GDB DEBT RECOVERY AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

BASIC FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2020

(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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San Juan, PR 00918-1819

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, 2020, 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, 2020, 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
September 2, 2021

Stamp No. E453614 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, 2020. This management's discussion and analysis (MD&A) is 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 statutory public trust and governmental instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth") created pursuant to the GDB Restructuring Act, Act No. 109 of August 24, 2017, as amended by Act No. 147 of July 18, 2018 (the "GDB Restructuring Act") enacted by the Legislative Assembly of the Commonwealth for the purpose of facilitating the restructuring of certain of Governmental Development Bank for Puerto Rico's (the "GDB") indebtedness and release of certain claims against GDB (also known as Participating Bond Claims) pursuant to a voluntary out-of-court debt restructuring process under Title VI of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") (this voluntary process is also known as a Qualifying Modification). On the closing date of the Qualifying Modification (November 29, 2018 or "Closing Date"), the DRA issued approximately $2.6 billion of 7.500% GDB Debt Recovery Authority Bonds due August 20, 2040 (the "Restructuring Bonds"), where the holders of the Participating Bond Claims at GDB (as defined in the Qualifying Modification and related transaction documents) exchanged their claims for the Restructuring Bonds issued (at an exchange rate of 55% of such Participating Bond Claims).

1. FINANCIAL HIGHLIGHTS

- Total assets and total liabilities of the DRA at June 30, 2020, amounted to approximately $1,301.1 million and $2,173.5 million, respectively, for a net deficit of approximately $872.4 million.

- During the year ended June 30, 2020, approximately $71.8 million and $75.3 million of loans principal and interest, respectively, were collected; mostly from municipalities.

- The DRA has a Restructuring Bonds Payable outstanding balance as of June 30, 2020 of $2,113.1 million. There were debt service payments during fiscal year 2020 in the amount of approximately $26.4 million. Also, approximately $36.4 million of a shortfall for the cash payment of interest during the year (also known as payment in kind or "PIK") was accrued and included with the bonds principal balance.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A provides a narrative overview and analysis of the financial activities of the DRA as of and for the year ended June 30, 2020. 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.

3. FINANCIAL ANALYSIS

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

	June 30,		Change	
	2020	2019	Amount	Percent
Assets:				
Restricted current assets:				
Cash and cash equivalents	$ 5,649	$ 15,193	$ (9,544)	-63%
Loans receivable - net	1,255,645	1,216,971	38,674	3%
Beneficial interest in loans held by GDB	-	110,581	(110,581)	-100%
Accrued interest receivable - net	31,606	35,830	(4,224)	-12%
Real estate available for sale	8,129	8,129	-	0%
Other assets	39	10	29	290%
Total assets	1,301,068	1,386,714	(85,646)	-6%
Liabilities:				
Current liabilities payable from restricted assets:				
Accounts payable and accrued liabilities	60,422	61,170	(748)	-1%
Bonds payable:				
Due in one year	27,668	26,438	1,230	5%
Due in more than one year	2,085,432	2,076,711	8,721	0%
Total liabilities payable from restricted assets	2,173,522	2,164,319	9,203	0%
Net position (deficit) - Unrestricted	$ (872,454)	$ (777,605)	$ (94,849)	12%

On June 30, 2020, cash amounted to approximately $5.6 million, a decrease of 63% or approximately $9.5 million when compared to June 30, 2019. This decrease is attributed to a combination of the cash outflows made for the payment of principal and interest on the Restructuring Bonds payable of approximately $26.4 million and $122.5 million, respectively, plus cash payments for operating expenses of approximately $15.6 million; offset by collections on Restructuring Property in the amount of approximately $154.5 million ($71.8 million in loan principal collection, $75.3 million in loan interests collection and $7.4 million in other income collection).

The increase in loans receivable of approximately $38.7 million and the decrease in the beneficial interest in loans held by GDB of approximately $110.6 million should be analyzed on a combined basis, reflecting a net decrease in the aggregate of approximately $80.9 million. This represents the total principal collected on the DRA's total loan assets during fiscal year 2020 and the allowance for loan losses of $0.3 million. The $110.6 million of the beneficial interest in loans held by GDB recognized as of June 30, 2019, were recorded as loans during fiscal year 2020 upon the transfer of such loans by GDB to the DRA during May 2020.

The most significant increase in the liabilities of the DRA during fiscal year 2020 consisted of the increase of approximately $10.0 million in bonds payable. This net increase is due to $36.4 million of PIK capitalized and included with the bonds principal balance; offset by principal payments made on the bonds during the year of approximately $26.4 million.

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

	Fiscal Year		Change	
	2020	2019	Amount	Percent
Operating revenues:				
Interest income	$ 71,756	$ 41,698	$ 30,058	72%
Other non-interest income	7,437	4,071	3,366	83%
Total operating revenue	79,193	45,769	33,424	73%
Operating expenses:				
Loss in transfer of assets	-	649,543	(649,543)	-100%
Provision for loan losses	260	60,777	(60,517)	-100%
Provision for losses on interest receivable	40	3,950	(3,910)	-99%
Loss on real estate available for sale	-	4,622	(4,622)	-100%
Direct operating expenses	14,119	10,593	3,526	33%
Total operating expenses	14,419	729,485	(715,066)	-98%
Operating income (loss)	64,774	(683,716)	748,490	-109%
Interest expense	159,623	93,889	65,734	70%
Change in unrestricted net position (deficit)	$ (94,849)	$ (777,605)	$ 682,756	-88%
NET POSITION (DEFICIT) - Beginning of year	(777,605)	-	(777,605)	100%
NET POSITION (DEFICIT) - End of year	$ (872,454)	$ (777,605)	$ (94,849)	12%

The net deficit of the DRA increased by approximately $94.8 million during fiscal year 2020 as a result of the total interest expense of approximately $159.6 million exceeding its total operating income of approximately $64.8 million. However, such increase in deficit of $94.8 million contrasts significantly with the approximately $777.6 million deficit generated during fiscal year 2019 (first year of operations) because the DRA recognized in 2019 the negative difference of approximately $649.5 million between the New Bonds Issued and the carrying value of the Transferred Property from GDB upon the execution of the Qualifying Modification of GDB on November 29, 2018, a transaction which did not recur in fiscal year 2020.

Total operating revenue during fiscal year 2020 increased by approximately $33.4 million or 73% as compared to fiscal year 2019, mostly attributed to the fact that the 2019 operating revenue consisted of only seven months of loan servicing since loans were transferred on November 29, 2018, while fiscal year 2020 reflected the full year of loan servicing results. The increase in direct operating expenses of $3.5 million during fiscal year 2020 as compared to the prior year, also responds principally to the different periods comprising such expenses in fiscal year 2019 (seven months) when compared to a full year of operations and servicing activities during fiscal year 2020.

The total provision for loan losses, losses on accrued interest receivable and losses on real estate available for sale, amounted in the aggregate to $69.3 million during fiscal year 2019, first year of operations of the DRA. During the fiscal year 2020, total provision for loans losses amounted to $0.3 million and approximately $0.04 million of provisions for losses in accrued interest receivable were recognized.

Total interest expense on the DRA's Restructuring Bonds amounted to approximately $159.6 million during fiscal year 2020, based on the carrying coupon interest rate of 7.500% on its outstanding balance throughout the year. This amount represents approximately a $65.7 million increase over the interest expense in fiscal year 2019, as a result of the Restructuring Bonds being outstanding during fiscal year 2019 for only seven months as compared to a full year during fiscal year 2020.

4. DRA DEBT

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

Debt repaid during fiscal year 2020 amounted to approximately $26.4 million, PIK of $36.4 million was accrued and interest of $122.5 million was also paid. Refer to Note 6 to the basic financial statements for additional information on the Bonds.

5. CURRENTLY KNOWN FACTS

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 $0.3 million PIK amount. This PIK amount was accrued on February 20, 2021, in accordance with the Offering Memorandum.

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 payment 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.

After June 30, 2020, the DRA executed the sale of three loans made by GDB to the Commonwealth (the "Commonwealth Loans and Guaranteed Loan"). The following loans were sold (in millions):

	Settlement Amount	Unpaid Principal Balance	Trade Date	Settlement Date
Loans:				
Commonwealth loan	$ 54.0	$ 63.1	March 11, 2021	March 15, 2021
Commonwealth loan	44.3	50.4	April 22, 2021	April 27, 2021
Commonwealth guaranteed loan	194.1	225.5	June 11, 2021	June 18, 2021
Total	$ 292.4	$ 339.0		

The loans were 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 the respective period.

GDB DEBT RECOVERY AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Net Position (Deficit) (in thousands)
As of June 30, 2020

ASSETS	
Restricted current assets:	
Cash and cash equivalents	$ 5,649
Loans receivable — net of allowance for loan losses	119,194
Accrued interest receivable - net	31,606
Real estate available for sale	8,129
Other current assets	39
Total restricted current assets	164,617
Restricted non-current assets:	
Loans receivable — net of allowance for loan losses	1,136,451
Total restricted non-current assets	1,136,451
TOTAL RESTRICTED ASSETS	$ 1,301,068
LIABILITIES AND NET POSITION (DEFICIT)	
Current liabilities payable from restricted assets:	
Accrued interest payable	$ 57,670
Accounts payable and other liabilities	2,752
Bonds payable	27,668
Total current liabilities payable from restricted assets	88,090
Non-current liabilities payable from restricted assets:	
Bonds payable	2,085,432
Total non-current liabilities payable from restricted assets	2,085,432
NET POSITION (DEFICIT) - UNRESTRICTED	(872,454)
TOTAL LIABILITIES AND NET POSITION (DEFICIT)	$ 1,301,068

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, 2020

OPERATING REVENUES	
Interest income:	
Interest income on cash and cash equivalents	$ 489
Interest income on loans receivable	71,267
Total interest income	71,756
Non-interest income - other income	7,437
Total operating revenues	79,193
OPERATING EXPENSES	
Non-interest expenses:	
Board and Executive Director compensation	350
Administrative expenses	1,134
Servicer fees and expenses	7,198
Indenture trustee fees and expenses	344
Collateral monitor fees and expenses	5,093
Provision for loan losses	260
Provision for losses on interest receivable	40
Total operating expenses	14,419
OPERATING INCOME	64,774
INTEREST EXPENSE	159,623
CHANGE IN NET POSITION (DEFICIT)	(94,849)
NET POSITION (DEFICIT) - UNRESTRICTED - Beginning of year	(777,605)
NET POSITION (DEFICIT) - UNRESTRICTED - End of year	$ (872,454)

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, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from other operating noninterest revenues	$	7,408
Cash received from collections of interest income on loan receivables		69,858
Cash received from collections of principal on loan receivables		65,099
Cash received from collections of beneficial interest proceeds		12,181
Cash paid for general and administrative expenses		(15,617)
Net cash provided by operating activities		138,929
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Payments of bonds payable		(26,439)
Interest paid on bonds payable		(122,523)
Net cash used in non-capital financing activities		(148,962)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on cash balances		489
Net cash provided by investing activities		489
NET DECREASE IN CASH AND CASH EQUIVALENTS		(9,544)
CASH AND CASH EQUIVALENTS - Beginning of year		15,193
CASH AND CASH EQUIVALENTS - End of year	$	5,649
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		5,649
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	$	5,649

See accompanying notes to basic financial statements.

(Continued)

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, 2020

RECONCILIATION OF OPERATING INCOME TO NET CASH CHANGE IN PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$	64,774
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest income on cash and cash equivalents		(489)
Provision for loan losses		260
Provision for losses on interest receivable		40
Changes in other assets and liabilities:		
Increase in loans receivable		(38,934)
Decrease in beneficial interest asset		110,581
Decrease in accrued interest receivable		4,184
Increase in other assets		(29)
Increase in accrued expenses and other liabilities		(1,458)
Net cash provided by operating activities	$	138,929
Noncash investing and noncapital financing activities:		
Capitalized interest expense on bonds payable	$	36,390

See accompanying notes to basic financial statements.

1. ORGANIZATION AND REPORTING ENTITY

The GDB Debt Recovery Authority (the "DRA" or the "Authority") is a statutory public trust and governmental instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth") created pursuant to the GDB Restructuring Act, Act No. 109 of August 24, 2017, as amended by Act No. 147 of July 18, 2018 (the "GDB Restructuring Act") enacted by the Legislative Assembly of the Commonwealth for the purpose of facilitating the restructuring of certain Government Development Bank for Puerto Rico's (the "GDB") indebtedness and release of certain claims against GDB (also known as Participating Bond Claims) pursuant to a voluntary out-of-court debt restructuring process under Title VI of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"). This voluntary process 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 included GDB's legal and equitable right, title and interest in and to, and claims and causes of action to enforce the collection of a series of assets, beneficial interests and potential future proceeds, that are further described in Note 2 to the accompanying basic financial statements. Pursuant to certain provisions of Governmental Accounting Standards Board (GASB) Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* and GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which establish accounting and financial reporting standards that apply to intra-entity transfers of assets and future revenues, the DRA, as a transferee government, recognized the assets transferred by GDB at the historical carrying value of GDB, the transferor government, as both are entities within the same reporting entity of the Commonwealth. The historical carrying value of GDB for loans and accrued interest receivables represented the unpaid principal balance reduced by the allowance for loan losses and allowance for losses on interest accrued. The historical carrying value of real estate available for sale represented the lower of cost or fair value. In the case of the beneficial interests in the loans that had been retained by GDB at Closing Date (the GDB Retained Loans), these were presented at the unpaid principal balance of the GDB Retained Loans, reduced by the allowance for loan losses reflected on GDB's financial records as of the Closing Date.

The DRA is independent and separate from the Commonwealth, GDB and other governmental instrumentalities of the Commonwealth and is independently operated and governed by a Board of Trustees (the "Board"), which consists of three members who are appointed by, and serve at the pleasure of, the Governor. The DRA will not be operated for the purpose of making a profit, and no part of the revenues or assets of the DRA will 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 does not have employees other than its Executive Director, who is a member of the Board of the DRA, and is required, pursuant to the aforementioned Bond Indenture, to delegate management of the Restructuring Property including day-to-day operations thereof to a servicer. Such servicer (the "Servicer") has been appointed to manage the Restructuring Property pursuant to a Servicer Agreement. Also, in accordance with the terms of the Qualifying Modification, in connection with the issuance of the Restructuring Bonds and in consideration for the cancellation of the Participating Bond Claims and the release of certain claims against GDB, the Indenture Trustee has entered into a Collateral Monitor Agreement with a designated Collateral Monitor, who is responsible for monitoring the activities of the Servicer, the condition and performance of the Restructuring Property and certain reporting to the Bondholders.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the DRA conform to Accounting Principles Generally Accepted in the United States of America ("GAAP") for governments as prescribed by the GASB, specifically, under the 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, until the transfer of such assets to the DRA. 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, 2020, the cash equivalent maintained by the DRA consisted of $5.6 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 consisted of certain loans designated to be retained and continued to be serviced by GDB on the Closing Date pursuant to the Qualifying Modification, but which beneficial interests and cash proceeds therefrom, as indicated above would be transferred from time to time by GDB to the DRA upon collection. The GDB Retained Loans included 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 were transferred to the DRA in May 2020, pursuant to the Qualifying Modification and are reflected on the DRA's financial statements as loans receivable as of June 30, 2020.

Loans Receivable and Allowance for Loan Losses

General Policy — The loans transferred to the DRA, which are part of the Restructuring Property transferred from GDB as described in Note 1 to the accompanying financial statements, were recorded at GDB's historical carrying value (unpaid principal balance reduced by the corresponding allowance for loan losses and write-down of loans previously recorded by GDB prior to transfer). As such, if the carrying value of the loans and related accrued interest receivable was zero on the GDB financial statements, the carrying value was reflected as a zero balance on the DRA's financial statements. For instance, the Commonwealth loans and Commonwealth guaranteed loans, and Other loans were recorded upon transfer to the DRA at a zero value. Certain Public Corporation loans and Municipal loans were also transferred at a recorded value of zero. Subsequent collections of principal or interest on these loans under the DRA are recognized as Other Income upon receipt. The remaining Municipal loans and certain Public Corporation loans were recorded at the carrying value of GDB.

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

Interest 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 loan 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 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 of repayment, and (iv) loans with an unreliable source of repayment that were performing as to principal and interest, but did not have real estate as a source of repayment. A loan is considered impaired when, based on current information and events, it is probable that the DRA will not be able to collect all amounts due, both principal and interest, according to the contractual terms of the loan agreement transferred. Specifically, the DRA established an allowance for losses on impaired loans on buckets (iii) based on management's estimate of the present value of expected debt service payments discounted at the loans' effective interest rate. For loans identified as those to be individually measured for impairment, resulting present value of estimated future cash flows was compared with the respective balance of the recorded investment in the loan to determine the impairment amount or required allowance for loan losses.

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

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 described above in the previous section for the loans transferred.

During fiscal year 2020, there were no activities or changes in the fair value of the real estate available for sale requiring any adjustment to its carrying value.

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, 2020 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 has evaluated this statement and determined it will not have a material impact on its financial statements.

3. LOANS RECEIVABLE

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

Loans receivable balance as of June 30, 2020 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*
Loans:		
Municipal loans	$ 1,118,526	*$ 1,157,698*
Commonwealth loans and guaranteed loan	-	*394,972*
Public corporation loans	198,156	*2,818,181*
Other loans (private sector loans)	-	*422*
Allowance for loan losses	(61,037)	-
Loans receivable, net	$ 1,255,645	*$ 4,371,273*

During the year ended June 30, 2020, $0.3 million in provision for loan losses was recognized 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.

Of the aforementioned balances, the following table presents the amounts of principal, interest and other income collected during the year (in thousands):

	Principal Collected	Interest Collected	Other Income Collected
Loans:			
Municipal loans	$ 62,734	$ 67,687	$ 7,379
Commonwealth loans and guaranteed loan	-	-	-
Public corporation loans	9,040	7,616	-
Other loans (private sector loans)	-	-	31
Total	$ 71,774	$ 75,303	$ 7,410

Municipal Loans

The carrying value of loans to municipalities as of June 30, 2020 amounted to approximately $1.1 billion. For the year ended June 30, 2020, municipal loan collections, excluding payments on zero value loans, amounted to approximately $130.4 million. The following is a summary of municipal loans considered to be impaired as of June 30, 2020 (excluding those that were transferred with no carrying value from GDB), and the related interest income for the year then ended (in thousands):

		2020
Recorded investment in impaired loans:		
Not requiring an allowance for loan losses	$	2,989
Requiring an allowance for loan losses		8,871
Total recorded investment in impaired loans	$	11,860
Related allowance for loan losses	$	260
Average recorded investment in impaired loans	$	12,049
Interest income recognized on impaired loans	$	149

During the year ended June 30, 2020, there was a $0.3 million provision for loan losses recognized on the Municipal loans portfolio based on the evaluation of the risk characteristics of the loans, including such factors as the nature of individual credits outstanding, known and inherent risks in the portfolios, sources of repayment, adverse situations that may affect the borrower's ability to repay, the estimated value of underlying collateral, and general economic conditions, recognizing that potential changes in economic conditions or specifically, financial conditions of municipalities.

As of June 30, 2020, municipal loans totaling $11.9 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 2020.

Public Corporation Loans

The carrying amount of loans to Public Corporations as of June 30, 2020, amounted to approximately $198.2 million. For the year ended June 30, 2020, public corporation loan collections amounted to approximately $16.7 million.

The following is a summary of public corporation loans considered to be impaired as of June 30, 2020 (excluding those that were transferred with no carrying value from GDB), and the related interest income for the year then ended (in thousands):

		2020
Recorded investment in impaired loans:		
Not requiring an allowance for loan losses	$	125,793
Requiring an allowance for loan losses		60,777
Total recorded investment in impaired loans	$	186,570
Related allowance for loan losses	$	60,777
Average recorded investment in impaired loans	$	127,628
Interest income recognized on impaired loans	$	4,694

During the year ended June 30, 2020, there was no 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, 2020, public corporation loans totaling $94.4 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 $14.3 million in fiscal year 2020.

4. ALLOWANCES FOR LOAN LOSSES

The following is an overall summary of the activity in the allowance for loan losses for the year ended June 30, 2020 (in thousands):

	Municipal Loans	Public Corporation Loans	Total
Balance, beginning of year	$ -	$ 60,777	$ 60,777
Provision for loan loss	260	-	260
Charge-offs	-	-	-
Recoveries	-	-	-
Balance, end of year	$ 260	$ 60,777	$ 61,037

5. ACCRUED INTEREST ON LOANS

Interest receivable balances on loans as of June 30, 2020 are presented below (in thousands):

Accrued Interest on Loans:	
Municipal loans	$ 32,208
Commonwealth loans and guaranteed loan	-
Public corporation loans	3,388
Other loans (private sector loans)	-
Allowance for losses	(3,990)
Interest receivable, net	$ 31,606

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.

6. BONDS PAYABLE

The activity of the Restructuring Bonds payable for the year ended June 30, 2020 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 as of June 30, 2020	$ 2,103,149	$ 36,390	$ (26,439)	$ 2,113,100

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, 2020, on the Restructuring Property and the amount of cash distributed to the bondholders as a whole on the Restructuring Bonds.

	Bonds (in millions)			
	Interest Paid in Cash	Principal Paid in Cash	PIK Accrued per Period	Total Ending Principal
Payment Date				
August 2019	$ 80	$ 26	$ -	2,077
February 2020	43	-	36	2,113
Total	$ 123	$ 26	$ 36	

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, 2020, 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, 2020, there has been neither insurance settlements nor related claims against the DRA board members.

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.

Coronavirus Pandemic

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, then Governor Váquez-Garced issued executive order EO 2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, 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 Oversight 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.

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, 2020, 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 on 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.

  Beginning in June 2019 the DRA has filed various legal motions related to its Commonwealth, Commonwealth-Guaranteed, Public Buildings Authority, and Highway Transportation Authority credits and their treatment under the Commonwealth Plan Support Agreement. On July 29, 2021, the PROMESA oversight board's disclosure statement to the sixth amended plan of adjustment for the Commonwealth was approved by the court. Plan confirmation hearings are currently planned for November 2021.

  In addition, the DRA has filed other legal motions regarding certain municipal 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 September 2, 2021 to determine if such events should either be recognized or disclosed in the 2020 basic financial statements.

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 $0.3 million PIK amount. This PIK amount was accrued on February 20, 2021 in accordance with the Offering Memorandum.

In the course of normal 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 payment 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.

After June 30, 2020, the DRA executed the sale of three loans made by GDB to the Commonwealth (the "Commonwealth Loans and Guaranteed Loan"). The following loans were sold (in millions):

	Settlement Amount	Unpaid Principal Balance	Trade Date	Settlement Date
Loans:				
Commonwealth loan	$ 54.0	$ 63.1	March 11, 2021	March 15, 2021
Commonwealth loan	44.3	50.4	April 22, 2021	April 27, 2021
Commonwealth guaranteed loan	194.1	225.5	June 11, 2021	June 18, 2021
Total	$ 292.4	$ 339.0		

The loans were 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 the respective period.