75,148,836
OTHER FINANCING SOURCES/(USES) –			
Transfers in/(out)	51,625	(51,625)	-
NET CHANGES IN FUND BALANCES	8,696	284,497	293,193
FUND BALANCES – Beginning of year	10,753,249	107,587,335	118,340,584
FUND BALANCES – End of year	$ 10,761,945	$ 107,871,832	$ 118,633,777

See notes to basic financial statements.

THE CHILDREN'S TRUST

(A Component Unit of the Commonwealth of Puerto Rico)

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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, 2020

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	$	293,193
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.		(57,799)
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.		228,949
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.		30,510,000
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.		(55,829,616)
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		(890,402)
Amortization of loss on refunding		(2,964,001)
CHANGE IN NET DEFICIT OF GOVERNMENTAL ACTIVITIES	$	(28,709,676)

See notes to basic financial statements.

1. REPORTING ENTITY

The Trust is a component unit of the Commonwealth created by Act 173 ofthe Legislature of the Commonwealth on July 30, 1999, and an affiliate of the Govemment 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 govemmental entities. The Bank follows Govemmental Accounting Standards Board (GASB) statements under the hierarchy established by Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Govemments,* 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:

Govemment-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 eamings.

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, 2020, 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.

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

(a) **GASB Statement No. 83, *Certain Asset Retirement Obligations*.** This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of the Statement are effective for reporting periods after June 15, 2018, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance.*

(b) **GASB Statement No. 84, *Fiduciary Activities*.** This statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purpose and how those activities should be reported. The requirements of the Statement are effective for reporting periods after December 15, 2018, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance.*

(c) **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.*

(d) **GASB Statement No. 88, *Certain Disclosures Related to Debt including Direct Borrowings and Direct Placements*.** The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of the Statement are effective for reporting periods after June 15, 2018, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*.

(e) **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*.

(f) **GASB Statement No. 90, *Majority Equity Accounting for Interests*** – an amendment of GASB Statements No. 14 and No. 61. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The requirements of the Statement are effective for reporting periods after December 15, 2018, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*.

(g) **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.*

(h) **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.*

(i) **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.*

(j) **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.

(k) **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.

(l) **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.

(m) **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.

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

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

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

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

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, 2020, 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	$ 11,416,945	$ 11,416,945	$ -

4. CLAIM RECEIVABLE FROM THE PUBLIC ENTITY TRUST

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

Pursuant to Act 109-2017, also known as the *Government Development Bank for Puerto Rico Debt Restructuring Act* (the GDB Restructuring Act) and the terms of the Qualifying Modification, claims on account of deposits held by the Commonwealth and other public entities, including the Trust, were exchanged for beneficial units in the "Public Entity Trust" created pursuant to the GDB Restructuring Act. Specifically, under the provisions of the GDB Restructuring Act, on the closing date of the Qualifying Modification (*i.e.*, November 29, 2018) (the Closing Date), the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates, including the Trust (each a Non-Municipal Government Entity) and GDB was determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. Those Non-Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment, which included the Trust, received their pro rata share of interests on the Public Entity Trust (or PET), which was deemed to be in full satisfaction of any and all claims such Non-Municipal Government Entity may have had against GDB. 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 assets of the PET (the PET Assets) consist of, among other items, a claim in the amount of approximately $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).

The Official Committee of Unsecured Creditors appointed in the Commonwealth Title III Case has objected to the PET Claim and, as of the date hereof, the Court has not determined if the PET Claim is an allowed claim that will be entitled to a distribution.

The 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, 2020, the Trust maintains approximately $107.4 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, 2020, 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	$ 23,741,129	$ -	$ -	$ 23,741,129
Nonparticipating investment contracts-				
UniCredit Bank AG-Guaranteed Investment Contract	-	-	83,684,235	83,684,235
	$ 23,741,129	$ -	$ 83,684,235	$ 107,425,364

The following table summarizes the type and maturities of investments at fair value held by the Trust as of June 30, 2020. 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	$ 23,741,129	$ -	$ -	$ -	$ 23,741,129
Nonparticipating investment contracts-					
UniCredit Bank AG-Guaranteed Investment Contract	-	-	-	83,684,235	83,684,235
	$ 23,741,129	$ -	$ -	$ 83,684,235	$ 107,425,364

The credit quality ratings for investments and investments contracts as of June 30, 2020, 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 May 7, 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 $5,000 during the fiscal year ended June 30, 2020. Such amount was included in accounts payable as of June 30, 2020.

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, 2020, 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, 2020, the outstanding balances of Series 2005A and Series 2005B Bonds consist of $194,552,365 and $98,047,807, 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, 2020, the outstanding balances of the Series 2008A and 2008B Bonds consist of $345,475,577 and $154,326,316, respectively.

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, 2020, principal and interest payments on all of the Trust's outstanding bonds are current.

Changes in bonds payable for the year ended June 30, 2020, are summarized as follows (in thousands):

	Balance at July 1, 2019	Additions	Debt Paid	Other Increases	Balance at June 30, 2020	Due Within One Year
Bonds payable	$ 1,480,742	$ -	$ (30,510)	$ 55,830	$ 1,506,062	$ -
Less:						
Unaccreted discount	(15,243)	-	-	890	(14,353)	-
Bonds payable	$ 1,465,499	$ -	$ (30,510)	$ 56,720	$ 1,491,709	$ -

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

Description	Balance at July 1, 2019	Accretion	Balance at June 30, 2020
Deferred loss on refunding	$ (9,707)	$ 2,964	$ (6,743)

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

Year Ending June 30,	Principal	Interest	Total
2021	$ -	$ 45,054	$ 45,054
2022	-	45,054	45,054
2023	-	45,054	45,054
2024	-	45,054	45,054
2025	-	45,054	45,054
2026-2030	-	177,556	177,556
2031-2035	200,270	178,353	378,623
2036-2040	288,650	115,004	403,654
2041-2045	229,725	26,400	256,125
2046-2050	-	-	-
2051-2055	-	-	-
2056-2057	8,634,580	-	8,634,580
	9,353,225	$ 722,583	$ 10,075,808
Less:			
Unaccreted discount	(14,353)		
Unaccreted interest	(7,847,163)		
Total Bonds payable	$ 1,491,709		

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
2021	$ 80,577
2022	81,535
2023	82,492
2024	83,450
2025	84,407
2026-2057	3,206,613
	$ 3,619,074

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 2020, actual collections were $71,727,099 or 27% less than the projected amount in the master settlement agreement for the year 2020.

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, 2020, pledged revenues amounted to $71,669,300, which were used to pay for $75,016,407 of related principal and interest of the bond issuances.

9. COMMITEMENT 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.

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, 2020, the amount of unspent funds under the grant agreement with Corporación Enlace was $1,046,883.

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, 2020, the amount of unspent funds under the grant agreement with the Boy Scouts was $133,509.

10. SUBSEQUENT EVENTS

The following subsequent events were evaluated through December 15, 2021, the date the basic financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the June 30, 2020 financial statements:

COVID-19

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

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

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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RSM Puerto Rico
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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.

RSM

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):

	For the Year Ended June 30,		Change	
Function/Program	**2021**	**2020**	**Amount**	**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

Functions/Programs	Expenses	Program Revenues: Investment Earnings	Program Revenues: Operating Contributions	Net Revenues / (Expenses) 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:

Counter Party	Credit Risk Rating: Standard & Poor's	Credit Risk Rating: 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.