

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

*BASIC FINANCIAL STATEMENTS*  
*AND*  
*REQUIRED SUPPLEMENTARY INFORMATION*

June 30, 2021

(With Independent Auditors' Report Thereon)

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

**TABLE OF CONTENTS**

	<b>Pages</b>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis (Unaudited)	3 - 8
Basic Financial Statements	
Statement of Net Position (Deficit)	9
Statement of Revenues, Expenses, and Changes in Net Position (Deficit)	10
Statement of Cash Flows	11 - 12
Notes to Basic Financial Statements	13 - 28



KPMG LLP  
American International Plaza  
Suite 1100  
250 Muñoz Rivera Avenue  
San Juan, PR 00918-1819

## Independent Auditors' Report

The Board of Trustees  
GDB Debt Recovery Authority:

We have audited the accompanying financial statements of GDB Debt Recovery Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the 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 GDB Debt Recovery Authority as of June 30, 2021, 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.



## **Other Matter**

### *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

March 8, 2022

Stamp No. E470483 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.

# **GDB DEBT RECOVERY AUTHORITY**

(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (unaudited)

As of and for the year ended June 30, 2021

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, 2021. 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, 2021, amounted to approximately \$1,499.9 million and \$2,163.0 million, respectively, for a net deficit of approximately \$663.1 million.
- During the year ended June 30, 2021, approximately \$98.5 million and \$57.3 million of loans principal and interest, respectively, were collected, mostly from municipalities.
- During the year ended June 30, 2021, approximately \$292.8 million of proceeds were received from the sale of certain loans.
- The DRA has a Restructuring Bonds Payable outstanding balance as of June 30, 2021 of \$2,085.7 million. There were debt service payments during fiscal year 2021 in the amount of approximately \$27.7 million and \$159.8 million in principal and interest, respectively. Also, approximately \$0.3 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, 2021. 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

# **GDB DEBT RECOVERY AUTHORITY**

(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (unaudited)

As of and for the year ended June 30, 2021

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

## ***Notes to the Basic Financial Statements***

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

**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (unaudited)  
As of and for the year ended June 30, 2021

**3. FINANCIAL ANALYSIS**

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

	June 30,		Change	
	2021	2020	Amount	Percent
<b>Assets:</b>				
Restricted current assets:				
Cash and cash equivalents	\$ 301,363	\$ 5,649	\$ 295,714	5,235%
Loans receivable - net	1,167,460	1,255,645	(88,185)	-7%
Accrued interest receivable - net	25,107	31,606	(6,499)	-21%
Real estate available for sale	5,909	8,129	(2,220)	-27%
Other assets	39	39	0	0%
<b>Total assets</b>	<b>1,499,878</b>	<b>1,301,068</b>	<b>198,810</b>	<b>15%</b>
<b>Liabilities:</b>				
Current liabilities payable from restricted assets:				
Accounts payable and accrued liabilities	77,265	60,422	16,843	28%
Bonds payable:				
Due in one year	292,738	27,668	265,070	958%
Due in more than one year	1,792,965	2,085,432	(292,467)	-14%
<b>Total liabilities payable from restricted assets</b>	<b>2,162,968</b>	<b>2,173,522</b>	<b>(10,554)</b>	<b>0%</b>
<b>Net position (deficit) - Unrestricted</b>	<b>\$ (663,090)</b>	<b>\$ (872,454)</b>	<b>\$ 209,364</b>	<b>-24%</b>

On June 30, 2021, cash amounted to approximately \$301.4 million, an increase of 5,235% or approximately \$295.7 million when compared to June 30, 2020. This increase is attributed to loan sales proceeds in the amount of \$292.8 million on Restructuring Property, also approximately \$181.1 million (\$98.0 million in loan principal collection, \$57.5 million in loan interests collection and \$25.6 million in other income collection); offset by a combination of the cash outflows made for the payment of principal and interest on the Restructuring Bonds payable of approximately \$27.7 million and \$159.8 million, respectively, plus cash payments for operating expenses of approximately \$19.3 million.

The most significant decrease in the liabilities of the DRA during fiscal year 2021 consisted of the decrease of approximately \$27.4 million in bonds payable. This net decrease is due to principal payments made on the bonds during the year of approximately \$27.7 million; offset by \$0.3 million of PIK capitalized and included with the bonds principal balance.

## GDB DEBT RECOVERY AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (unaudited)

As of and for the year ended June 30, 2021

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

	Fiscal Year		Change	
	2021	2020	Amount	Percent
Operating revenues:				
Interest income	\$ 50,816	\$ 71,756	\$ (20,940)	-29%
Income from sale of loans	292,792	-	292,792	100%
Other non-interest income	51,630	7,437	44,193	594%
Total operating revenue	<u>395,238</u>	<u>79,193</u>	<u>316,045</u>	<u>399%</u>
Operating expenses:				
(Release of allowance)/ Provision for loan losses	(10,338)	260	(10,598)	-4,076%
Provision for losses on interest receivable	-	40	(40)	-100%
Direct operating expenses	37,331	14,119	23,212	164%
Total operating expenses	<u>26,993</u>	<u>14,419</u>	<u>12,574</u>	<u>87%</u>
Operating income (loss)	368,245	64,774	303,471	469%
Interest expense	158,881	159,623	(742)	0%
Change in unrestricted net position (deficit)	\$ 209,364	\$ (94,849)	\$ 304,213	-321%
NET POSITION (DEFICIT) - Beginning of year	<u>(872,454)</u>	<u>(777,605)</u>	<u>(94,849)</u>	<u>12%</u>
NET POSITION (DEFICIT) - End of year	<u>\$ (663,090)</u>	<u>\$ (872,454)</u>	<u>\$ 209,364</u>	<u>-24%</u>

The net deficit of the DRA decreased by approximately \$209.4 million during fiscal year 2021 as a result of operating revenues increasing approximately \$316.0 million. The increase in operating revenues were offset by \$12.6 million in operating expenses.

Total operating revenue during fiscal year 2021 increased by approximately \$316.0 million or 399% as compared to fiscal year 2020, mostly attributed to income from the sale of loans and other non-interest income of approximately \$292.8 million and \$44.2 million, respectively. The increase in direct operating expenses of approximately \$23.2 million during fiscal year 2021 as compared to the prior year, was attributable to the increase in servicer and collateral monitor fees and expenses.

During the fiscal year 2021, total provision for loans losses decreased 4,076% or \$10.6 million compared to prior year. During the year ended June 30, 2021, a release of provision for loan losses of \$10.3 million was recognized.

Total interest expense on the DRA's Restructuring Bonds amounted to approximately \$158.9 million during fiscal year 2021, based on the carrying coupon interest rate of 7.500% on its outstanding balance throughout the year.



## **GDB DEBT RECOVERY AUTHORITY**

(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (unaudited)

As of and for the year ended June 30, 2021

### **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 2021 amounted to approximately \$27.7 million, PIK of \$0.3 million was accrued and interest of \$159.8 million was also paid. Refer to Note 7 to the basic financial statements for additional information on the Bonds.

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

On the payment date of August 20, 2021, available cash of approximately \$371.4 million was used to make interest and principal payments on the Restructuring Bonds in the amounts of \$78.6 million and \$292.7 million, respectively. On the payment date of February 20, 2022, available cash of approximately \$14.8 million was used to make interest payments in the amount of \$68.7 million. There was not sufficient available cash to pay the interest due on this payment date, resulting in a \$53.9 million PIK amount. This PIK amount was accrued on February 20, 2022, in accordance with the Offering Memorandum.

On January 18, 2022, the U.S. District Court for the Commonwealth of Puerto Rico approved the Plan of Adjustment (POA) for Puerto Rico's central government bonds and obligations, setting the restructuring terms for about \$33 billion of debts, including the Commonwealth's general obligation (GO) bonds, its Public Building Authority (PBA) bonds, the Employees' Retirement System (ERS) bonds and, through a separate qualifying modification process under the Title VI of PROMESA, the Convention Center District Authority (CCDA) bonds. This approval also affects, but does not fully resolve, the restructuring of the Highways and Transportation Authority (HTA) bonds and the Puerto Rico Infrastructure and Finance Authority (PRIFA) rum tax bonds, where the bondholders are expected to receive a recovery from the Commonwealth as a result of the Commonwealth's clawback and retention of certain HTA excise tax and toll revenues and PRIFA rum excise tax revenues.

The DRA is one of multiple creditors on various of these bonds and obligations. Through the approved POA, the DRA is allocated certain fixed recoveries in the form of cash and bonds.

Along with the fixed recoveries, the POA allows for additional payments if income in the sales and use tax exceeds levels predicted by the Oversight Board's 2020 fiscal plan. These additional payments will take the form of contingent value instruments.

Prior to the approval of the POA, the DRA had raised multiple objections and disputes to the amended plans preceding the final POA through several proceedings brought at the U.S. District Court against the defendants (the Commonwealth, PBA, ERS, HTA and the Oversight Board). On November 5, 2021, the DRA and the Oversight Board signed a stipulation agreement (the DRA Stipulation) whereas the DRA agreed to withdraw all objections and disputes previously filed and support the approval of all the subsequent efforts and plans of adjustments proposed for HTA and CCDA in exchange, among other provisions, of the following:

- Upon approval of an HTA POA or as soon as practicable thereafter, but in no event later than ten business days following such date, the DRA would receive an administration expense claim fee of \$15 million,

## **GDB DEBT RECOVERY AUTHORITY**

(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (unaudited)

As of and for the year ended June 30, 2021

- DRA would be entitled to receive its share of the HTA Clawback Recovery, as delineated on the recently approved POA for the Commonwealth
  - The Oversight Board would, or would cause the applicable entity to, engage in good faith negotiations with the DRA and various debtors of the DRA including certain GDB Retained Loans.

The Oversight Board is aiming to consummate the approved POA by no later than the March 15, 2022 and is working with corresponding parties to file a final HTA plan of adjustment within the first quarter of 2022.

**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Statement of Net Position (Deficit) (in thousands)  
As of June 30, 2021

**ASSETS**

Restricted current assets:

Cash and cash equivalents	\$ 301,363
Loans receivable — net of allowance for loan losses	99,585
Accrued interest receivable - net	25,107
Real estate available for sale	5,909
Other current assets	39
Total restricted current assets	432,003

Restricted non-current assets:

Loans receivable — net of allowance for loan losses	1,067,875
Total restricted non-current assets	1,067,875

TOTAL RESTRICTED ASSETS	\$ 1,499,878
-------------------------	--------------

**LIABILITIES AND NET POSITION (DEFICIT)**

Current liabilities payable from restricted assets:

Accrued interest payable	\$ 56,488
Accounts payable and other liabilities	20,777
Bonds payable	292,738
Total current liabilities payable from restricted assets	370,003

Non-current liabilities payable from restricted assets:

Bonds payable	1,792,965
Total non-current liabilities payable from restricted assets	1,792,965

NET POSITION (DEFICIT) - UNRESTRICTED	(663,090)
---------------------------------------	-----------

TOTAL LIABILITIES AND NET POSITION (DEFICIT)	\$ 1,499,878
--	--------------

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, 2021

**OPERATING REVENUES**

Interest income:	
Interest income on cash and cash equivalents	\$ 17
Interest income on loans receivable	50,799
Total interest income	<u>50,816</u>
Income from sale of loans	292,792
Non-interest income - other income	51,630
Total operating revenues	<u>395,238</u>

**OPERATING EXPENSES**

Non-interest expenses:	
Board and Executive Director compensation	300
Administrative expenses	1,048
Servicer fees and expenses	18,978
Indenture trustee fees and expenses	247
Collateral monitor fees and expenses	16,758
Release of allowance for loan losses	(10,338)
Total operating expenses	<u>26,993</u>
 OPERATING INCOME	 <u>368,245</u>
 INTEREST EXPENSE	 <u>158,881</u>
 CHANGE IN NET POSITION (DEFICIT)	 209,364
 NET POSITION (DEFICIT) - UNRESTRICTED - Beginning of year	 <u>(872,454)</u>
 NET POSITION (DEFICIT) - UNRESTRICTED - End of year	 <u>\$ (663,090)</u>

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, 2021

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from other operating noninterest revenues	\$	343,992
Cash received from collections of interest income on loan receivables		57,301
Cash received from collections of principal on loan receivables		98,523
Cash received from sales of other real estate available for sale		2,650
Cash paid for general and administrative expenses		(19,306)
Net cash provided by operating activities		483,160

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

Payments of bonds payable		(27,667)
Interest paid on bonds payable		(159,793)
Net cash used in non-capital financing activities		(187,460)

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest received on cash balances		14
Net cash provided by investing activities		14

**NET INCREASE IN CASH AND CASH EQUIVALENTS** 295,714

CASH AND CASH EQUIVALENTS - Beginning of year		5,649
CASH AND CASH EQUIVALENTS - End of year	\$	301,363

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, 2021

**RECONCILIATION OF OPERATING INCOME TO NET CASH**

**PROVIDED BY OPERATING ACTIVITIES:**

Operating income	\$	368,245
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest income on cash and cash equivalents		(14)
Release of allowance for loan losses		(10,338)
Changes in other assets and liabilities:		
Decrease in loans receivable		98,523
Decrease in real estate available for sale		2,220
Decrease in accrued interest receivable		6,499
Increase in accrued expenses and other liabilities		18,025
<u>Net cash provided by operating activities</u>	<u>\$</u>	<u>483,160</u>

**Noncash investing and noncapital financing activities:**

Capitalized interest expense on bonds payable	<u>\$</u>	<u>270</u>
---	-----------	------------

See accompanying notes to basic financial statements.

**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**1. ORGANIZATION AND REPORTING ENTITY**

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

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

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

The DRA is independent and separate from the Commonwealth, GDB and other governmental instrumentalities of the Commonwealth and is independently operated and governed by a Board of Trustees (the “Board”), which consists of three members who are appointed by, and serve at the pleasure of, the Governor. The DRA will not be operated for the purpose of making a profit, and no part of the revenues or assets of the DRA will be to the benefit of or be distributable to a private person or entity, except to service

**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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 7 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 7 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.



**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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 reporting 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 of certain assets that are managed by GDB. Operating expenses include provision for losses on the loans and the real estate assets available for sale and general and administrative expenses, among others, while interest expense 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.

**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

- (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 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, 2021, the cash equivalent maintained by the DRA consisted of \$301.4 million in a money market mutual fund, which meets the definition of eligible investments as per the Bond Indenture. The money market mutual fund is rated as AAAM and AAA-mf by Standard and Poor's and Moody's, respectively, and has an average duration maturity of 45 days. This money market mutual fund is not insured or guaranteed by the Federal Deposit Insurance Corporation.

### **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.

**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**Loans Receivable and Allowance for Loan Losses**

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

**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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.

#### **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, expense, and changes in net position (deficit).

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

#### **Bond Issue Costs**

Bond issue costs are recorded as expenditures when incurred.

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

The DRA has evaluated all statements that the GASB has issued with effective days after June 30, 2021 and determined they will not have a material impact on its basic financial statements.

**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**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, 2021 are presented below. In addition, the unpaid principal balance as of the same date is also presented (in thousands):

	<u>Carrying Value</u>	<u>Unpaid Principal Balance</u>
Loan:		
Municipal loans	\$ 1,032,533	\$ 1,067,753
Commonwealth loans and guaranteed loan	-	55,884
Public corporation loans	185,626	2,748,734
Other loans (private sector loans)	-	388
Allowance for loan losses	<u>(50,699)</u>	<u>-</u>
Loans receivable, net	<u>\$ 1,167,460</u>	<u>\$ 3,872,759</u>

During the year ended June 30, 2021, a release of provision for loan losses of \$10.3 million 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, 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):

	<u>Principal Collected</u>	<u>Interest Collected</u>	<u>Other Income Collected</u>
Loans:			
Municipal loans	\$ 86,067	\$ 51,570	\$ 5,081
Commonwealth loans and and guaranteed loan	-	-	-
Public corporation loans	11,902	5,903	20,500
Other loans (private sector loans)	<u>-</u>	<u>-</u>	<u>34</u>
Total	<u>\$ 97,969</u>	<u>\$ 57,473</u>	<u>\$ 25,615</u>

**Municipal Loans**

The carrying value of loans to municipalities as of June 30, 2021 amounted to approximately \$1.0 billion. For the year ended June 30, 2021, municipal loan collections, excluding payments on zero value loans, amounted to approximately \$137.6 million.

**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

The following is a summary of municipal loans considered to be impaired as of June 30, 2021 (excluding those that were transferred with no carrying value from GDB), and the related interest income for the year then ended (in thousands):

Recorded investment in impaired loans:	
Not requiring an allowance for loan losses	\$ -
Requiring an allowance for loan losses	11,796
Total recorded investment in impaired loans	<u>\$ 11,796</u>
Related allowance for loan losses	\$ 9,163
Average recorded investment in impaired loans	\$ 11,823
Interest income recognized on impaired loans	\$ -

During the year ended June 30, 2021, there was an additional \$8.9 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, 2021, municipal loans totaling \$11.8 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 \$1.1 million in fiscal year 2021.

**Public Corporation Loans**

The carrying amount of loans to Public Corporations as of June 30, 2021, amounted to approximately \$185.6 million. For the year ended June 30, 2021, public corporation loan collections amounted to approximately \$17.8 million.

The following is a summary of public corporation loans considered to be impaired as of June 30, 2021 (excluding those that were transferred with no carrying value from GDB), and the related interest income for the year then ended (in thousands):

Recorded investment in impaired loans:	
Not requiring an allowance for loan losses	\$ 32,735
Requiring an allowance for loan losses	60,777
Total recorded investment in impaired loans	<u>\$ 93,512</u>
Related allowance for loan losses	\$ 41,536
Average recorded investment in impaired loans	\$ 139,990
Interest income recognized on impaired loans	\$ -

During the year ended June 30, 2021, there was a release of provision of \$19.2 million recognized on the Public Corporation loans portfolio based on the evaluation of the estimated value of future cash flows and the underlying collateral.

**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

As of June 30, 2021, public corporation loans totaling \$93.5 million have been classified in nonaccrual status. Interest income that would have been recorded if such nonaccrual loans had been accruing in accordance with their original terms was approximately \$14.3 million in fiscal year 2021.

**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, 2021 (in thousands):

	<b>Municipal Loans</b>	<b>Public Corporation Loans</b>	<b>Total</b>
Balance, beginning of year	\$ 260	\$ 60,777	\$ 61,037
Provision for/ (Release of allowance for) loan losses	8,903	(19,241)	(10,338)
Charge-offs	-	-	-
Recoveries	-	-	-
	<u>\$ 9,163</u>	<u>\$ 41,536</u>	<u>\$ 50,699</u>
Balance, end of year	<u>\$ 9,163</u>	<u>\$ 41,536</u>	<u>\$ 50,699</u>

**5. ACCRUED INTEREST ON LOANS**

Interest receivable balances on loans as of June 30, 2021 are presented below (in thousands):

Accrued Interest on Loans:	
Municipal loans	\$ 27,066
Commonwealth loans and guaranteed loan	-
Public corporation loans	2,028
Other loans (private sector loans)	-
Allowance for losses	(3,990)
Interest receivable, net	\$ 25,104

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

**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**6. REAL ESTATE AVAILABLE FOR SALE**

Real estate available for sale at June 30, 2021, at the lower of carrying or fair value, consisted of the following (in thousands):

	<b>Amount</b>
Real estate available for sale at June 30, 2020	\$ 8,129
Additions	-
Subtractions:	-
Sales	(2,220)
Change in recorded market value	-
Real estate available for sale at June 30, 2021	\$ 5,909

**7. BONDS PAYABLE**

The activity of the Restructuring Bonds payable for the year ended June 30, 2021 is as follows (in thousands):

	<b>Beginning balance</b>	<b>Additions</b>	<b>Payments</b>	<b>Ending Balance</b>
GDB Debt Recovery Authority Bonds, principal and interest payments on each February 20th and August 20th, due August 20, 2040 as of June 30, 2021	\$ 2,113,100	\$ 270	\$ (27,667)	\$ 2,085,703

**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 upon the occurrence of certain conditions, the DRA may authorize the issuance of additional bonds as defined in the Offering Memorandum. Such additional bonds and the previously issued bonds (together comprising the Restructuring Bonds) will be part of the same series under the Bond Indenture and will be issued in the same form and at the same coupon rate as the previously issued bonds, except in limited circumstances as defined in the Bond Indenture.



**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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, 2021, on the Restructuring Property and the amount of cash distributed to the bondholders as a whole on the Restructuring Bonds.

	<b>Bonds (in millions)</b>			
	Interest Paid in Cash	Principal Paid in Cash	PIK Accrued per Period	Total Ending Principal
Payment Date				
August 2020	\$ 80	\$ 28	\$ -	\$ 2,085
February 2021	80	-	-	2,086
Total	\$ 160	\$ 28	\$ -	

**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

**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

certain ongoing continuing disclosures and reports, as defined and described in the Bond Indenture, with respect to the Restructuring Bonds, for the benefit of the bondholders.

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

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

**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

- 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, 2021, there were no events of default incurred by the DRA.

## **8. 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, 2021, there has been neither insurance settlements nor related claims against the DRA board members.

## **9. 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

**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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, 2021, 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:

- **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 will continue 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

**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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. By memorandum opinion and order dated December 27, 2021 (Dismissal Order”), the court granted all of the defendants’ motions to dismiss, and judgment was entered on January 4, 2022 closing the adversary proceeding case. On January 12, 2022, the plaintiffs filed a notice of appeal with respect to the Dismissal Order, and the appeal remains pending in the First Circuit Court of Appeals.

- 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. In November 2021, the DRA resolved its objections to the Commonwealth’s plan of adjustment and on January 18, 2022, the court entered an order confirming the plan of adjustment for the Commonwealth.

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.

## **10. SUBSEQUENT EVENTS**

Subsequent events were evaluated through March 8, 2022 to determine if such events should either be recognized or disclosed in the 2021 basic financial statements.

On the payment date of August 20, 2021, available cash of approximately \$371.4 million was used to make interest and principal payments on the Restructuring Bonds in the amounts of \$78.6 million and \$292.7 million, respectively. On the payment date of February 20, 2022, available cash of approximately \$14.8 million was used to make interest payments in the amount of \$68.7 million. There was not sufficient available cash to pay the interest due on this payment date, resulting in a \$53.9 million PIK amount. This PIK amount was accrued on February 20, 2022, in accordance with the Offering Memorandum.

On January 18, 2022, the U.S. District Court for the Commonwealth of Puerto Rico approved the Plan of Adjustment (POA) for Puerto Rico’s central government bonds and obligations, setting the restructuring terms for about \$33 billion of debts, including the Commonwealth’s general obligation (GO) bonds, its Public Building Authority (PBA) bonds, the Employees’ Retirement System (ERS) bonds and, through a

**GDB DEBT RECOVERY AUTHORITY**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

separate qualifying modification process under the Title VI of PROMESA, the Convention Center District Authority (CCDA) bonds. This approval also affects, but does not fully resolve, the restructuring of the Highways and Transportation Authority (HTA) bonds and the Puerto Rico Infrastructure and Finance Authority (PRIFA) rum tax bonds, where the bondholders are expected to receive a recovery from the Commonwealth as a result of the Commonwealth's clawback and retention of certain HTA excise tax and toll revenues and PRIFA rum excise tax revenues.

The DRA is one of multiple creditors on various of these bonds and obligations. Through the approved POA, the DRA is allocated certain fixed recoveries in the form of cash and bonds.

Along with the fixed recoveries, the POA allows for additional payments if income in the sales and use tax exceeds levels predicted by the Oversight Board's 2020 fiscal plan. These additional payments will take the form of contingent value instruments.

Prior to the approval of the POA, the DRA had raised multiple objections and disputes to the amended plans preceding the final POA through several proceedings brought at the U.S. District Court against the defendants (the Commonwealth, PBA, ERS, HTA and the Oversight Board). On November 5, 2021, the DRA and the Oversight Board signed a stipulation agreement (the DRA Stipulation) whereas the DRA agreed to withdraw all objections and disputes previously filed and support the approval of all the subsequent efforts and plans of adjustments proposed for HTA and CCDA in exchange, among other provisions, of the following:

- Upon approval of an HTA POA or as soon as practicable thereafter, but in no event later than ten business days following such date, the DRA would receive an administration expense claim fee of \$15 million,
- DRA would be entitled to receive its share of the HTA Clawback Recovery, as delineated on the recently approved POA for the Commonwealth
  - The Oversight Board would, or would cause the applicable entity to, engage in good faith negotiations with the DRA and various debtors of the DRA including certain GDB Retained Loans.

The Oversight Board is aiming to consummate the approved POA by no later than the March 15, 2022 and is working with corresponding parties to file a final HTA plan of adjustment within the first quarter of 2022.

A restructuring support agreement was executed between the Puerto Rico Public Finance Corp., or PFS, and the PROMESA oversight board, on January 20, 2022. The terms of the agreement call for the issuance of additional Restructuring Bonds as a result of the Contingent and Unliquidated Claim identified on Exhibit C of the DRA Bond indenture. The contingent claim amount, as identified in the Bond Indenture, is \$86.7 million. The DRA is currently evaluating whether the issuance of additional Restructuring Bonds is appropriately authorized and what impact any such issuance would have on the DRA.