



**GDB DEBT RECOVERY AUTHORITY**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

*BASIC FINANCIAL STATEMENTS*

*AND*

*REQUIRED SUPPLEMENTARY INFORMATION*

June 30, 2023

(With Independent Auditors' Report Thereon)

**GDB DEBT RECOVERY AUTHORITY**  
**(A Component Unit of the Commonwealth of Puerto Rico)**

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## **Independent Auditors' Report**

The Board of Trustees  
GDB Debt Recovery Authority:

### ***Opinion***

We have audited the financial statements of the GDB Debt Recovery Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

### ***Basis for Opinion***

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

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for one year after the date that the financial statements are issued.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

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



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

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

***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**KPMG LLP**

San Juan, Puerto Rico  
January 22, 2024

Stamp No. E520194 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.

**GDB DEBT RECOVERY AUTHORITY**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
Management's Discussion and Analysis (unaudited)  
As of June 30, 2023

The GDB Debt Recovery Authority (the "DRA" or the "Authority") offers readers of the DRA's financial statements this narrative overview and analysis of the DRA's financial performance during the fiscal year ended June 30, 2023. This management's discussion and analysis (MD&A) is designed to assist the reader in focusing on significant financial matters and activities and to identify significant changes in the net position of the DRA.

The DRA is a statutory public trust and governmental instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth") created pursuant to the GDB Restructuring Act, Act No. 109 of August 24, 2017, as amended by Act No. 147 of July 18, 2018 (the "GDB Restructuring Act") enacted by the Legislative Assembly of the Commonwealth for the purpose of facilitating the restructuring of certain of Governmental Development Bank for Puerto Rico's (the "GDB") indebtedness and release of certain claims against GDB (also known as Participating Bond Claims) pursuant to a voluntary out-of-court debt restructuring process under Title VI of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") (this voluntary process is also known as a Qualifying Modification). On the closing date of the Qualifying Modification (November 29, 2018 or "Closing Date"), the DRA issued approximately \$2.6 billion of 7.500% GDB Debt Recovery Authority Bonds due August 20, 2040 (the "Restructuring Bonds"), where the holders of the Participating Bond Claims at GDB (as defined in the Qualifying Modification and related transaction documents) exchanged their claims for the Restructuring Bonds issued (at an exchange rate of 55% of such Participating Bond Claims).

## **1. FINANCIAL HIGHLIGHTS**

- Total assets and total liabilities of the DRA as of June 30, 2023, amounted to approximately \$986.9 million and \$1,668.8 million, respectively, for a net deficit of approximately \$681.9 million.
- During the year ended June 30, 2023, approximately \$154.9 million and \$54.2 million of loans principal and interest, respectively, were collected, mostly from municipalities and as a result of settlement agreement with the Municipal Revenue Collection Center ("CRIM") where cash payments were received in the amount of approximately \$62.5 million as part of the settlement of the underlying CRIM loans, resulting in a loss in settlement of approximately \$6.2 million.
- During the year ended June 30, 2023, Second Priority HTA Clawback CVI securities with a determinable fair value of approximately \$35.5 million, were received, as a continuation of the prior year settlement of the Highway & Transportation Authority (HTA) Variable Rate Bonds 1998A and certain other HTA loans.
- During the year ended June 30, 2023, approximately \$27.8 million were collected in other income, attributed to collection of loans that had a carrying value of zero (\$5.9 million), collection of a restriction fee related to the prior year settlement of the Highway & Transportation Authority (HTA) Variable Rate Bonds 1998A and certain other HTA loans (\$15 million) and a transfer from GDB of excess contingent settlement cash following the resolution of the Official Committee of Unsecured Creditors (UCC) stipulation established under the Qualifying Modification. These objections were subsequently resolved through a certain stipulation agreement (\$6.9 million).
- The DRA has a Restructuring Bonds Payable outstanding balance as of June 30, 2023 of \$1,611.9 million. There were debt service payments during fiscal year 2023 in the amount of approximately \$235 million and \$132.9 million in principal and interest, respectively.

## **2. OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A provides a narrative overview and analysis of the financial activities of the DRA as of and for the year ended June 30, 2023. This MD&A is intended to serve as an introduction to the DRA's basic financial statements, which are comprised of the basic financial statements and the notes to the basic financial statements. Since the DRA is comprised of a single business-type activity, no fund level financial statements are presented.

**GDB DEBT RECOVERY AUTHORITY**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
Management's Discussion and Analysis (unaudited)  
As of June 30, 2023

**Basic Financial Statements**

The basic financial statements are designed to provide readers with a broad overview of the DRA's finances, in a manner similar to a private-sector business. These basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental entities. The DRA's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Using the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which they are incurred.

The statement of net position (deficit) presents information on the DRA's assets and liabilities, with the difference between the two reported as net position (deficit). Net position increases when revenues exceed expenses. Increases in assets without a corresponding increase to liabilities result in increased net position, which indicates an improved financial position. On the other hand, net position decreases when expenses exceed revenues. Increases in liabilities without a corresponding increase in assets or decreases in assets without corresponding decreases in liabilities result in a decreased net position.

The statement of revenues, expenses, and changes in net position (deficit) presents information showing how an entity's net position changed during the fiscal year. Changes in net position are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

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

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**GDB DEBT RECOVERY AUTHORITY**  
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Management's Discussion and Analysis (unaudited)  
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**3. FINANCIAL ANALYSIS**

Condensed financial information on assets, liabilities, and net position (deficit) is presented below (in thousands):

	<u>June 30,</u>		<u>Change</u>	
	<u>2023</u>	<u>2022</u>	<u>Amount</u>	<u>Percent</u>
<b>Assets:</b>				
Restricted current assets:				
Cash and cash equivalents	\$ 18,524	\$ 55,862	\$ (37,338)	-67%
Investment securities	26,612	86,992	(60,380)	-69%
Loans receivable - net	903,114	1,063,828	(160,714)	-15%
Accrued interest receivable - net	37,295	25,093	12,202	49%
Other receivable	-	4,942	(4,942)	-100%
Real estate available for sale	1,038	3,599	(2,561)	-71%
Other assets	270	200	70	35%
Total assets	<u>986,853</u>	<u>1,240,516</u>	<u>(253,663)</u>	<u>-20%</u>
<b>Liabilities:</b>				
Current liabilities payable from restricted assets:				
Accounts payable and accrued liabilities	56,834	59,184	(2,350)	-4%
Bonds payable:				
Due in one year	59,016	197,614	(138,598)	-70%
Due in more than one year	1,552,926	1,649,301	(96,375)	-6%
Total liabilities payable from restricted assets	<u>1,668,776</u>	<u>1,906,099</u>	<u>(237,323)</u>	<u>-12%</u>
<b>Net position (deficit) - Unrestricted</b>	<u>\$ (681,923)</u>	<u>\$ (665,583)</u>	<u>\$ (16,340)</u>	<u>2%</u>

On June 30, 2023, cash amounted to approximately \$18.5 million, a decrease of 67% or approximately \$37.3 million when compared to June 30, 2022. This decrease responds to the combination of the cash outflows made for the payment of principal and interest on the Restructuring Bonds payable of approximately \$235 million and \$132.9 million, respectively, plus cash payments for operating expenses of approximately \$16.9 million (for total cash outflows of approximately \$384.7 million), exceeding the cash received from operations totaling \$347.4 million. Total cash received from operations is highlighted by loan principal collections of approximately \$155 million (spearheaded by the current year CRIM loan settlement of \$62.5 million), monetization of approximately \$99 million of the DRA's investment securities acquired during prior and current years as a result of various loans settlements (explaining the decrease in investments of \$60.4 million) and collection of approximately \$54 million of interests on loans, among others.

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The most significant decrease in the liabilities of the DRA during fiscal year 2023 consisted of the decrease of approximately \$235 million in bonds payable, as a result of the repayments referred to in the previous paragraph.

Condensed financial information on revenues, expenses, and changes in net position (deficit) is presented below (in thousands):

	<u>Fiscal Year</u>		<u>Change</u>	
	<u>2023</u>	<u>2022</u>	<u>Amount</u>	<u>Percent</u>
Operating revenues:				
Interest income	\$ 69,196	\$ 50,552	\$ 18,644	37%
Gains from sale and settlements of loans	28,346	114,923	(86,577)	-75%
Income from settlements	22,688	-	22,688	100%
Other non-interest income	7,799	1,916	5,883	307%
Total operating revenue	<u>128,029</u>	<u>167,391</u>	<u>(39,362)</u>	<u>-24%</u>
Operating expenses:				
Provision (release) for loan losses	(190)	1,534	1,724	112%
Direct operating expenses	20,061	25,774	5,712	22%
Total operating expenses	<u>19,871</u>	<u>27,308</u>	<u>7,436</u>	<u>27%</u>
Operating income	108,158	140,083	(31,925)	-23%
Interest expense	126,503	140,912	14,409	10%
Unrealized gain on investment securities	2,005	1,664	341	20%
Change in unrestricted net position (deficit)	\$(16,340)	\$ (2,493)	\$ (13,847)	-555%
NET POSITION (DEFICIT) - Beginning of year	<u>(665,583)</u>	<u>(663,090)</u>	<u>(2,493)</u>	<u>-0.4%</u>
NET POSITION (DEFICIT) - End of year	<u><u>\$ (681,923)</u></u>	<u><u>\$ (665,583)</u></u>	<u><u>\$ (16,340)</u></u>	<u><u>-2%</u></u>

The net deficit of the DRA increased by approximately \$13.8 million during fiscal year 2023, principally as a result of the combination of a decrease in operating income of approximately \$31.9 million, offset by a reduction of approximately \$14.4 million in interest expense.

Total operating revenue during fiscal year 2023 decreased by approximately \$39 million or 24%, as compared to 2022, mostly attributed to a reduced activity in the sale and settlement of loans, as compared to the prior year, which saw gains in the amount of approximately \$115 million during 2022 and only \$28 million during 2023, for lower recoveries and gains by approximately \$87 million. These reductions in gains were somewhat mitigated by increases in interest income and other income of approximately \$19 million and \$29 million, respectively. Higher interest income results from the impact of higher interest rates during 2023 on the DRA's municipal

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As of June 30, 2023

variable rate loans. The increase in income from settlements are mostly attributed to the collection of a restriction fee related to the prior year settlement of the Highway & Transportation Authority (HTA) Variable Rate Bonds 1998A and certain other HTA loans (\$15 million) and a transfer from GDB of excess contingent settlement cash following the resolution of the Official Committee of Unsecured Creditors (UCC) stipulation established under the Qualifying Modification. These objections were subsequently resolved through a certain stipulation agreement (\$6.9 million). The HTA settlement transaction is described further in Notes 3.

Direct operating expenses decreased \$5.7 million compared to the prior year; in addition to a decrease in provision (release) for loan losses of \$1.7 million for the fiscal year 2023. Approximately \$4.9 million or 85% of the total direct operating expense decrease is attributed to lower Collateral Monitor fees and expenses incurred during 2023. During the fiscal year 2023, the DRA released approximately \$190,000 from the provision for loan losses, as opposed to an additional provision in the prior year of approximately \$1.5 million, therefore, creating the \$1.7 million decrease in the provision for loan losses.

Total interest expense on the DRA's Restructuring Bonds amounted to approximately \$126.5 million during fiscal year 2023, based on the carrying coupon interest rate of 7.500% on its outstanding balance throughout the year.

#### **4. DRA DEBT**

As summarized in Note 1 to the accompanying basic financial statements, on the Closing Date of the Qualifying Modification, the DRA issued \$2.6 billion of 7.500% GDB Debt Recovery Authority Bonds due August 20, 2040 (the "Restructuring Bonds"). For additional details related to the issuance of the bonds, refer to the Offering Memorandum.

Debt repaid during fiscal year 2023 amounted to approximately \$235 million and interest of \$132.9 million was also paid. Refer to Note 8 to the basic financial statements for additional information on the Bonds.

#### **5. CURRENTLY KNOWN FACTS**

On the payment date of August 20, 2023, available cash of approximately \$119.8 million was used to make interest and principal payments on the Restructuring Bonds in the amounts of \$60.8 million and \$59.0 million, respectively.

The DRA is in the process of completing a settlement agreement with the Puerto Rico Ports Authority ("PRPA"). Under the proposed terms of the settlement the DRA will receive consideration in cash for the full and final satisfaction of the loans outstanding and accrued interest.

**GDB DEBT RECOVERY AUTHORITY**  
**(A Component Unit of the Commonwealth of Puerto Rico)**  
Statement of Net Position (Deficit) (in thousands)  
As of June 30, 2023

**ASSETS**

Restricted current assets:

Cash and cash equivalents	\$	18,524	CU1
Investment securities		26,612	
Loans receivable — net of allowance for loan losses		106,653	
Accrued interest receivable		37,295	
Real estate available for sale		1,038	
Other current assets		270	
		190,392	
Total restricted current assets		190,392	

Restricted non-current assets:

Loans receivable — net of allowance for loan losses		796,461	
Total restricted non-current assets		796,461	

TOTAL RESTRICTED ASSETS	\$	986,853	
		986,853	

**LIABILITIES AND NET POSITION (DEFICIT)**

Current liabilities payable from restricted assets:

Accrued interest payable	\$	43,657	CU-2
Accounts payable and other liabilities		13,177	
Bonds payable		59,016	
Total current liabilities payable from restricted assets		115,850	

Non-current liabilities payable from restricted assets:

Bonds payable		1,552,926	
Total non-current liabilities payable from restricted assets		1,552,926	

NET POSITION (DEFICIT) - UNRESTRICTED		(681,923)	
TOTAL LIABILITIES AND NET POSITION (DEFICIT)	\$	986,853	

See accompanying notes to basic financial statements.

**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Statement of Revenues, Expenses and Changes in Net Position (Deficit) (in thousands)  
For the year ended June 30, 2023

**OPERATING REVENUES**

Interest income:	
Interest income on cash and cash equivalents	\$ 1,434
Interest income on investment securities	489
Interest income on loans receivable	<u>67,273</u>
Total interest income	69,196
Gain on settlement of loans, net	28,346
Realized gain on investment securities, net	789
Gain on sale of real estate available for sale	1,938
Income from settlements	22,688
Other non-interest income	<u>5,072</u>
Total operating revenues	<u>128,029</u> CU-3

**OPERATING EXPENSES**

Non-interest expenses:	
Board and Executive Director compensation	300
Administrative expenses	955
Servicer fees and expenses	11,415
Indenture trustee fees and expenses	71
Collateral monitor fees and expenses	8,167
Adjustment in Transferred Property value at Closing Date	(847)
Release of provision for loan losses	<u>(190)</u>
Total non-interest expenses	<u>a 19,871</u>

OPERATING INCOME	Expenses	<u>108,158</u>
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Sum of a- \$144,369 CU-3

INTEREST EXPENSE	a 126,503
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UNREALIZED GAIN ON CHANGES IN FAIR VALUE OF INVESTMENT SECURITIES	<u>(2,005)</u>
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CHANGE IN NET POSITION	(16,340)
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NET POSITION (DEFICIT) - UNRESTRICTED - Beginning of year	<u>(665,583)</u>
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NET POSITION (DEFICIT) - UNRESTRICTED - End of year	<u>\$ (681,923)</u>
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See accompanying notes to basic financial statements.

**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Statement of Cash Flows (in thousands)  
For the year ended June 30, 2023

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from other operating noninterest revenues	\$	27,760
Cash received from collections of interest income on loan receivables		54,199
Cash received from collections of principal on loan receivables		154,914
Cash received from collections of other receivables		4,942
Cash received from sales and call redemptions of investment securities		98,680
Cash received from sales of other real estate available for sale		4,431
Cash received from interest on cash balances and investment securities		2,471
Cash paid for general and administrative expenses		<u>(16,895)</u>
Net cash provided by operating activities		<u>330,502</u>

**CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:**

Payments of bonds payable		(234,973)
Interest paid on bonds payable		<u>(132,867)</u>
Net cash used in non-capital financing activities		<u>(367,840)</u>

**NET DECREASE IN CASH AND CASH EQUIVALENTS** (37,338)

CASH AND CASH EQUIVALENTS - Beginning of year		<u>55,862</u>
CASH AND CASH EQUIVALENTS - End of year	\$	<u>18,524</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS AT END OF YEAR TO STATEMENT OF NET POSITION:**

Unrestricted cash and cash equivalents	\$	-
Restricted cash and cash equivalents		<u>18,524</u>
<b>TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$</b>	<b><u>18,524</u></b>

See accompanying notes to basic financial statements.

(Continued)

**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Statement of Cash Flows (in thousands)  
For the year ended June 30, 2023

**RECONCILIATION OF OPERATING INCOME TO NET CASH**

**PROVIDED BY OPERATING ACTIVITIES:**

Operating income	\$	108,158
Adjustments to reconcile operating income to net cash provided by operating activities:		
Release of provision for loan losses		(190)
Adjustment in Transferred Property value at Closing Date		(847)
Gain on sale of real estate available for sale		(1,938)
Realized gain on sales of investment securities, net		(789)
Gain on settlement of loan assets		(28,346)
Changes in other assets and liabilities:		
Decrease in loans receivable		190,097
Decrease in real estate available for sale		4,499
Increase in accrued interest receivable		(12,202)
Decrease in investment securities		63,174
Decrease in other receivables		4,942
Increase in accrued expenses and other liabilities		4,014
Increase in other assets		(70)
		(70)
Net cash provided by operating activities	\$	330,502

**Noncash investing activity:**

Unrealized gain in fair value of investment securities	\$	2,005
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See accompanying notes to basic financial statements.

# GDB DEBT RECOVERY AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

June 30, 2023

## 1. ORGANIZATION AND REPORTING ENTITY

The GDB Debt Recovery Authority (the “DRA” or the “Authority”) is a statutory public trust and governmental instrumentality of the Commonwealth of Puerto Rico (the “Commonwealth”) created pursuant to the GDB Restructuring Act, Act No. 109 of August 24, 2017, as amended by Act No. 147 of July 18, 2018 (the “GDB Restructuring Act”) enacted by the Legislative Assembly of the Commonwealth for the purpose of facilitating the restructuring of certain Government Development Bank for Puerto Rico’s (the “GDB”) indebtedness and release of certain claims against GDB (also known as Participating Bond Claims) pursuant to a voluntary out-of-court debt restructuring process under Title VI of the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”). This voluntary process was also known as a Qualifying Modification. PROMESA was enacted seeking to provide the Commonwealth and its public corporations and instrumentalities with fiscal and economic discipline, through, among other things, the establishment of the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”). On the closing date of the Qualifying Modification (November 29, 2018 or “Closing Date”), the DRA issued approximately \$2.6 billion of 7.500% GDB Debt Recovery Authority Bonds due August 20, 2040, where the holders of the Participating Bond Claims at GDB exchanged their claims for the bonds issued (at an exchange rate of 55% of such Participating Bond Claims).

The Qualifying Modification process for GDB was certified by the Oversight Board on May 8, 2018, under Section 601(g)(2)(A) of PROMESA and subsequently certified and approved by the United States District Court for the District of Puerto Rico on November 7, 2018, as required under PROMESA. Pursuant to the Qualifying Modification, the GDB assigned and transferred to the DRA (executed through a Master Transfer Agreement on the Closing Date) the Transferred Property (as described in the next paragraph) to secure the bonds issued and future additional bonds (“Restructuring Bonds”) by a statutory lien on the Transferred Property and collections thereon (the Transferred Property and its collection thereon comprise the Restructuring Property).

The Transferred Property included GDB’s legal and equitable right, title and interest in and to, and claims and causes of action to enforce the collection of a series of assets, beneficial interests and potential future proceeds, that are further described in Note 2 to the accompanying basic financial statements. Pursuant to certain provisions of Governmental Accounting Standards Board (GASB) Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* and GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which establish accounting and financial reporting standards that apply to intra-entity transfers of assets and future revenues, the DRA, as a transferee government, recognized the assets transferred by GDB at the historical carrying value of GDB, the transferor government, as both are entities within the same reporting entity of the Commonwealth. The historical carrying value of GDB for loans and accrued interest receivables represented the unpaid principal balance reduced by the allowance for loan losses and allowance for losses on interest accrued. The historical carrying value of real estate available for sale represented the lower of cost or fair value. In the case of the beneficial interests in the loans that had been retained by GDB at Closing Date (the GDB Retained Loans), these were presented at the unpaid principal balance of the GDB Retained Loans, reduced by the allowance for loan losses reflected on GDB’s financial records as of the Closing Date.

The DRA is independent and separate from the Commonwealth, GDB and other governmental instrumentalities of the Commonwealth and is independently operated and governed by a Board of Trustees (the “Board”), which consists of three members who are appointed by, and serve at the pleasure of, the Governor. The DRA will not be operated for the purpose of making a profit, and no part of the revenues or assets of the DRA will be to the benefit of or be distributable to a private person or entity, except to service and pay the Restructuring Bonds and pay fees and costs for actual services rendered as provided and required to carry out the intent of the GDB Restructuring Act. The GDB Restructuring Act authorizes the DRA to carry out certain limited activities, including, among others, the following:

- Those related to the receiving, owning, collecting, monitoring, protecting and management of the Restructuring Property (including day-to-day operations in respect thereof).

## **GDB DEBT RECOVERY AUTHORITY**

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

June 30, 2023

- Adopting resolutions of the Board authorizing the issuance of the Restructuring Bonds and the payment of certain financing costs associated with the Qualifying Modification.
- Servicing or contracting for the servicing and monitoring of the Restructuring Property and the Restructuring Bonds, and related administrative services.
- Fully accounting for and making or contracting with a trustee to account for or make payments and allocating partial payments on the Restructuring Bonds (see related information below and in Note 8 to the accompanying basic financial statements).

The GDB Restructuring Act also prohibits the DRA from taking certain actions, including the following:

- Merging or consolidating with any person.
- Incurring, guaranteeing or otherwise becoming obligated to pay any debt or other obligations, other than the Restructuring Bonds and certain other costs.
- Pledging or recording liens on its properties (including the Restructuring Properties), other than the statutory lien securing the payment of the Restructuring Bonds and certain other costs.
- Engaging in business activities other than as expressly authorized by the GDB Restructuring Act.
- Dissolving, liquidating or selling the Restructuring Property, except as permitted by the GDB Restructuring Act.
- Taking other action that is inconsistent with the DRA's purpose as set forth in the GDB Restructuring Act.

As further described in Note 8 to the accompanying basic financial statements and pursuant to Article 201 of the GDB Restructuring Act, as amended, the DRA and its existence shall continue until one year and one day after the Restructuring Bonds, financing costs and other indebtedness of the DRA have been paid in full or otherwise discharged pursuant to their terms, at which time remaining Restructuring Property shall be distributed to the Public Entity Trust (PET) created by the GDB Restructuring Act. Upon the dissolution of the PET and only after all liabilities of the PET have been paid in full or otherwise discharged, any of its remaining assets shall be transferred to the Commonwealth, as the ultimate beneficiary of the DRA and the PET.

Upon the issuance of the Restructuring Bonds, the Restructuring Property became subject to a statutory lien in favor of the selected trustee, Wilmington Trust, N.A., (the "Indenture Trustee"), for the benefit of such bondholders in order to secure the amounts owing in respect of the Restructuring Bonds. An indenture (the "Bond Indenture") was consequently established between the DRA and the Indenture Trustee to establish the roles and duties of the Indenture Trustee by having received in trust the Restructuring Property and its performance obligations owing with respect to the payment of the Restructuring Bonds issued.

The DRA has limited internal administrative support and does not have employees other than its Executive Director, who is a member of the Board of the DRA, and is required, pursuant to the aforementioned Bond Indenture, to delegate management of the Restructuring Property including day-to-day operations thereof to a servicer. Such servicer (the "Servicer") has been appointed to manage the Restructuring Property pursuant to a Servicer Agreement. Also, in accordance with the terms of the Qualifying Modification, in connection with the issuance of the Restructuring Bonds and in consideration for the cancellation of the Participating Bond Claims and the release of certain claims against GDB, the Indenture Trustee has entered into a Collateral Monitor Agreement with a designated Collateral Monitor, who is responsible for monitoring the activities of the Servicer, the condition and performance of the Restructuring Property and certain reporting to the Bondholders.

## **2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the DRA conform to Accounting Principles Generally Accepted in the United States of America ("GAAP") for governments as prescribed by the GASB, specifically, under the

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hierarchy established by GASB Statement No. 76 (GASB No. 76), *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The preparation of basic financial statements in conformity with 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 reporting period. Actual results could differ materially from those estimates. Significant items subject to such estimates and assumptions include the allowance for loan losses, valuation of investment securities and the valuation of real estate available for sale.

### **Measurement Focus, Basis of Accounting and Financial Statements Presentation**

The DRA's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. The statement of revenues, expenses and changes in net position (deficit) generally distinguishes operating revenues and expenses from non-operating items. As the DRA was created to receive certain assets, the collection and settlement of which (including its interest and future proceeds) are to be used to pay the DRA's operating expenses and bonds, the revenues and expenses that result from the DRA's fulfilling of its specified purpose are considered operating items. The DRA's operating revenues are generated from the interest earned on the loans, interest income on investments, proceeds from the sale of the real estate and from the potential future proceeds from the collection of the beneficial interest of certain assets that are managed by GDB. Operating expenses include provision for losses on the loans and the real estate assets available for sale and general and administrative expenses, among others, while interest expense and unrealized gains or losses in the changes in fair value of investment securities are presented as a non-operating income or expense, as applicable.

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

- (i) Restricted component of net position consists of restricted assets reduced by liabilities related to those assets. Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- (ii) Unrestricted component of net position consists of net amount of the assets and liabilities that do not meet the definition of the preceding category. Unrestricted component of net position often is designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted component of net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

Based on the nature and purpose in the creation of the DRA and the constraints imposed to its assets pursuant the GDB Restructuring Act, all of its assets are restricted. However, since the DRA's liabilities exceed its total assets, in accordance with GASB, the resulting net deficit is considered unrestricted.

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### **Taxes**

The DRA is exempt from and is not required to pay taxes, assessments, licenses, stamps, fees or other similar charges levied by the Commonwealth or other government entity upon the property it owns, possesses, holds or uses, or on its activities, or upon other income, payment or gain derived therefrom. The transfer of the Restructuring Property by GDB to the DRA is also exempt from the aforementioned taxes, assessments, licenses, stamps, fees and other similar charges levied by the Commonwealth or other government entity.

### **Cash and Cash Equivalents**

Cash and cash equivalents consist of currency, deposits and financial instruments with financial institutions used as working capital to fund daily operations. The DRA considers all highly liquid investments with a maturity of six months or less when purchased to be cash equivalents.

Pursuant to the GDB Restructuring Act and the Bond Indenture, the DRA is authorized to invest funds received to be held in trust for the bondholders in eligible obligations and securities.

As of June 30, 2023, the cash equivalent maintained by the DRA consisted of \$17.9 million in a money market mutual fund, which meets the definition of eligible investments as per the Bond Indenture. The money market mutual fund is rated as AAAM and AAA-mf by Standard and Poor's and Moody's, respectively, and has an average duration maturity of 45 days. This money market mutual fund is not insured or guaranteed by the Federal Deposit Insurance Corporation.

### **Investment securities**

Investment securities generally consist of new general obligation bonds (the New GO Bonds), contingent value instruments (CVIs) issued by the Commonwealth and clawback contingent value instruments issued by the Highway & Transportation Authority (Second Priority HTA Clawback CVIs and Fourth Priority HTA Clawback CVIs), which the DRA received as part of the Commonwealth Plan of Adjustment (POA). Details about the nature of the POA and the activities during the year of these investment securities are further described in Note 3 below.

Investments securities are carried at fair value, except for money market investments and participating investment contracts, if any, with a remaining maturity at the time of purchase of one year or less, and non-participating investment contracts, which are carried at cost. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. Such quoted market prices are obtained from independent sources.

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. By contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

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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. Interest income is recognized based on the coupon rate. Gains and losses on the sale of investment securities are recorded on the trade date and determined using the specific identification method.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, provides clarity that when there is an exchange of nonmonetary assets and the fair value of the assets exchanged cannot be determinable within reasonable limits, the assets are to be reported at the time the assets are exchanged for a monetary asset. This statement clarifies how fair value should be regarded if it is not determinable within reasonable limits given there are major uncertainties that exist about the realizability of the value that would be assigned to an asset received in a nonmonetary transaction accounted for at fair value. As of June 30, 2023, the Fourth Priority HTA Clawback CVI had fair value that could not be determined within reasonable limits, as such this investment will be recorded when exchanged for a monetary asset.

Interest income is recognized based on the coupon rate. Gains and losses on the sale of investment securities are recorded on the trade date and determined using the specific identification method.

A debt security is placed on nonaccrual status at the time its principal or interest payments become 90 days past due. Interest accrued but not received for a debt security placed on nonaccrual is reversed against interest income.

### **Restructuring Property**

The Restructuring Property consists of the legal and equitable right, title and interest in and to, and claims and causes of action to enforce the collection of the Transferred Property (which was transferred on the Closing Date of the Qualifying Modification), and of future assets, its beneficial interests and collections thereon (also known as the GDB Retained Loan Rights) that may be transferred from time to time by GDB after the Closing date. The Restructuring Property is made up primarily by a series of loans to Commonwealth government entities, including municipalities, which pursuant to the GDB Restructuring Act, were reduced as of the Closing Date by certain deposits of such government entities with GDB. The GDB Retained Loans consisted of certain loans designated to be retained and continued to be serviced by GDB on the Closing Date pursuant to the Qualifying Modification, but which beneficial interests and cash proceeds therefrom, as indicated above would be transferred from time to time by GDB to the DRA upon collection.

### **Loans Receivable and Allowance for Loan Losses**

*General Policy* — The loans transferred to the DRA, which are part of the Restructuring Property transferred from GDB as described in Note 1 to the accompanying basic financial statements, were recorded at GDB's historical carrying value (unpaid principal balance reduced by the corresponding allowance for loan losses and write-down of loans previously recorded by GDB prior to transfer). As such, if the carrying value of the loans and related accrued interest receivable was zero on the GDB financial statements, the carrying value was reflected as a zero balance on the DRA's financial statements. For instance, the Commonwealth loans and

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Commonwealth guaranteed loans, and Other loans were recorded upon transfer to the DRA at a zero value. Certain Public Corporation loans and Municipal loans were also transferred at a recorded value of zero. Subsequent collections of principal or interest on these loans under the DRA are recognized as Other Income upon receipt. The remaining Municipal loans and certain Public Corporation loans were recorded at the carrying value of GDB.

If the carrying value of the loans and related accrued interest receivable was greater than zero (which would be as such if the GDB had either recorded no allowance for loan losses or an allowance for loan losses less than 100% of the loan principal amount) on the GDB financial statements, the GDB carrying value was reflected on DRA's financial statements at the transfer date. As long as these loans remain on accrual status, collections on these loans are applied to principal and interest in accordance with the loan agreement. If loans are in non-accrual status, once the carrying value has been fully collected, future collections will be reflected as other income upon receipt on a cash basis.

Interest in performing loans is generally recognized on the accrual basis. Interest is not accrued on loans that are classified as nonaccrual, and any interest that was accrued but unpaid on such loans is reversed from interest income at that time, or when deemed to be uncollectible. Interest income on nonaccrual loans is thereafter recognized as income only to the extent actually collected. Loans are classified as nonaccrual when management determines that any of the following characteristics are present: (a) a loan becomes six months past due; (b) a loan has no current source of repayment; (c) a loan is not covered by a formal commitment from the Commonwealth; and (d) a loan does not have designated collateral, or such collateral is insufficient. Nonaccrual loans are returned to an accrual status when there is adequate evidence indicating that the loans will be performing as contracted. Refer to Note 4 to the accompanying basic financial statements for additional details on nonaccrual loans.

*Allowance for Loan Losses* - The allowance for loan losses is a valuation allowance for probable incurred credit losses. The DRA uses applicable authoritative literature, general background information and recent relevant information on such loans to establish an allowance for loans losses. Those loans which were transferred to the DRA with an initial carrying value are presented at their carrying value brought forward from the GDB, reduced by provisions for loan losses recorded subsequent to transfer, if any, and payments received that were recorded to reduce the principal balance. Such allowance for loan losses is established through a provision recorded in the statement of revenues, expenses and changes in net position (deficit).

The DRA determined that major sources of repayment on the loan portfolios were property taxes, sales and use taxes, operating revenues of the borrowers, rental income generated by the borrowers, and collateral sales. Public corporations and municipalities portfolios were segregated into the following risk-based buckets taking into consideration their source of repayment, guaranty and payment history. The risk based buckets included (i) loans with a reliable source of repayment for which an allowance for loan losses was not recorded, (ii) loans which were subsequently paid-off or transferred with zero carrying value from the GDB for which no allowance for loan losses was recorded, (iii) loans with unreliable source of repayment that were not performing according to contract terms, and did not have real estate collateral as an additional source of repayment, and (iv) loans with an unreliable source of repayment that were performing as to principal and interest, but did not have real estate as a source of repayment. A loan is considered impaired when, based on current information and events, it is probable that the DRA will not be able to collect all amounts due, both principal and interest, according to the contractual terms of the loan agreement transferred. Specifically, the DRA established an allowance for losses on impaired loans on bucket (iii) based on management's estimate of the present value of expected debt service payments discounted at the loans' effective interest rate. For loans identified as those to be individually measured for impairment, resulting present value of estimated future cash flows was compared with the respective balance of the recorded investment in the loan to determine the impairment amount or required allowance for loan losses.

As a general procedure for collateral-dependent loans, related appraisals may be internally reviewed as part of the allowance determination process. Appraisals may be adjusted due to their age, property conditions,

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geographical area or general market conditions as deemed necessary. The adjustments applied are based upon internal information, such as other appraisals and/or loss severity information available in several real estate market publications.

Loan charge-offs after the initial transfer are recorded against the allowance when management believes that the collection of the principal is unlikely. Recoveries of amounts previously charged off after the initial transfer are credited to the respective allowance.

Because of uncertainties inherent in the estimation process for charge-offs and reserves, management's estimate of credit losses in the outstanding loans receivable portfolios and the related allowance may change if economic and other conditions differ substantially from the assumptions used in making the estimates.

### **Real Estate Available for Sale**

Real estate available for sale is carried at the lower of cost or estimated fair value. DRA's real estate available for sale was initially recorded upon transfer at the carrying value of GDB, which represented the lower of cost or fair value. The carrying value of those properties is established by the DRA using a third-party professional assessment or based upon an appraisal, less estimated costs to sell. Subsequent declines in the value of real estate available for sale are charged to expense. Gain or loss on sale of real estate available for sale is included within revenues or expenses, respectively, within non-interest income or operating expense in the accompanying statement of revenues, expense, and changes in net position (deficit).

As a general procedure, the DRA utilizes the appraisal review and adjustment procedures as those described above in the previous section for the loans transferred.

### **Bond Issue Costs**

Bond issue costs are recorded as expenditures when incurred.

### **Future Adoption of Accounting Pronouncements**

The DRA has evaluated all statements that the GASB has issued with effective days after June 30, 2023 and determined they will not have a material impact on its basic financial statements.

## **3. INVESTMENT SECURITIES**

In January 2022, the U.S. District Court for the Commonwealth of Puerto Rico approved the POA for Puerto Rico's central government bonds and obligations, setting the restructuring terms for about \$33 billion of debts, including the Commonwealth's general obligation (GO) bonds, its Public Building Authority (PBA) bonds, the Employees' Retirement System (ERS) bonds and, through a separate qualifying modification process under the Title VI of PROMESA, the Convention Center District Authority (CCDA) bonds.

A critical component of the POA is the post-Effective Date issuance of new general obligation bonds (the New GO Bonds), contingent value instruments (CVIs) and clawback contingent value instruments (Clawback 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. The DRA was one of multiple creditors on various of these bonds and obligations. Through the approved POA, the DRA was allocated certain fixed recoveries in the form of cash, New GO Bonds, CVIs and Second Priority HTA Clawback CVIs and Fourth Priority HTA Clawback CVIs. The Oversight Board approved the POA in March 2022.

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As part of the POA, in exchange for two loans with outstanding principal amounts of \$21.1 million and \$34.8 million as of such date, originally made by the GDB to the Commonwealth and transferred to the DRA in connection with the issuance of the Bonds, the DRA received cash in the amount of \$19.8 million and the following securities (in thousands), with the carrying amounts and fair values as of June 30, 2022 as follows (in thousands):

	<b>Carrying Amount</b>	<b>Fair Value</b>
Commonwealth New GO Bonds:		
Current interest bonds	\$ 24,540	\$ 23,244
Capital appreciation bonds	2,821	2,771
Contingent value instruments	6,071	5,753
Total	\$ 33,432	\$ 31,768

On July 14, 2022, all the securities in the table referred to above were either sold or had redemption calls for total proceeds aggregating to approximately \$31.9 million, which resulted in a net gain of approximately \$169,000, presented within realized gain on investment securities, net in the accompanying statement of revenues, expenses, and changes in net position (deficit).

In June 2022, in relation to the settlement of clawback claims on the Highway & Transportation Authority (HTA) Variable Rate Bonds 1998A ("HTA 1998 bonds") and certain other HTA loans with outstanding principal amounts of \$200.0 million and \$1,733.7 million, respectively, as of such date, originally made by the GDB to HTA and transferred to the DRA in connection with the issuance of the Bonds, the DRA received Second Priority HTA Clawback CVIs (notional amount of \$117.4 million) with an estimated fair value of \$55.2 million and Fourth Priority HTA Clawback CVIs (notional amount of \$1,477 million) with a fair value that was not determinable within reasonable limits.

The inability to determine the fair value within reasonable limits of the Fourth Priority HTA Clawback CVI as of the date of the financial statements arises due to the following reasons:

1. **Lack of Market Activity:** This instrument has no observable market transactions, making it difficult to obtain reliable market prices or comparable data for valuation purposes.
2. **Complexity and/or Unique Characteristics:** The instrument possesses complex structures and contingent payment terms such as:
  - a. **Term** – the instrument has a period of 30 years as defined in the POA, allowing the holder to collect funds in periods 1 to 22 if meeting several performance conditions and from years 23-30 subject to additional performance conditions including maximum cap amounts.
  - b. **Performance conditions** – the holder of the instrument would receive cash flows if several outperformance metrics from the baseline Sales and Use Tax from the Commonwealth of Puerto Rico as defined in the POA occurs subject to annual and cumulative conditions and maximum cap amounts.
  - c. **Waterfall structure** – considering this instrument is the fourth priority within the HTA Clawback CVI it results in significant uncertainties about the ability to reasonably estimate the amount of cash flows to be received.

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As a result, these conditions create significant uncertainties to establish reasonable methods and assumptions to determine a reasonable fair value measurement that would comply with market participants and in compliance with GAAP as of the date of the financial statements. As time lapses and market participant information becomes available it may support changes to the fair value conclusions made by the DRA in subsequent periods.

On August 3, 2022 and January 19, 2023, Second Priority HTA Clawback CVIs with notional amounts of \$65 million were sold for total proceeds received in the amount of \$30.6 million, which resulted in a marginal net loss, presented within realized gain on investment securities, net in the accompanying statement of revenues, expenses, and changes in net position (deficit). The carrying amounts and estimated fair values of the remaining Second Priority HTA Clawback CVIs (remaining notional amount of \$52.4 million) as of June 30, 2023, after this sale, were estimated to be approximately \$26.6 million. This is the sole investment security recognized as of June 30, 2023 in the accompanying statement of position.

In December 2022, the DRA received cash proceeds of \$0.4 million and additional Second Priority HTA Clawback CVI securities with notional amounts of approximately \$50.9 million, in relation to the HTA debt restructuring described above. The securities had a fair value, hence carrying value of approximately \$35.5 million upon receipt. As the underlying related HTA loans had no carrying value at the DRA, the full amount of the \$35.5 million fair value of the Second Priority HTA Clawback CVIs received, was recognized within gain on settlement of loans, net in the accompanying statement of revenues, expenses and changes in net position (deficit). The cash proceeds of \$0.4 million represented interest income accrued on these securities through December 2022 and recognized as such in the accompanying statement of activities. Shortly thereafter, these same securities were sold for approximately \$36.1 million, resulting in a net gain of approximately \$621,000, presented within realized gain on investment securities, net in the accompanying statement of revenues, expenses, and changes in net position (deficit).

On the same date as the cash and securities receipts referred to in the previous paragraph, the DRA also received \$15.0 million in cash representing the Restriction Fee per the Stipulation in Connection with DRA Related Disputes, Exhibit A of Dkt. No. 19100 of Case No. 17-BK3283 (LTS), entered into between the DRA and the Oversight Board on November 5, 2021 (the "Stipulation"). The Restriction Fee was paid by HTA under the HTA debt restructuring in consideration for the agreements set forth in the Stipulation, including the agreement to "lock-up" the DRA's HTA 1998 Bonds and the DRA's twenty-three (23) promissory notes issued by HTA in favor of GDB. The \$15 million received was recognized within income from settlements in the accompanying statement of revenues, expenses, and changes in net position (deficit).

The Fourth Priority HTA Clawback CVIs (notional amount of \$1,477 million) remain outstanding as of June 30, 2023; however, these are not recognized in the accompanying financial statements as the fair value of these securities was not determinable within reasonable limits, as discussed in previous paragraphs above.

The Second Priority HTA Clawback CVIs and Fourth Priority HTA Clawback CVI (the "CVIs") are instruments that give a holder the right to receive payments in the event that certain triggers are met. The POA 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 POA 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 over-performance collections, if any, may be available for distribution to holders of Commonwealth CVIs, and a portion to holders of HTA Clawback CVIs based on a formula and/or a priority waterfall of distributions. 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 is 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 (subject to certain lifetime caps and annual payment waterfalls, as defined, allocated across the different types of bond claims) as established in the Oversight Board-certified fiscal plan for the Commonwealth, dated May 27, 2020. The CVIs held by the DRA generally have a 30-year term. The Commonwealth pledged its full faith, credit and

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taxing power under the Puerto Rico Constitution and applicable Puerto Rico law for payment of the CVIs. The CVIs are deemed issued on July 1, 2021. The CVIs are not rated.

The **ASC 820** fair value hierarchy of the sole remaining investment security of \$52.4 million notional amount of Second Priority HTA Clawback CVIs as of June 30, 2023, falls within level 2, Significant Other Observable Inputs, with a fair value estimated in \$26.6 million.

In fair value measurements among the different hierarchy levels, the availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

A description of the valuation techniques applied to the DRA's major categories of investments and measured at fair value on a recurring basis follows.

Commonwealth New GO Bonds are composed of two main categories consisting of current interest bonds and capital appreciation bonds. Both types of bonds are valued using quoted market prices and trade data adjusted by subsequent changes in related indexes for identical or comparable securities. Actively traded noncallable agency-issued debt securities are generally categorized in level 1 of the fair value hierarchy; however, callable agency-issued debt securities are generally categorized in level 2 of the fair value hierarchy.

The fair value of the Commonwealth CVIs is determined using market price quotations (when observable), bond spreads or credit default swap spreads obtained from independent external parties, such as vendors and brokers, adjusted for any basis difference between cash and related debt instruments. The spread data used are for the same maturity as the bond. If the spread data do not reference the issuer, then data that reference a comparable issuer are used. When position-specific external price data are not observable, fair value is determined based on either benchmarking to similar instruments or cash flow models with yield curves, bond, or single-name credit default swap spreads and recovery rates as significant inputs.

The fair value of the Second Priority HTA Clawback CVIs is determined using recently executed transactions while the fair value of the Fourth Priority HTA Clawback CVIs was not readily determinable.

#### **4. LOANS RECEIVABLE**

As explained in Notes 1 and 2, the DRA, as a transferee government recognized the assets transferred to it under the GDB Restructuring Act at the carrying value of GDB.

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Loans receivable balance as of June 30, 2023 are presented below. In addition, the unpaid principal balance as of the same date is also presented (in thousands):

	<b>Carrying Value</b>	<b>Unpaid Principal Balance</b>
Loans:		
Municipal loans	\$ 879,353	\$ 911,818
Public corporation loans	34,268	556,747
Other loans (private sector loans)	-	361
Allowance for loan losses	(10,507)	n/a
Loans receivable, net	\$ 903,114	\$ 1,468,926

In August 2022, the DRA restructured and settled loans outstanding with the Municipal Revenue Collection Center (“CRIM”) (“CRIM loans”), including the receipt of cash and substitution of their repayment source and related collateral. The CRIM loans were comprised of two loans: (1) the 2001 CRIM loan made by GDB to CRIM pursuant to Act No. 42-2000 to cover CRIM’s operational deficit resulting from excess remittances made by CRIM to municipalities based on estimates of annual property tax collections, which later resulted to be greater than the actual tax collections, and (2) the 2002 CRIM loan made by GDB used by CRIM to cancel a debt issued by it in connection with a transaction for the sale of delinquent tax debts. Both loans were unsecured and payable primarily from Commonwealth appropriations related to an increase in certain Commonwealth subsidy to municipalities (“Commonwealth Subsidy”) pursuant to Puerto Rico Acts No. 42-2000 and 146-2001, as amended. The Commonwealth Subsidy is now set to expire in 2025 pursuant to the CRIM Fiscal Plan approved by the Oversight Board. A portion of the 2001 CRIM loan (approximately \$26.9 million of unpaid principal) payable by the Municipality of Ponce has a zero value as of June 30, 2022.

In exchange for the CRIM loans outstanding and accrued interest, the DRA received cash in the amount of \$62.5 million. In addition, the municipalities agreed to pay the reduced indebtedness under the 2001 CRIM loan in the amount of \$31.6 million (\$26.3 million pertaining to the Municipality of Ponce, which continues to have a zero carrying value as of June 30, 2023). Pursuant to the terms of the restructuring and settlement agreement, the 2002 CRIM loan is deemed fully paid. The reduced indebtedness under the 2001 CRIM loan, other than the \$26.3 million portion payable by the Municipality of Ponce, (\$5.3 million as of June 30, 2023) is payable by each of the Participating Municipalities (to the extent of its corresponding indebtedness) over five years at a variable rate of interest equal to the prime rate plus 2% with a maximum cap of 6.25% and a minimum floor of 5%. The portion of the 2001 CRIM loan payable by the Municipality of Ponce (\$26.3 million) is payable pursuant to a 35-year amortization schedule and a balloon payment after 5 years, with the same interest rate structure. The settlement of these CRIM loans resulted in a net loss of approximately \$6.8 million, presented within gain on settlement of loans, net in the accompanying statement of revenues, expenses, and changes in net position (deficit).

On April 18, 2022, the Board of Director of AAFAP approved, pursuant to Section 207 of PROMESA, an Economic Development Bank (EDB) proposed Settlement Agreement with GDB regarding a \$35.1 million overnight deposit indebtedness. Pursuant to the proposed Settlement Agreement, EDB made a commitment for a one-time cash payment of \$3.1 million. As these overnight deposits were part of the Restructuring Property retained by GDB, which beneficial interest pertains to the DRA pursuant to the GDB Restructuring Act, the proceeds received upon this settlement were transferred to the DRA during fiscal year 2023. The \$3.1 million received by the DRA are presented withing other income in the accompanying statement of revenues, expenses, and changes in net position (deficit).

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The following table presents cash collected for principal, interest and other income (including the cash settlement for the CRIM and EDB loans referred to in the previous paragraphs) during the year (in thousands):

	<b>Principal Collected</b>	<b>Interest Collected</b>	<b>Other Income Collected</b>
Loan:			
Municipal loans	\$ 83,417	\$ 52,013	\$ 1,972
Public corporation loans	71,497	2,186	3,100
Total	\$ 154,914	\$ 54,199	\$ 5,072

### Municipal Loans

The carrying value of loans to municipalities as of June 30, 2023 amounted to approximately \$879.4 million. For the year ended June 30, 2023, municipal loan collections (including interest), excluding payments on zero value loans, amounted to approximately \$135 million.

The following is a summary of municipal loans considered to be impaired as of June 30, 2023 (excluding those that were transferred with no carrying value from GDB), and the related interest income for the year then ended (in thousands):

	<b>Amount</b>
Recorded investment in impaired loans:	
Not requiring an allowance for loan losses	\$ -
Requiring an allowance for loan losses	10,507
Total recorded investment in impaired loans	\$ 10,507
Related allowance for loan losses	\$ 10,507
Average recorded investment in impaired loans	\$ 11,042
Interest income recognized on impaired loans	\$ 475

During the year ended June 30, 2023, there was a reduction of \$190 thousand in the provision for loan losses recognized on the Municipal loans portfolio based on the evaluation of the risk characteristics of the loans, including such factors as the nature of individual credits outstanding, known and inherent risks in the portfolios, sources of repayment, adverse situations that may affect the borrower's ability to repay, the estimated value of underlying collateral, and general economic conditions, recognizing that potential changes in economic conditions or specifically, financial conditions of municipalities.

As of June 30, 2023, municipal loans totaling \$10.5 million have been classified in nonaccrual status. Interest income that would have been recorded if such nonaccrual loans had been accruing in accordance with their original terms was approximately \$0.7 million in fiscal year 2023.

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### Public Corporation Loans

The carrying amount of loans to Public Corporations as of June 30, 2023, amounted to approximately \$34.3 million. For the year ended June 30, 2023, public corporation loan, interest and other income collections amounted to approximately \$76.8 million, including the CRIM and EDB settlements referred to above.

The following is a summary of public corporation loans considered to be impaired as of June 30, 2023 (excluding those that were transferred with no carrying value from GDB), and the related interest income for the year then ended (in thousands):

Recorded investment in impaired loans:		
Not requiring an allowance for loan losses	\$	33,339
Requiring an allowance for loan losses		-
Total recorded investment in impaired loans	\$	<u>33,339</u>
Related allowance for loan losses	\$	-
Average recorded investment in impaired loans	\$	33,806
Interest income recognized on impaired loans	\$	-

There was no provision for loan losses recognized on the Public Corporation loans portfolio based on the evaluation of the estimated value of future cash flows and the underlying collateral.

As of June 30, 2023, public corporation loans totaling \$33.3 million have been classified as nonaccrual status. Interest income that would have been recorded if such nonaccrual loans had been accruing in accordance with their original terms was approximately \$4.7 million in fiscal year 2023.

### 5. ALLOWANCES FOR LOAN LOSSES

The following is an overall summary of the activity in the allowance for loan losses for the year ended June 30, 2023 (in thousands):

	<u>Municipal Loans</u>	<u>Public Corporation Loans</u>	<u>Total</u>
Balance, beginning of year	\$ 10,697	\$ -	\$ 10,697
Provision for loan losses	-	-	-
Charge-offs	-	-	-
Recoveries	(190)	-	(190)
Balance, end of year	<u>\$ 10,507</u>	<u>\$ -</u>	<u>\$ 10,507</u>

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### 6. ACCRUED INTEREST ON LOANS

Interest receivable balances on loans as of June 30, 2023 are presented below (in thousands):

Accrued Interest on Loans:	
Municipal loans	\$ 37,221
Public corporation loans	6
	6
Interest receivable, net	\$ 37,227

The accrued interest transferred to the DRA and subsequent losses, or write-downs are recorded as an expense as they are incurred.

### 7. REAL ESTATE AVAILABLE FOR SALE

The activity of the real estate available for sale during the year, with a balance as of June 30, 2023, at the lower of carrying or fair value, consisted of the following (in thousands):

	Amount
Real estate available for sale as of June 30, 2022	\$ 3,599
Subtractions:	
Sales	(2,561)
	(2,561)
Real estate available for sale as of June 30, 2023	\$ 1,038

### 8. BONDS PAYABLE

The activity of the Restructuring Bonds payable for the year ended June 30, 2023 is as follows (in thousands):

	Beginning balance	Additions	Payments	Ending Balance
GDB Debt Recovery Authority Bonds, principal and interest payments on each February 20th and August 20th, due August 20, 2040	\$ 1,846,915	\$ -	\$ (234,973)	\$ 1,611,942
	\$ 1,846,915	\$ -	\$ (234,973)	\$ 1,611,942

#### Terms and Description of the Restructuring Bonds

On November 29, 2018, the DRA issued approximately \$2.6 billion in GDB Debt Recovery Authority Bonds in a single series secured by a first priority statutory lien on the Restructuring Property.

The Restructuring Bonds have a 7.500% annual coupon rate, payable on the Special First Payment Date (which was December 3, 2018) and, thereafter, on each February 20 and August 20, until its due date of August 20, 2040 (the Final Scheduled Payment Date), in cash or in kind. The Restructuring Bonds are special limited obligations of the DRA and are not indebtedness or liabilities of GDB, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF), the Commonwealth or any of the Commonwealth's public instrumentalities or political subdivisions, other than the DRA. The Restructuring Bonds are not backed by the good faith, credit and taxing power of the Commonwealth nor are they payable or secured by GDB, AAFAF,

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the Commonwealth or any of the Commonwealth's public instrumentalities or political subdivisions, other than the DRA. As mentioned in Note 1, from time to time, after the Closing Date and upon the occurrence of certain conditions, the DRA may authorize the issuance of additional bonds as defined in the Offering Memorandum. Such additional bonds and the previously issued bonds (together comprising the Restructuring Bonds) will be part of the same series under the Bond Indenture and will be issued in the same form and at the same coupon rate as the previously issued bonds, except in limited circumstances as defined in the Bond Indenture.

The payments of principal and interest on the Restructuring Bonds will depend on the available cash existing in the DRA's Collection Account at each payment date. Available cash represents the funds available for payment to the holders of the bonds on the relevant payment date equal to (i) the sum of all amounts in the Collection Account as of the day immediately preceding the relevant payment date, less (ii) the sum of certain fees and expense reserves as defined in the Indenture Trustee and the sum of all amounts due to the Indenture Trustee, the Servicer and the Collateral Monitor. The available cash balance in the Collection Account will be used to pay the principal and interest due at each payment date. The principal balance will be paid to the extent available after accrued interest with respect to such payment date has been paid in full in cash, thereby reducing the outstanding principal balance of the Restructuring Bonds by such amount. To the extent there is insufficient available cash on a payment date to pay in full in cash the interest accrued during the applicable interest period preceding such payment date on the Restructuring Bonds, such accrued interest will be paid in cash pro rata to the extent of and from available cash, and principal on the bonds will accrue at an amount equal to the amount of the available cash shortfall (such amount of shortfall known as the "PIK" Amount). Following an increase in the principal amount of the Restructuring Bonds as a result of the accrual of a PIK Amount, the Restructuring Bonds will bear interest on the then-outstanding principal, which will include such accrued PIK Amount. In addition, to the extent there is insufficient available cash on a payment date to pay at least \$1.00 of interest for every \$1,000 of outstanding principal amount of Restructuring Bonds, there will be no distribution to the holders of the Restructuring Bonds on such payment date and available cash will remain in the Collection Account until the following payment date.

As disclosed in the Offering Memorandum, it is not expected that bondholders will receive payment in full of principal and interest due on the Restructuring Bonds since there is considerable uncertainty as to whether the Restructuring Property will provide sufficient cash flows to make payments of interest and principal (including PIK Amounts). If this occurs, there will not be a subsequent insolvency proceeding. Ultimately all remaining assets will be transferred to the indenture trustee, who will liquidate them for the benefit of bondholders and thereafter the balance of the bond debt will be contractually discharged.

The table below presents aggregate collections for the year ended June 30, 2023, on the Restructuring Property and the amount of cash distributed to the bondholders as a whole on the Restructuring Bonds.

Payment Date	<b>Bonds (in millions)</b>			
	Interest Paid in Cash	Principal Paid in Cash	PIK Accrued per Period	Total Ending Principal
August 2022	\$ 70	\$ 198	\$ -	\$ 1,649
February 2023	63	37	-	1,612
Total	\$ 133	\$ 235	\$ -	

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### **Covenants and Events of Default**

The obligations and covenants of the DRA are fully described in the Bond Indenture.

Consistent with the requirements of Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities and Exchange of 1934, the DRA will covenant in a Continuing Disclosure Agreement (the "Disclosure Agreement") among the DRA, AAFAF and the Indenture Trustee, to provide certain ongoing continuing disclosures and reports, as defined and described in the Bond Indenture, with respect to the Restructuring Bonds, for the benefit of the bondholders.

With respect to the Restructuring Bonds, each of the following is an event of default under the Bond Indenture:

- i. Failure by the DRA to accrue any PIK amount as required or make any required payment from Available Cash in respect of any of the Restructuring Bonds on the date on which the same is due;
- ii. A failure by the DRA to observe or perform any covenant or agreement (other than the covenant referred to in (i) above) contained in the Bond Indenture, and such failure continues or is not cured for a period of 60 days after written notice by the Indenture Trustee or bondholders holding not less than 25% in principal amount of the Restructuring Bonds then outstanding;
- iii. The DRA, pursuant to the meaning of several bankruptcy provisions, as defined in the Bond Indenture, including PROMESA:
  - Commences proceedings to be adjudicated bankrupt or insolvent.
  - Consents to the institutions of bankruptcy or insolvency proceedings against it.
  - Files or consents to the filing of a petition or answer or consent seeking an arrangement of debt, reorganization, dissolution, winding up or relief under applicable Bankruptcy Law.
  - Consents to the appointment of a receiver, liquidator or other similar official of it for all or any substantial part of its property; provided that any such official appointed in respect of an obligor under any Restructuring Property will not constitute a Bond Indenture event of default under this section.
  - Makes a general assignment for the benefit of its creditors.
  - Is deemed to be a covered territorial instrumentality under PROMESA or it otherwise determined to be subject to oversight under applicable Bankruptcy Law.
  - Takes any corporate or similar action in furtherance of any of the foregoing.
- iv. A court of competent jurisdiction enters an order or decree under any Bankruptcy Law that does any of the foregoing on (iii) of this section or orders the liquidation, dissolution or winding up of the DRA and such order remains unstayed and in effect for 60 consecutive days;
- v. Any legislation is enacted, government action is taken or any party (other than an obligor on the Restructuring Property) is determined by a final, non-appealable order or admitted in writing by the DRA to have rights that, in any such case, adversely affect (a) the receipt of current or future collections of the Restructuring Property to which the DRA is entitled in respect of assets having an aggregate value on the Closing Date of \$25 million or more or (b) the binding effect or enforcement of, in accordance with their respective terms, the GDB Restructuring Act, the Qualifying Modification, the PET, the Bond Indenture, the Restructuring bonds or the liens on the Restructuring Property. This

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particular event of default is subject to various exceptions and conditions further defined in the Bond Indenture;

- vi. Any entry of a judgment against the DRA in the amount of \$10 million or more;
- vii. The occurrence of an event of default by GDB under the Transfer Agreement; and
- viii. The DRA permits the validity or effectiveness of the transaction documents under the Qualifying Modification to be impaired, and such impairment affects the enforceability of or payments on the Restructuring Bonds, or any person to be released from any covenants or obligations with respect to the Restructuring Bonds.

If a Bond Indenture event of default occurs and is continuing, the Indenture Trustee may, or upon direction of the bondholders holding not less than 25% in principal amount of the Restructuring Bonds then outstanding, will declare the principal of such Restructuring Bonds and accrued but unpaid interest and any other amounts owed thereon to be immediately due and payable, in the order of priority specified for payments. The bondholders may rescind or annul such an acceleration declaration on the Restructuring Bonds and the Indenture Trustee may also exercise a series of remedies available to waive an event of default, as further defined on the Bond Indenture.

In no event shall the DRA be deemed to be in default as a result of there being insufficient available cash to pay on cash any or all interest or principal on the Restructuring Bonds on any payment date. Notwithstanding any other provision of the Bond Indenture, no default under the disclosure agreement provisions therein will be deemed a Bond Indenture Event of Default, and the sole remedy under such disclosure agreement provisions will be an action to compel performance.

As of June 30, 2023, there were no events of default incurred by the DRA.

### **9. RISK MANAGEMENT**

The DRA's by-laws require the DRA to indemnify the members of the Board to the fullest extent permitted under the Commonwealth law against liabilities that may arise by reason of their service to the DRA, and to advance expenses reasonably incurred as a result of proceedings against them for which they could be indemnified. To minimize the risk of loss for potential liabilities, the DRA obtained directors' and officers' insurance coverage, along with legal fees and expenses payable from collections on the Restructuring Property prior to making payments on the Restructuring Bonds. Insurance coverage is updated annually to account for changes in operating risk. For the year ended June 30, 2023, there has been neither insurance settlements nor related claims against the DRA board members.

### **10. COMMITMENTS AND CONTINGENCIES**

#### **The Keepwell Agreement**

On the Closing Date, GDB and the DRA entered into the Keepwell Agreement for the benefit of the holders of the Restructuring Bonds, which provides, among other things, that if Transferred Property previously transferred to the DRA or collections in respect thereof are returned to or conveyed to GDB, or if the transfer thereof to the DRA is deemed invalid or void, GDB will take such steps as may be necessary to irrevocably retransfer or convey such Transferred Property or collections, as applicable, to the Indenture Trustee or its designee to be applied to payments in respect of the Restructuring Bonds in accordance with the terms of the Keepwell Agreement (or if such retransfer or conveyance violates a law or court order, to take such other actions as may be necessary such that the bondholders receive the economic equivalent thereof).

The Keepwell Agreement also provides that GDB will indemnify and hold the bondholders harmless from and against damages and losses suffered or incurred by the bondholders as the result of legislative action or determination by a court of competent jurisdiction causing the Qualifying Modification, the Restructuring Bonds

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or the rights or liens of the DRA, the Indenture Trustee or the bondholders in respect of the Restructuring Property or the Restructuring Bonds to be impaired, rescinded or avoided or otherwise rendered not enforceable in accordance with their terms; however, an impairment resulting from an immaterial diminution in value of the Restructuring Property will not independently give rise to a claim for indemnification.

Notwithstanding the aforementioned provisions, the Keepwell Agreement is not, and nothing done pursuant to the Keepwell Agreement will be deemed to constitute, a guarantee by GDB of the Restructuring Bonds or other obligation, indebtedness or liability of any kind or character of the DRA whatsoever.

### Litigation

Prior to the commencement of the solicitation for the Qualifying Modification and its ultimate closing on November 29, 2018, numerous lawsuits were filed challenging PROMESA and the actions of the Oversight Board, the Qualifying Modification and the treatment of the claims of various creditors of GDB. Furthermore, other parties filed complaints against GDB and the DRA seeking monetary damages or other relief for claims and other relief primarily related to GDB's previous role as fiscal agent. While the majority of the lawsuits have been dismissed and/or settled and all objections to the Qualifying Modification in the Title VI case were settled prior to the Closing Date, certain of these settlements resulted in cash payments or other agreements (such as an increase in the amount of the Participating Bond Claims) that reduce the projected recoveries on the Restructuring Bonds. In addition, certain pending complaints and other litigation may arise in the future, particularly by parties whose claims are not bound by the Title VI court order and the Qualifying Modification, which has or will seek relief that could materially adversely impact the Qualifying Modification and the validity or enforceability of its related documents, including the Restructuring Bonds. Litigation that existed at June 30, 2023, which resolution could have some impact on the DRA, the Qualifying Modification, the Restructuring Bonds and/or the recoverability of the Restructuring Property include the following:

- **Title VI Proceeding for the Puerto Rico Public Finance Corporation ("PFC")** - On October 28, 2022, the Oversight Board, as Administrative Supervisor for the PFC, filed an application with the District Court for approval of a qualifying modification ("PFC QM") for PFC pursuant to Title VI of PROMESA. Pursuant to the proposed PFC QM, each holder of a Participating Bond Claim (as defined in the PFC QM) is to receive, in full consideration, satisfaction, release and exchange of such holder's Participating Bond Claim, such holder's pro rata share of (a) \$13,800,000 in cash, and (b) subject to the entry of a final order authorizing such issuance, bonds on account of the PFC Bond Trustee GDB Claim (as defined in the PFC QM) in an original principal amount not to exceed \$47,690,561.60) to be issued in accordance with the DRA Bond Indenture ("Additional DRA Bonds").

While the Oversight Board and AAFAF have asserted that the Additional DRA Bonds should be issued by the DRA, the Servicer and the Collateral Monitor, disagree with the position taken by AAFAF and the Oversight Board, and assert that the Additional DRA Bonds may not be issued pursuant to terms and provisions of the GDB Debt Restructuring Act, applicable documents and the GDB Qualifying Modification (this issue is referred to herein as the "DRA Bond Issue"). The parties agreed that the determination of the DRA Bond Issue would not delay or otherwise be a condition precedent to entry of an appropriate order issued by the District Court approving the PFC QM ("PFC Approval Order"). The PFC Approval Order was entered on December 30, 2022.

The DRA Bond Issue was subject to litigation before the District Court and, on August 31, 2023, the District Court entered an order ("Additional DRA Bond Order") resolving the DRA Bond Issue by authorizing the issuance of the Additional DRA Bonds. On September 8, 2023, the Servicer and the Collateral Monitor filed a notice of appeal ("Additional DRA Bond Appeal") with respect to the Additional DRA Bond Order with the First Circuit Court of Appeals ("First Circuit"). The Servicer and the Collateral Monitor sought a stay pending appeal, but such relief was denied by the First Circuit on September 15, 2023. On December 13, 2023, the Servicer and Collateral Monitor, on behalf of themselves and the DRA, filed their opening appellate brief in the Additional DRA Bond

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Appeal. Briefing on the Additional DRA Bond Appeal is scheduled to be concluded in February 2024, after which the First Circuit may schedule Oral Argument and/or decide the appeal on the basis of the briefs submitted by the parties.

Nevertheless, given that no stay of the Additional DRA Bond Order was obtained from either the District Court nor the First Circuit, the DRA issued the Additional DRA Bonds on December 15, 2023.

- **Puerto Rico Housing Finance Authority (“HFA”)** - On November 3, 2021, AmeriNat, on behalf of the DRA, filed a Complaint against the HFA, for breach of contract following HFA's breach of a Master Repurchase Agreement as amended and restructured entered into with the GDB, which was subsequently transferred to the DRA. Through the Complaint, the DRA sought repayment of the amounts owed and the execution of the collateral pledged in guarantee of HFA's obligations.

On October 2, 2023, the parties executed a Settlement Agreement settling their disputes in connection with the HFA credit and other public entity loans, and, on October 10, 2023, they filed a Joint Stipulation for Dismissal of the action. The HFA will make a payment to the DRA for the settlement of its claims against HFA. In response, on October 16, 2023, the Court issued Judgment dismissing the case and retaining jurisdiction to enforce compliance with such Settlement Agreement. Thus, this matter is now closed.

- **Innovation Fund for Agricultural Development of Puerto Rico (“FIDA”) and the Puerto Rico Department of Agriculture** - On March 25, 2022, AmeriNat, on behalf of the DRA, filed a Complaint against FIDA and the Puerto Rico Department of Agriculture, for breach of contract following FIDA's breach of Loan Agreement entered into with the GDB, which was subsequently transferred to the DRA. Through the Complaint, the DRA sought repayment of the amounts owed under the Loan Agreement and the execution of the collateral pledged in guarantee of FIDA's obligations.

On October 2, 2023, the parties executed a settlement agreement settling their disputes in connection with the FIDA credit and other public entity loans, and, on October 10, 2023, they filed a Joint Stipulation for Dismissal of the action. The settlement agreement calls for a payment by FIDA to the DRA for the settlement of its claims against HFA. In response, on October 19, 2023, the Court issued Judgment dismissing the case and retaining jurisdiction to enforce compliance with such settlement agreement. Thus, this matter is now closed.

- In the course of its collection activities, the DRA will from time-to-time initiate legal action with respect to loans receivable and will have other ongoing discussions with counterparties or take other actions related to loans receivable, all of which could have outcomes that could be material to the DRA. In addition, creditors or other parties of interest may from time-to-time initiate legal action related to the DRA's rights under its loan receivables.

### 11. SUBSEQUENT EVENTS

Subsequent events were evaluated through January 22, 2024 to determine if such events should either be recognized or disclosed in the 2023 basic financial statements.

#### Payment on Restructuring Bonds

On the payment date of August 20, 2023, available cash of approximately \$119.8 million was used to make interest and principal payments on the Restructuring Bonds in the amounts of \$60.8 million and \$59.0 million, respectively.

On December 14, 2023 the DRA issued and delivered \$47,690,561 aggregate principal amount of 7.500% GDB Debt Recovery Authority Bonds (Taxable) due 2040 (the “Additional Bonds”) pursuant to the express written instruction from AAFAF and the GDB on September 18, 2023, which requires the DRA to issue the

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Additional Bonds on account of certain contingent PFC Bond Trustee GDB Claims, as well as the written acknowledgement of the Oversight Board, dated November 29, 2023, stating that no further action by the Oversight Board is necessary in connection with the issuance of the Additional Bonds.

Existing Bonds with an aggregate principal balance of \$1,552,925,856 remain outstanding, and after giving effect to the issuance of the \$47,690,561 aggregate principal amount of Additional Bonds, there will be an aggregate of \$1,600,616,417 in principal amount of 7.500% GDB Debt Recovery Authority Bonds (Taxable) due 2040 pursuant to the indenture governing such securities. The Additional Bonds are part of the same series as the Existing Bonds; however, they bear a separate CUSIP number (CUSIP No. 36829QAB1) and are therefore not fungible with the Existing Bonds or any other securities of the Issuer, GDB, AAFAF, the Commonwealth or any of the Commonwealth of Puerto Rico (the "Commonwealth"), its public instrumentalities or political subdivisions.