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

BASIC FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2019

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
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Independent Auditors' Report

The Board of Trustees
GDB Debt Recovery Authority:

We have audited the accompanying 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, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

San Juan, Puerto Rico
April 16, 2021

Stamp No. E434279 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

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, 2019. This discussion and analysis are designed to assist the reader in focusing on the significant financial matters and activities and to identify significant changes in the net position of the DRA.

The DRA is a newly formed 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. OVERVIEW OF THE FINANCIAL STATEMENTS

This management's and discussion and analysis section (MD&A) provides a narrative overview and analysis of the financial activities of the DRA as of and for the year ended June 30, 2019. 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.

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 indicate 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 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.

2. FINANCIAL ANALYSIS

DRA liabilities exceeded assets by approximately $777.6 million as of June 30, 2019. This represents the difference between the historical carrying value of transferred assets and the Restructuring Bonds issued and other results of operations for the fiscal year ended June 30, 2019. All assets of the DRA are restricted as they only serve the purpose of providing a collateral lien and source of repayment for the Restructuring Bonds issued on November 29, 2018.

Significant events showing an impact on the DRA's assets and liabilities during fiscal year 2019 included the issuance of the Restructuring Bonds and the receipt of the Transferred Property on November 29, 2018, the Closing Date.

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

	June 30, 2019
Assets:	
Restricted current assets:	
Cash and cash equivalents	$ 15,193
Loans receivable - net	108,566
Beneficial interest in loans held by GDB	3,456
Accrued interest receivable - net	35,830
Real estate available for sale	8,129
Other assets	10
Restricted non-current assets:	
Beneficial interest in loans held by GDB	107,125
Loans receivable - net	1,108,405
Total assets	1,386,714
Liabilities:	
Current liabilities payable from restricted assets:	
Accounts payable and accrued liabilities	61,170
Bonds payable:	
Due in one year	26,438
Due in more than one year	2,076,711
Total liabilities payable from restricted assets	2,164,319
Net position (deficit) - Unrestricted	$ (777,605)

As of June 30, 2019, the carrying value of outstanding loans totaled $1.22 billion. 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 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 loans and accrued interest receivables represent the unpaid principal balance reduced by any corresponding allowance for loan losses. The historical carrying value of real estate available for sale represents the lower of cost or fair value. Various loans transferred had a zero carrying value at GDB prior to transfer, thus were recorded at zero value by the DRA. The zero value assets are not adjusted upwards even if there is an existing market for the loans (or comparable loans), regardless of whether DRA believes there will ultimately be recoveries and regardless of the prospects or materiality of such recoveries. Collections from zero value assets are recorded as income upon receipt on a cash basis. With respect to loans that had any reserves (commonly referred to as allowance for loan losses) or no reserves recorded by GDB at the time of transfer, those loans were initially recorded by the DRA at the GDB historical carrying values. Those loans are subject to periodic review by the DRA to estimate the allowance for losses against the current amortized cost basis of the loans.

During fiscal year 2019, the Authority provided an allowance for loan losses of $60.8 million based on management's 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.

The Restructuring Bonds, issued on November 29, 2018 pursuant to the GDB Restructuring Act, totaled $2.6 billion, have a 7.500% annual coupon rate and are payable on each February 20 and August 20 as described 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, after covering certain fees and expense reserves, including compensation and expense reimbursement arrangements.

The change in principal balance of the Restructuring Bonds reflect principal payments made since the Closing Date through June 30, 2019. Interest accrued and unpaid through June 30, 2019, on the Restructuring Bonds amounts to approximately $57.0 million.

The DRA also received property consisting of the beneficial interest in, and the proceeds of certain loans designated as the GDB Retained loans, including certain loans labeled as the Additional Recovery Authority Loans. The principal balance of these loans totaled $1.1 billion at the Closing Date, of which approximately $142.0 million corresponds to Additional Recovery Authority Loans as of the Closing Date. The GDB Retained Loans will continue to be serviced by GDB on the Closing Date pursuant to certain terms set forth in the Qualifying Modification. The Additional Recovery Authority Loans will be transferred to the DRA at the earlier of the effective date of a modification, restructuring or similar transaction in respect of such Additional Recovery Authority Loans and 18 months after the Closing Date. Any modification to the Additional Recovery Authority Loans must be approved by the DRA and all proceeds received by the GDB on such loans is to be transferred promptly to the DRA. The beneficial interest in the GDB Retained Loan receivables is reflected as an asset issued to the DRA on the Closing Date. These assets are recorded at the carrying value of the GDB Retained Loans held by GDB. Beneficial interest means, with respect to any asset or cause of action, the beneficial interest therein and the right to receive the net proceeds thereof (not the asset and causes of action themselves), after giving effect to the rights of GDB first.

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

	Fiscal Year 2019
Operating revenues:	
Interest income	$ 41,698
Other non-interest income	4,071
Total operating revenue	45,769
Operating expenses:	
Loss in transfer of assets	649,543
Provision for loan losses	60,777
Provision for losses on interest receivable	3,950
Loss on real estate available for sale	4,622
Direct operating expenses	10,593
Total operating expenses	729,485
Operating income (loss)	(683,716)
Interest expense	93,889
Change in unrestricted net position (deficit)	$ (777,605)
NET POSITION (DEFICIT) - Beginning of year	—
NET POSITION (DEFICIT) - End of year	$ (777,605)

The net deficit during fiscal year 2019 was mostly attributed to the unfavorable difference of $649.5 million between the carrying amount of the transferred property and the amount of the Restructuring Bonds issued on the Closing Date, which is recognized as an operating expense in a separate line item within the accompanying statement of revenue, expenses and changes in net position (deficit).

Total operating revenue of approximately $45.8 million consists, for the most part, of interest income earned on loans in the amount of approximately $41.5 million. Other non-interest income of approximately $4.1 million primarily represents interest proceeds from the GDB Retained Loans collected by GDB and transferred to the DRA during fiscal year 2019.

In addition, total expenses include approximately $93.9 million in interest expense incurred on the Restructuring Bonds from issuance date, based on the carrying coupon interest rate of 7.500%.

Direct operating expenses for the year ended June 30, 2019, totaled approximately $10.6 million, consisting of the following (in thousands):

	Amount
Compensation to members of the Board and Executive Director	$ 750
Administrative and operating expenses	3,706
Servicer fees and expense	3,804
Indenture Trustees fees and expense	202
Collateral Monitor fees and expense	2,131
Total direct operating expenses	$ 10,593

The aforementioned expenses are based on and restricted to fees and amounts established in the corresponding Bond Indenture, Transfer Agreement, Servicing Agreement and the Collateral Monitor Engagement Letter, as applicable. Summarized details of these agreements are included in the Offering Memorandum.

3. 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 2019 amounted to approximately $494.6 million and interest of $36.9 million was also paid. Refer to Note 5 to the basic financial statements for additional information on the Bonds.

4. CURRENTLY KNOWN FACTS

On the payment date of August 20, 2019, available cash of approximately $105.7 million was used to make interest and principal payments on the Restructuring Bonds in the amounts of $79.3 million and $26.4 million, respectively. On the payment date of February 20, 2020, there was available cash of approximately $43.2 million. There was not sufficient available cash to pay the interest due on this payment date, resulting in a $36.4 million shortfall (such amount of shortfall is known as the "PIK" Amount). This PIK amount was accrued on February 20, 2020 in accordance with the Offering Memorandum. On the payment date of August 20, 2020, available cash of approximately $107.8 million was used to make interest and principal payments on the Restructuring Bonds in the amounts of $80.1 million and $27.7 million, respectively. On the payment date of February 20, 2021, available cash of approximately $79.7 million was used to make interest payments in the amount of $79.7 million. There was not sufficient available cash to pay the interest due on this payment date, resulting in a $270,000 PIK amount. This PIK amount was accrued on February 20, 2021 in accordance with the Offering Memorandum.

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 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 could materially adversely impact the Qualifying Modification and the validity or enforceability of its related documents, including the Restructuring Bonds.

On March 11, 2020, the World Health Organization declared the Coronavirus disease ("COVID-19") as a global pandemic. As a result of the health threat and to contain the virus spread across the island, Governor Váquez-Garced issued executive order EO 2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. The executive order authorizes the Commonwealth's Secretary of the Treasury and the Executive Director of the Puerto Rico Oversight Management Board to set up a special budget, from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and sharing information with the municipalities. Subsequent executive orders, including the reopening of certain economic areas, curfew directives and other protective measures have been issued in response to the COVID-19 spread. Also, economic stabilization measures have been implemented by both the Government of Puerto Rico and the U.S. Government to provide support and stimulus to frontline workers, educators and students, hospitals, municipalities and small businesses, including individuals and businesses in Puerto Rico, in response to the economic distress caused by the COVID-19 pandemic.

As the Government observes and assesses the results of the reopening, it will continue to re-evaluate and further amend business restrictions as necessary to promote economic recovery while preserving the health, welfare, and safety of the people of Puerto Rico. Management has not identified yet the extent of the impact, if any, that the Coronavirus pandemic may have had on the DRA's loan repayment capacity and to what extent any of the property liens securing some of the municipalities' loans and/or other municipalities' revenues sources have been adversely depleted.

GDB DEBT RECOVERY AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position (Deficit) (in thousands)

As of June 30, 2019

ASSETS	
Restricted current assets:	
Cash and cash equivalents	$ 15,193
Loans receivable — net of allowance for loan losses	108,566
Beneficial interest in loans held by GDB	3,456
Accrued interest receivable - net	35,830
Real estate available for sale	8,129
Other current assets	10
Total restricted current assets	171,184
Restricted non-current assets:	
Beneficial interest in loans held by GDB	107,125
Loans receivable — net of allowance for loan losses	1,108,405
Total restricted non-current assets	1,215,530
TOTAL RESTRICTED ASSETS	$ 1,386,714
LIABILITIES AND NET POSITION (DEFICIT)	
Current liabilities payable from restricted assets:	
Accrued interest payable	$ 56,960
Accounts payable and other liabilities	4,210
Bonds payable	26,438
Total current liabilities payable from restricted assets	87,608
Non-current liabilities payable from restricted assets:	
Bonds payable	2,076,711
Total non-current liabilities payable from restricted assets	2,076,711
NET POSITION (DEFICIT) - UNRESTRICTED:	(777,605)
TOTAL LIABILITIES AND NET POSITION (DEFICIT)	$ 1,386,714

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, 2019

OPERATING REVENUES		
Interest income:		
Interest income on cash and cash equivalents	$	224
Interest income on loans receivable		41,474
Total interest income		41,698
Non-interest income - other income		4,071
Total operating revenues		45,769
OPERATING EXPENSES		
Non-interest expenses:		
Difference between New Bonds Issued and the carrying value of the Transferred Property		649,543
Board and Executive Director compensation		750
Administrative expenses		3,183
Servicer fees and expenses		3,804
Indenture trustee fees and expenses		202
Collateral monitor fees and expenses		2,131
Loss on sale of real estate available for sale		523
Provision for loan losses		60,777
Provision for losses on interest receivable		3,950
Losses on real estate available for sale		4,622
Total operating expenses		729,485
OPERATING INCOME (LOSS)		(683,716)
INTEREST EXPENSE		93,889
CHANGE IN NET POSITION (DEFICIT)		(777,605)
NET POSITION (DEFICIT) - Beginning of year		-
NET POSITION (DEFICIT) - UNRESTRICTED - End of year	$	(777,605)

See accompanying notes to basic financial statements.

GDB DEBT RECOVERY AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flow (in thousands)
For the year ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from other operating noninterest revenues		4,071
Cash received from collections of interest income on loan receivables		46,845
Cash received from collections of principal on loan receivables		971
Cash received from collections of beneficial interest proceeds		4,569
Cash received from sales of other real estate available for sale		3,000
Cash paid for general and administrative expenses		(5,871)
Net cash provided by operating activities		53,585
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Cash received from GDB Transferred Property		492,946
Payments of bonds payable		(494,606)
Interest paid on bonds payable		(36,929)
Net cash used in non-capital financing activities		(38,589)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on cash balances		197
Net cash provided by investing activities		197
NET INCREASE IN CASH AND CASH EQUIVALENTS		15,193
CASH AND CASH EQUIVALENTS - Beginning of year		-
CASH AND CASH EQUIVALENTS - End of year	$	15,193
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		15,193
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	$	15,193

See accompanying notes to basic financial statements. (Continued)

Statement of Cash Flow (in thousands)

RECONCILIATION OF OPERATING INCOME AND CHANGE IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net position (deficit)	$	(777,605)
Adjustments to reconcile operating income (loss)and change in net position (deficit) to net cash used by operating activities:		
Interest income on cash and cash equivalents		(224)
Interest expense		93,889
Loss on sale of real estate available for sale		523
Provision for loan losses		60,777
Provision for losses on interest receivable		3,950
Loss on value of real estate available for sale		4,622
Difference between Bonds Issued and the carrying value of the Transferred Property		649,543
Changes in other assets and liabilities:		
Decrease in loans receivable		971
Decrease in beneficial interest in loans held by GDB		4,569
Decrease in real estate available for sale		3,000
Decrease in accrued interest receivable		5,370
Increase in other assets		(10)
Increase in accrued expenses and other liabilities		4,210
Net cash provided by operating activities	$	53,585

Noncash investing and noncapital financing activities:	
Transferred property received from GDB on closing date:	
Loans	(1,278,718)
Beneficial interest in loans held by GDB	(115,149)
Accrued interest received on loans	(45,125)
Real estate available for sale	(16,274)
Issuance of Bonds on closing date	2,597,755
Decrease in value on real estate available for sale	(4,622)

See accompanying notes to basic financial statements.

1. ORGANIZATION AND REPORTING ENTITY

The GDB Debt Recovery Authority (the "DRA" or the "Authority") is a newly formed 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 is 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 includes 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 represent 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 represents the lower of cost or fair value. The beneficial interest in loans held by GDB represents the unpaid principal balance of the GDB Retained loans, reduced by the allowance for loan losses reflected on GDB's financials as of the Closing Date.

The property transferred to the DRA consisted of the following (in thousands):

	Transferred Property			
	Cash Transferred to the DRA for Operations prior to the Closing Date	**Transferred Property to the DRA on the Closing Date (per Transfer Agreement)**	**Total Property Transferred to the DRA**	**GDB Carrying Amounts of Property Transferred to the DRA**
Assets:				
Closing Date cash	$ 3,000	$ 489,946	$ 492,946	$ 492,946
Loan Assets				
Municipal loan assets	-	1,223,547	1,223,547	1,181,926
Commonwealth loans and guaranteed loan asset	-	394,972	394,972	-
Public corporation loan assets	-	2,689,087	2,689,087	96,792
Other loan assets (private sector loan assets)	-	443	443	-
Beneficial interest in loans held by GDB	-	1,122,770	1,122,770	115,149
Accrued interest receivable	-	1,061,718	1,061,718	45,125
Real estate available for sale	-	16,274	16,274	16,274
Total	$ 3,000	$ 6,998,757	$ 7,001,757	$ 1,948,212

The table above provides detailed balances of the Transferred Property to the DRA on and before the Closing Date, including the beneficial interest in the GDB Retained Loans. Prior to the Closing Date, the GDB provided cash to the DRA for operational expenses; the total of this transaction is included in the first column of the table above. The second column includes assets transferred to the DRA on the Closing Date at the contractual amounts on loan assets and accrued interest receivable and the real estate available for sale at the lower of cost or fair value as noted in the Transfer Agreement. The aggregate of these transactions is reflected in the third column.

The aggregate unpaid principal balance of the loans transferred totaled $4.3 billion. The largest loan relationships included the Puerto Rico Highways and Transportation Authority and the Commonwealth and Commonwealth Guaranteed Loans at $1.9 billion and $395.0 million, respectively.

The last column of the table above displays the Transferred Property at the DRA's recognized value, which is equal to the carrying value as recorded by GDB. The aforementioned balances in the last column are based on the carrying value of GDB at the time of the transfer; therefore, in the case of the loans and their related accrued interest receivable, they are reflected net of their corresponding estimated allowance for loan losses as reflected on GDB financial statements as of the Closing Date.

The loans transferred to the DRA were recorded at GDB's historical carrying value with no separate carryover of any existing GDB allowance for loan losses or 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. Collections of principal or interest on such zero carrying value loans are reflected in income upon receipt on a cash basis.

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. Refer to Note 2 for accrual and non-accrual policy.

The DRA's management used, among other items, applicable authoritative literature, general background information and recent relevant information included in the Commonwealth fiscal plan to establish an allowance for loans losses. 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 not recorded, (iii) loans with unreliable source of repayment that were not performing according to contract terms, but had real estate collateral as an additional source repayment, and (iv) loans with an unreliable source of repayment that were performing as to principal and interest, but did not have any additional source of repayment. Specifically, the DRA established an allowance for losses on impaired loans on buckets (iii) and (iv) based on management's estimate of the present value of expected debt service payments discounted at the loans' effective interest rate. For loans individually measured for impairment, the present value of estimated future cash flows was compared to the respective balance of the recorded investment in the loan to determine the impairment amount and required allowance for loan losses.

The DRA's financial statements do not reflect the value of GDB Retained Loans or related accrued interest thereon but include the beneficial interest in the GDB Retained Loans (further defined in Note 2).

The transaction related to the receipt of the Transferred Property and the issuance of the Restructuring Bonds consisted of the following (in thousands):

		Amount
Cash	$	492,946
Loan assets (at carrying value, as described above):		
Municipal loan assets		1,181,926
Public corporation loan assets		96,792
Beneficial interest in loans held by GDB		115,149
Accrued interest receivable		45,125
Real estate available for sale		16,274
Restructuring Bonds issued		(2,597,755)
Difference between carrying amount of assets transferred and Restructuring Bonds at Closing Date	$	(649,543)

As referenced in the table above, the difference between the amount of the Restructuring Bonds issued and the carrying value of the Transferred Property is presented in a separate expense item in the accompanying statement of revenues, expenses, and changes in net position (deficit).

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 commenced operations upon the organization of its Board on February 1, 2018. The operating expenses incurred by the DRA since the organization of the Board through June 30, 2018 amounted to approximately $281,000, which was considered not significant for separate presentation in the accompanying statement of revenues, expenses and changes in net position (deficit). 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 inure 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).

- 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 6 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 6 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 is not expected to 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 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 reported period. Actual results could differ materially from those estimates. Significant items subject to such estimates and assumptions include the allowance for loan losses, allowance for accrued interest receivable 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 and causes of actions of certain assets that has been retained 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 is presented as a non-operating expense.

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 exceeds its total assets, in accordance with GASB, the resulting net deficit is considered unrestricted.

Taxes

The DRA is exempt from and shall not be 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 normally 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, 2019, the cash equivalent maintained by the DRA consisted of $15.2 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 have average duration maturity of 45 days. This money market mutual fund is not insured or guaranteed by the Federal Deposit Insurance Corporation.

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 consist of certain loans designated to be retained and continue 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. The GDB Retained Loans include certain loans labeled as the Additional Recovery Authority Loans, with a principal balance totaling $142.0 million as of the Closing Date. The Additional Recovery Authority Loans are scheduled to be transferred to the DRA on the date that is the earlier of the effective date of a modification, restructuring or similar transaction in respect to such loans and 18 months after the Closing Date, pursuant to the Qualifying Modification (See Note 8). The beneficial interest in the GDB Retained Loans was recorded on the DRA's financial statements as of the Closing Date.

Loans Receivable and Allowance for Loan Losses

General Policy — As the DRA's loans are part of the Restructuring Property transferred from GDB pursuant the GDB Restructuring Act, as further described in Note 1 to the accompanying basic financial statements, these loans were recorded at GDB's historical carrying value (unpaid principal balance reduced by the corresponding allowance for loans losses and write-down of loans previously recorded by GDB prior to transfer). The Commonwealth loans and 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 Income upon receipt. The remaining Municipal loans and certain Public Corporation loans were recorded at the carrying value of GDB.

Interest on 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 3 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's management uses, among other items, applicable authoritative literature, general background information and recent relevant information included in the Commonwealth fiscal plan to establish an allowance for loans losses. 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 not recorded, (iii) loans with unreliable source of repayment that were not performing according to contract terms , but had real estate collateral as an additional source repayment, and (iv) loans with an unreliable source of repayment that were performing as to principal and interest, but did not have any additional 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 buckets (iii) and (iv) 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, 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. For instance, the Oversight Board has included municipalities as covered entities under PROMESA, which may imply future restructuring in the municipalities' operations and additional curtailments to the subsidies they normally receive from the Commonwealth. Therefore, these potential changes might have an effect on the municipalities' capacity to repay its debt with the DRA, which could impact the allowance estimation process currently being used. Such adjustments to original estimates, as necessary, are made in the period in which these factors and other relevant considerations materialize and are measurable and indicate that loss levels vary from previous estimates.

Beneficial Interest in Loans Held by GDB

The DRA also received property consisting of the beneficial interest in, and the proceeds of GDB Retained Loans, including certain loans identified as Additional Recovery Authority Loans. Beneficial interest means, with respect to any asset or cause of action, the beneficial interest therein and the right to receive the net proceeds thereof (not the asset and causes of action themselves), after giving effect to the rights of GDB first. The GDB Retained Loans will continue to be serviced by GDB on the Closing Date pursuant to certain terms set forth in the Qualifying Modification. The Additional Recovery Authority Loans will be transferred to the DRA at the earlier of the effective date of a modification, restructuring or similar transaction in respect of such Additional Recovery Authority Loans and 18 months after the Closing Date. Any modification to the GDB Retained Loans must be approved by the DRA and all proceeds received by the GDB on such loans, net of servicing costs is to be transferred promptly to the DRA.

The beneficial interest in the GDB Retained Loans is reflected as an asset transferred to the DRA on the Closing Date. The beneficial interest is recorded at the carrying value of the underlying loans as recorded by GDB, totaling $115 million as of the Closing Date.

Real Estate Available for Sale

Real estate available for sale are carried at the lower of cost or estimated fair value in the aggregate. 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 are 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, expenditures, and changes in net position (deficit).

As a general procedure, the DRA utilizes the appraisal review and adjustment procedures as those describe 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 GASB has issued the following accounting pronouncements that have effective date after June 30, 2019 and may have applicability to the DRA:

- GASB Statement No. 84 (GASB No. 84), *Fiduciary Activities.* The objective of GASB No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. GASB No. 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of GASB No. 84 are effective for reporting periods beginning after December 15, 2019 (as amended by GASB No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*). Earlier application is encouraged.

The DRA is evaluating the impact that this statement will have, if any, on the DRA's financial statements.

3. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

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

Loans receivable balance as of June 30, 2019 are presented below. In addition, the unpaid principal balance as of the same date is indicated in italics (in thousands):

	Carrying Value	*Unpaid Principal Balance*
Loan Assets:		
Municipal loan assets	$ 1,180,956	*$ 1,222,357*
Commonwealth loan assets and and guaranteed loan asset	-	*394,972*
Public corporation loan assets	96,792	*2,691,916*
Other loan assets (private sector loan assets)	-	*454*
Allowance for loan losses	(60,777)	-
Total loans receivable, net	$ 1,216,971	*$ 4,309,699*

During the year ended June 30, 2019, a provision for loan losses of $60.8 million was recognized on the loans 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, were not subject to reasonable measurement.

Of the aforementioned balances, the following table presents the amounts of principal and interest collected during the year, with the carrying values (net of related allowance for loan losses) subject to collection remaining at June 30, 2019 (in thousands):

	Principal Collected	Interest Collected	Carrying Value
Loan Assets:			
Municipal loan assets	$ 971	$ 46,845	$ 1,180,956
Commonwealth loan assets and and guaranteed loan asset	-	-	-
Public corporation loan assets	-	-	36,015
Other loan assets (private sector loan assets)	-	-	-
Total	$ 971	$ 46,845	$ 1,216,971

During the year ended June 30, 2019, the DRA also collected interest proceeds from the GDB Retained Loans of approximately $2.8 million, which are presented as other income in the accompanying statement of revenues, expenses and changes in net position (deficit).

Municipal Loans

The carrying amount of loans to municipalities as of June 30, 2019 amounted to approximately $1.2 billion. For the year ended June 30, 2019, municipal loan collections amounted to approximately $47.8 million. The following is a summary of municipal loans considered to be impaired as of June 30, 2019, and the related interest income for the year then ended (in thousands):

		Amount
Recorded investment in impaired loans:		
Not requiring an allowance for loan losses	$	18,222
Requiring an allowance for loan losses		-
Total recorded investment in impaired loans	$	18,222
Related allowance for loan losses	$	-
Average recorded investment in impaired loans	$	10,630
Interest income recognized on impaired loans	$	-

During the year ended June 30, 2019, there was no 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, were not subject to reasonable measurement.

As of June 30, 2019, municipal loans totaling $18.2 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 $1.0 million in fiscal year 2019.

Public Corporation Loans

The carrying amount of loans to Public Corporations as of June 30, 2019, amounted to approximately $96.8 million. For the year ended June 30, 2019, there were no collections for these loans.

The following is a summary of public corporation loans considered to be impaired as of June 30, 2019 (excluding those that were transferred with no carrying value from GDB), and the related interest income for the year then ended (in thousands):

		Amount
Recorded investment in impaired loans:		
Not requiring an allowance for loan losses	$	36,015
Requiring an allowance for loan losses		60,777
Total recorded investment in impaired loans	$	96,792
Related allowance for loan losses	$	60,777
Average recorded investment in impaired loans	$	56,462
Interest income recognized on impaired loans	$	-

During the year ended June 30, 2019, there was a $60.8 million provision for loan losses recognized on the Public Corporation loans portfolio based on the evaluation of the estimated value of underlying collateral.

As of June 30, 2019, public corporation loans totaling $96.8 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 $7.9 million in fiscal year 2019.

4. ACCRUED INTEREST ON LOANS

Interest receivable balances on loans as of June 30, 2019 are presented below (in thousands):

		Amount
Accrued Interest on Loan Assets:		
Municipal loan assets	$	39,753
Commonwealth loan assets and and guaranteed loan asset		-
Public corporation loan assets		-
Other loan assets (private sector loan assets)		-
Allowance for losses on interest accrued		(3,950)
Total interest receivable on loans, net	$	35,803

The accrued interest receivable transferred to the DRA, from the GDB, on nonaccrual loans is adjusted through the allowance for losses on interest accrued. The accrued interest was transferred to the DRA and subsequent losses or write-downs are recorded as an expense as they are incurred.

5. REAL ESTATE AVAILABLE FOR SALE

Real estate available for sale at June 30, 2019, at the lower of carrying or fair value, consisted of the following (in thousands):

		Amount
Carrying value transferred from GDB on the Closing Date	$	16,274
Additions		-
Subtractions:		
Sales		(3,523)
Change in recorded market value		(4,622)
Real estate available for sale at June 30, 2019	- $	8,129

6. BONDS PAYABLE

The activity of the Restructuring Bonds payable for the year ended June 30, 2019 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	$ -	$ 2,597,755	$ (494,606)	$ 2,103,149

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, 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 solely upon receipt of instructions from GDB or AAFAF, 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, 2019, on the Restructuring Property and the amount of cash distributed to the bondholders as a whole on the Restructuring Bonds.

		Bonds			
	Available Cash	Interest Paid in Cash	Principal Paid in Cash	PIK Accrued per Period	Total Ending Principal
			(in millions)		
Payment Date					
December 2018	$ 488	$ 2	$ 486	$ -	$ 2,112
February 2019	44	35	9	-	2,103
Total	$ 532	$ 37	$ 495	$ -	

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 o 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 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, 2019, there were no events of default incurred by the DRA.

7. 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, 2019, there has been neither insurance settlements nor related claims against the DRA.

8. 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 or the rights or lines 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, 2019, 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:

- **Pending Litigation Challenging the Constitutionality of PROMESA and/or Actions of the Oversight Board** – At June 30, 2019, there are several pending complaints challenging the constitutionality of PROMESA and/or actions of the Oversight Board. Although most of the cases were dismissed by the Title III court, those cases were appealed to the First Circuit Court of Appeals. Such cases were originally filed by Aurelius Investment, LLC and related companies (collectively "Aurelius"), the "Union de Trabajadores de la Industria Electrica y Riego" ("UTIER"), a labor union of the Puerto Rico Power Authority ("PREPA"), Assured Guaranty Corp. and related entities (collectively "Assured"). The First Circuit Court of Appeals consolidated these claims into a single proceeding and eventually determined on February 15, 2019 that the appointment of the Oversight Board was made in violation of the Appointments Clause of the Constitution of the United States. However, the First Circuit refused to strike down the entirety of PROMESA because the statute itself used a severability clause to remove any constitutionally infirm provisions. The First Circuit Court approved all prior actions of the Oversight Board under the *de facto* officer doctrine. It also set an initial deadline for the "re-appointment" of the previous members or the appointment of new members of the Oversight Board in accordance with the Appointments Clause of the Constitution of the United States. The deadline, which was originally set for May 2019, was ultimately extended to July 15, 2019. The Oversight Board filed a petition for a writ of certiorari with the U.S. Supreme Court on April 23, 2019, which was granted on June 20, 2019. On July 2, 2019, the First Circuit stayed its mandate pending final disposition of this case in the U.S. Supreme Court. Aurelius and UTIER also filed certiorari writs challenging the application of the *de facto* officer doctrine which was also granted. The case was argued before the U.S. Supreme Court on October 15, 2019. On June 1, 2020, the U.S. Supreme Court entered a unanimous opinion holding that the appointments to the Oversight Board were lawful. The U.S. Supreme Court found that the Oversight Board's members exercise "primarily local powers" and therefore do not require confirmation by the Senate under the U.S. Constitution.

- **Cooperativa de Ahorro y Credito Abraham Rosa Against GDB and the DRA -** This complaint was filed on March 22, 2018, in the U.S. District Court, by several state-chartered credit unions against GDB, the Public Corporation for the Supervision and Insurance of Cooperatives ("COSSEC"), the DRA, AAFAF, the Oversight Board, the Commonwealth, the public corporations that are in Title III proceedings, and other defendants. The plaintiffs allege that the defendants maliciously and under false pretenses offered and sold to the plaintiffs' unsound bonds issued by the Commonwealth and its instrumentalities, including GDB. They allege that this resulted in an undue concentration of bonds in the cooperatives' portfolios and created a systemic risk for the plaintiffs. Additionally, they allege that GDB, as fiscal agent to the Commonwealth, exerted significant undue influence on COSSEC, the public corporation in charge of regulating the Commonwealth's credit unions, which resulted in the bonds being offered and sold to the plaintiffs in violation of statutory, fiduciary and regulatory duties, causing them material losses. The plaintiffs request a determination that the plaintiffs' claims against all debtors in Title III proceedings are exempted from discharge in such proceedings, the imposition of monetary damages and compensation for losses suffered for breach of contract, violations to securities laws, negligence, breach of fiduciary duties, fraud, misrepresentations, and unjust enrichment.

  The DRA believes that the plaintiffs' claims in this case are without merit and it intends to vigorously defend itself. An adverse decision or ruling that requires the DRA to pay monetary damages, however, could reduce recoveries on the Restructuring Bonds. On December 6, 2019, the plaintiffs sought leave to file a proposed second amended complaint ("SAC"). By order entered April 14, 2020 ("April 2020 Order"), the Court granted plaintiffs request to file the SAC. Pursuant to the April 2020 Order, the defendants, including the DRA, were permitted to rely on their previously filed motions to dismiss and to file supplements thereto to address any additional issues raised by the SAC. Supplemental motions to dismiss were filed by the defendants, including the DRA, on May 21, 2020. The plaintiffs filed objections to the motions to dismiss on August 10, 2020. The defendants (including the DRA) filed replies in October 2020 and the matter is now *sub judice* with the Court.

- 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.

- On June 25, 2019, the DRA filed a motion for relief from the automatic stay or, in the alternative, ordering adequate protection against the Commonwealth and HTA. Additional actions and briefs have been filed relating to issues or topics regarding this motion, and their outcome, when arrived at, could be material to the HTA's results of operations and the DRA's subsequent collections on the loans.

- In addition, the Unsecured Creditors Committee has filed an objection to certain of the DRA's Commonwealth claims, the outcome of which could be material. It is anticipated that additional actions on these and other claims and negotiations will continue. The potential impact to the DRA's financial statements is not subject to estimation at this time.

9. SUBSEQUENT EVENTS

Subsequent events were evaluated through April 16, 2021 to determine if such events should either be recognized or disclosed in the 2019 basic financial statements.

On March 11, 2020, the World Health Organization declared the Coronavirus disease ("COVID-19") as a global pandemic. As a result of the health threat and to contain the virus spread across the island, Governor Váquez-Garced issued executive order EO 2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. The executive order authorizes the Commonwealth's Secretary of the Treasury and the Executive Director of the Puerto Rico Oversight Management Board to set up a special budget, from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and sharing information with the municipalities. Subsequent executive orders, including the reopening of certain economic areas, curfew directives and other protective measures have been issued in response to the COVID-19 spread. Also, economic stabilization measures have been implemented by both the Government of Puerto Rico and the U.S. Government to provide support and stimulus to frontline workers, educators and students, hospitals, municipalities and small businesses, including individuals and businesses in Puerto Rico, in response to the economic distress caused by the COVID-19 pandemic.

As the Government observes and assesses the results of the reopening, it will continue to re-evaluate and further amend business restrictions as necessary to promote economic recovery while preserving the health, welfare, and safety of the people of Puerto Rico. Management has not identified yet the extent of the impact, if any, that the Coronavirus pandemic may have had on the DRA's loan repayment capacity and to what extent any of the property liens securing some of the municipalities' loans and/or other municipalities' revenues sources have been adversely depleted.

In May 2020, the Additional Recovery Authority Loans referred to in Note 2 were transferred to the DRA. Such loans transferred had a reported principal outstanding balance at transfer date of $134.1 million. Certain additional documentation on the Additional Recovery Authority Loans is necessary for the DRA to be able to conclude on the recordable value of the assets.

In the course of business, the DRA will from time to time enter into short-term forbearance agreements or modification agreements related to the collection of loans receivable. On July 15, 2020, the DRA refinanced a loan receivable from the Municipality of San Juan having an unpaid principal balance of $43.8 million in exchange for a $19.7 million principal reduction and a new prime indexed General Obligation refinancing note, Series 2020 (D) in the amount of $24,085,728.

In November 2020, the DRA entered into a settlement agreement with the Puerto Rico Aqueduct and Sewer Authority ("PRASA") to resolve in full all obligations under that certain Amended and Restated Loan Agreement dated June 27, 2014 between the GDB and PRASA, which loan, with an outstanding principal amount of $57.7 million plus accrued interest was transferred to the DRA as part of the GDB Restructuring Act. The Settlement provided for a full and final resolution of the loan for a one-time cash payment from PRASA in the amount of $20.5 million plus mutual releases between the parties. The carrying value of the loan on the DRA's financial statements was zero.

In March 2021, the DRA executed a sale of a loan made by GDB to the Commonwealth that benefits from a pledge of the Commonwealth's good faith, credit and taxing power; (the "Commonwealth Loan Asset"). The Commonwealth Loan Asset was sold with a trade date of March 10, 2021 for settlement on March 15, 2021 in the aggregate amount of $54.0 million. The loan was transferred to the DRA on the Closing Date at a carrying value of $0, and thus the entire amount of the sales proceeds will be recorded as a gain on sale of loans in March 2021.