GDB DEBT RECOVERY AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

BASIC FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2022

(With Independent Auditors' Report Thereon)

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

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Independent Auditors' Report

The Board of Trustees
GDB Debt Recovery Authority:

Opinion

We have audited the financial statements of the GDB Debt Recovery Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

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

KPMG LLP

San Juan, Puerto Rico
June 14, 2023

Stamp No. E519887. 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, 2022. 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, 2022, amounted to approximately $1,240.5 million and $1,906.1 million, respectively, for a net deficit of approximately $665.6 million.

- During the year ended June 30, 2022, approximately $85.6 million and $49.6 million of loans principal and interest, respectively, were collected, mostly from municipalities.

- During the year ended June 30, 2022, approximately $134.1 million of cash and securities with a determinable fair value, were received, in the settlement of certain loans.

- The DRA has a Restructuring Bonds Payable outstanding balance as of June 30, 2022 of $1,846.9 million. There were debt service payments during fiscal year 2022 in the amount of approximately $292.7 million and $93.4 million in principal and interest, respectively. Also, approximately $53.9 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, 2022. 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 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.

3. FINANCIAL ANALYSIS

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

	June 30,		Change	
	2022	**2021**	**Amount**	**Percent**
Assets:				
Restricted current assets:				
Cash and cash equivalents	$ 55,862	$ 301,363	$ (245,501)	-81%
Investment securities	86,992	-	86,992	100%
Loans receivable - net	1,063,828	1,167,460	(103,632)	-9%
Accrued interest receivable - net	25,093	25,107	(14)	0%
Other receivable	4,942	-	4,942	100%
Real estate available for sale	3,599	5,909	(2,310)	-39%
Other assets	200	39	161	413%
Total assets	1,240,516	1,499,878	(259,362)	-17%
Liabilities:				
Current liabilities payable from restricted assets:				
Accounts payable and accrued liabilities	59,184	77,265	(18,081)	-23%
Bonds payable:				
Due in one year	197,614	292,738	(95,124)	-32%
Due in more than one year	1,649,301	1,792,965	(143,664)	-8%
Total liabilities payable from restricted assets	1,906,099	2,162,968	(256,869)	-12%
Net position (deficit) - Unrestricted	$ (665,583)	$ (663,090)	$ (2,493)	0%

On June 30, 2022, cash amounted to approximately $55.9 million, a decrease of 81% or approximately $245.5 million when compared to June 30, 2021. This decrease was primarily attributable to a decrease in cash collected from sales and settlements on Restructuring Property compared to the fiscal year 2021; offset by a combination of the cash outflows made for the payment of principal and interest on the Restructuring Bonds payable of approximately $292.7 million and $93.4 million, respectively, plus cash payments for operating expenses of approximately $38.5 million.

The most significant decrease in the liabilities of the DRA during fiscal year 2022 consisted of the decrease of approximately $238.8 million in bonds payable. This net decrease is due to principal payments made on the bonds during the year of approximately $292.7 million; offset by $53.9 million of PIK capitalized and included with the bonds principal balance.

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

	Fiscal Year		Change	
	2022	**2021**	**Amount**	**Percent**
Operating revenues:				
Interest income	$ 50,552	$ 50,816	$ (264)	-1%
Income from sale and settlements of loans	114,923	292,792	(177,869)	-61%
Other non-interest income	1,916	51,630	(49,714)	-96%
Total operating revenue	167,391	395,238	(227,847)	-58%
Operating expenses:				
Provision (release) for loan losses	1,534	(10,338)	11,872	115%
Direct operating expenses	25,774	37,331	(11,557)	-31%
Total operating expenses	27,308	26,993	315	1%
Operating income	140,083	368,245	(228,162)	-62%
Interest expense	140,912	158,881	(17,969)	-11%
Unrealized loss on investment securities	1,664	-	1,664	-100%
Change in unrestricted net position (deficit)	$ (2,493)	$ 209,364	$ (211,857)	-101%
NET POSITION (DEFICIT) - Beginning of year	(663,090)	(872,454)	209,364	-24%
NET POSITION (DEFICIT) - End of year	$ (665,583)	$ (663,090)	$ (2,493)	0%

The net deficit of the DRA increased by approximately $2.5 million during fiscal year 2022 as a result of interest expense exceeding operating income by the same amount. Total operating revenue during fiscal year 2022 decreased by approximately $227.8 million or 58%, as compared to 2021, mostly attributed to lower recoveries on sale and settlement of loans, by approximately $177.9 million. Also, an unrealized loss on investment securities of approximately $1.7 million was recognized in 2022, which did not exist during 2021. Operating expenses remained relatively flat during the fiscal year 2022, compared to 2021. Direct operating expenses decreased $11.6 million compared to prior year; offset by an increase in provision (release) for loan losses of $11.9 million for the fiscal year 2022.

During the fiscal year 2022, total provision (release) for loans losses increased 115% or $11.9 million compared to prior year, as a result of no significant releases of provision for loan losses occurring during fiscal year 2022.

Total interest expense on the DRA's Restructuring Bonds amounted to approximately $140.9 million during fiscal year 2022, based on the carrying coupon interest rate of 7.500% on its outstanding balance throughout the year.

4. DRA DEBT

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

Debt repaid during fiscal year 2022 amounted to approximately $292.7 million, PIK of $53.9 million was accrued and interest of $93.4 million was also paid. Refer to Note 8 to the basic financial statements for additional information on the Bonds.

5. CURRENTLY KNOWN FACTS

On the payment date of August 20, 2022, available cash of approximately $281.3 million was used to make interest and principal payments on the Restructuring Bonds in the amounts of $197.6 million and $69.6 million, respectively.

In August 2022, the DRA restructured and settled loans outstanding with the Municipal Revenue Collection Center ("CRIM") ("CRIM loans"), including the receipt of cash and substitution of their repayment source and related collateral.

In exchange for the CRIM loans with outstanding principal amounts of $105.3 million and accrued interest of $25.6 million (primarily attributable to the nonperforming portion of the 2001 CRIM loan payable by the Municipality of Ponce), the DRA received cash in the amount of $62.5 million. In addition, there are certain municipalities obligated to pay the reduced indebtedness under the 2001 CRIM loan in the amount of $31.6 million.

Pursuant to the terms of the restructuring and settlement agreement, the 2002 CRIM loan is deemed fully paid.

In December 2022, the Third Amended Plan of Adjustment for the Puerto Rico Highways and Transportation Authority (the "HTA Plan") was approved. As part of the HTA Plan, the DRA received certain HTA securities with a fair value of approximately $36.1 million in relation to the settlement of the HTA 1998 bonds and loans and cash proceeds of $0.4 million representing accrued interest on such bonds.

In addition, on the same date, DRA received $15.0 million in cash representing the Restriction Fee per the Stipulation in Connection with DRA Related Disputes, Exhibit A of Dkt. No. 19100 of Case No. 17-BK3283 (LTS), entered into between the DRA and the Oversight Board on November 5, 2021 (the "Stipulation"). The Restriction Fee was paid by HTA under the HTA Plan in consideration for the agreements set forth in the Stipulation, including the agreement to "lock-up" the DRA's HTA 1998 Bonds and the DRA's twenty-three (23) promissory notes issued by HTA in favor of GDB.

On the payment date of February 20, 2023, available cash of approximately $100.6 million was used to make interest and principal payments on the Restructuring Bonds in the amounts of $37.4 million and $63.2 million, respectively.

GDB DEBT RECOVERY AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Net Position (Deficit) (in thousands)
As of June 30, 2022

ASSETS	
Restricted current assets:	
Cash and cash equivalents	$ 55,862
Investment securities	86,992
Loans receivable — net of allowance for loan losses	77,708
Accrued interest receivable	25,093
Other receivable	4,942
Real estate available for sale	3,599
Other current assets	200
Total restricted current assets	254,396
Restricted non-current assets:	-
Loans receivable — net of allowance for loan losses	986,120
Total restricted non-current assets	986,120
TOTAL RESTRICTED ASSETS	$ 1,240,516
LIABILITIES AND NET POSITION (DEFICIT)	
Current liabilities payable from restricted assets:	
Accrued interest payable	$ 50,021
Accounts payable and other liabilities	9,163
Bonds payable	197,614
Total current liabilities payable from restricted assets	256,798
Non-current liabilities payable from restricted assets:	
Bonds payable	1,649,301
Total non-current liabilities payable from restricted assets	1,649,301
NET POSITION (DEFICIT) - UNRESTRICTED	(665,583)
TOTAL LIABILITIES AND NET POSITION (DEFICIT)	$ 1,240,516

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, 2022

OPERATING REVENUES	
Interest income:	
Interest income on cash and cash equivalents	$ 93
Interest income on investment securities	1,148
Interest income on loans receivable	49,311
Total interest income	50,552
Gain on settlement of loans	114,923
Other income	1,916
Total operating revenues	167,391
OPERATING EXPENSES	
Non-interest expenses:	
Board and Executive Director compensation	300
Administrative expenses	1,116
Servicer fees and expenses	12,284
Indenture trustee fees and expenses	134
Collateral monitor fees and expenses	13,019
Adjustment in Transferred Property value at Closing Date	(2,689)
Loss on sale of real estate available for sale	1,610
Provision for loan losses	1,534
Total non-interest expenses	27,308
OPERATING INCOME	140,083
INTEREST EXPENSE	140,912
UNREALIZED LOSS ON CHANFES IN FAIR VALUE ON INVESTMENT SECURITIES	1,664
CHANGE IN NET POSITION	(2,493)
NET POSITION (DEFICIT) - UNRESTRICTED - Beginning of year	(663,090)
	-
NET POSITION (DEFICIT) - UNRESTRICTED - End of year	$ (665,583)

See accompanying notes to basic financial statements.

GDB DEBT RECOVERY AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows (in thousands)
For the year ended June 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from other operating noninterest revenues	$	42,607
Cash received from collections of interest income on loan receivables		49,594
Cash received from collections of principal on loan receivables		85,607
Cash received from sales of other real estate available for sale		700
Cash received from interest on cash balances and investment securities		625
Cash paid for general and administrative expenses		(38,467)
Net cash provided by operating activities		140,666
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Payments of bonds payable		(292,738)
Interest paid on bonds payable		(93,429)
Net cash used in non-capital financing activities		(386,167)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(245,501)
CASH AND CASH EQUIVALENTS - Beginning of year		301,363
CASH AND CASH EQUIVALENTS - End of year	$	55,862
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		55,862
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	$	55,862

See accompanying notes to basic financial statements. (Continued)

GDB DEBT RECOVERY AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows (in thousands)
For the year ended June 30, 2022

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$	140,083
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for loan losses		1,534
Unrealized loss on changes in fair value investment securities		(1,664)
Changes in other assets and liabilities:		
Decrease in loans receivable		102,098
Decrease in real estate available for sale		2,310
Decrease in accrued interest receivable		14
Increase in investment securities		(86,992)
Increase in other receivables		(4,942)
Increase in accrued expenses and other liabilities		(11,614)
Increase in other assets		(161)
Net cash provided by operating activities	$	140,666
Noncash investing and noncapital financing activities:		
Capitalized interest expense on bonds payable	$	53,950

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 was also known as a Qualifying Modification. PROMESA was enacted seeking to provide the Commonwealth and its public corporations and instrumentalities with fiscal and economic discipline, through, among other things, the establishment of the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"). On the closing date of the Qualifying Modification (November 29, 2018 or "Closing Date"), the DRA issued approximately \$2.6 billion of 7.500% GDB Debt Recovery Authority Bonds due August 20, 2040, where the holders of the Participating Bond Claims at GDB exchanged their claims for the bonds issued (at an exchange rate of 55% of such Participating Bond Claims).

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

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

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

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

- Adopting resolutions of the Board authorizing the issuance of the Restructuring Bonds and the payment of certain financing costs associated with the Qualifying Modification.

- Servicing or contracting for the servicing and monitoring of the Restructuring Property and the Restructuring Bonds, and related administrative services.

- Fully accounting for and making or contracting with a trustee to account for or make payments and allocating partial payments on the Restructuring Bonds (see related information below and in Note 8 to the accompanying basic financial statements).

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

- Merging or consolidating with any person.

- Incurring, guaranteeing or otherwise becoming obligated to pay any debt or other obligations, other than the Restructuring Bonds and certain other costs.

- Pledging or recording liens on its properties (including the Restructuring Properties), other than the statutory lien securing the payment of the Restructuring Bonds and certain other costs.

- Engaging in business activities other than as expressly authorized by the GDB Restructuring Act.

- Dissolving, liquidating or selling the Restructuring Property, except as permitted by the GDB Restructuring Act.

- Taking other action that is inconsistent with the DRA's purpose as set forth in the GDB Restructuring Act.

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

Upon the issuance of the Restructuring Bonds, the Restructuring Property became subject to a statutory lien in favor of the selected trustee, Wilmington Trust, N.A., (the "Indenture Trustee"), for the benefit of such bondholders in order to secure the amounts owing in respect of the Restructuring Bonds. An indenture (the

"Bond Indenture") was consequently established between the DRA and the Indenture Trustee to establish the roles and duties of the Indenture Trustee by having received in trust the Restructuring Property and its performance obligations owing with respect to the payment of the Restructuring Bonds issued.

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the DRA conform to Accounting Principles Generally Accepted in the United States of America ("GAAP") for governments as prescribed by the GASB, specifically, under the 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, valuation of investment securities and the valuation of real estate available for sale.

Measurement Focus, Basis of Accounting and Financial Statements Presentation

The DRA's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. The statement of revenues, expenses and changes in net position (deficit) generally distinguishes operating revenues and expenses from non-operating items. As the DRA was created to receive certain assets, the collection and settlement of which (including its interest and future proceeds) are to be used to pay the DRA's operating expenses and bonds, the revenues and expenses that result from the DRA's fulfilling of its specified purpose are considered operating items. The DRA's operating revenues are generated from the interest earned on the loans, interest income on investments, proceeds from the sale of the real estate and from the potential future proceeds from the collection of the beneficial interest of certain assets that are managed by GDB. Operating expenses include provision for losses on the loans and the real estate assets available for sale and general and administrative expenses, among others, while interest expense 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 is not required to pay taxes, assessments, licenses, stamps, fees or other similar charges levied by the Commonwealth or other government entity upon the property it owns, possesses, holds or uses, or on its activities, or upon other income, payment or gain derived therefrom. The transfer of the Restructuring Property by GDB to the DRA is also exempt from the aforementioned taxes, assessments, licenses, stamps, fees and other similar charges levied by the Commonwealth or other government entity.

Cash and Cash Equivalents

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

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

As of June 30, 2022, the cash equivalent maintained by the DRA consisted of $55.9 million in a money market mutual fund, which meets the definition of eligible investments as per the Bond Indenture. The money market mutual fund is rated as AAAm and AAA-mf by Standard and Poor's and Moody's, respectively, and has an average duration maturity of 45 days. This money market mutual fund is not insured or guaranteed by the Federal Deposit Insurance Corporation.

Investment securities

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

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

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

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 Investments with inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 Investments have unobservable inputs for an asset or liability and may require a degree of professional judgment. Interest income is recognized based on the coupon rate. Gains and losses on the sale of investment securities are recorded on the trade date and determined using the specific identification method.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, provides clarity when there is an exchange of nonmonetary assets and the fair value of the assets exchanged cannot be determinable within reasonable limits, the assets are to be reported at the time the assets are exchanged for a monetary asset. This statement clarifies how fair value should be regarded if it is not determinable within reasonable limits given there are major uncertainties that exist about the realizability of the value that would be assigned to an asset received in a nonmonetary transaction accounted for at fair value. As of June 30, 2022 the Fourth Priority HTA Clawback CVI had fair value that could not be determined within reasonable limits, as such this investment will be recorded when exchanged for a monetary asset.

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

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

Restructuring Property

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

Loans Receivable and Allowance for Loan Losses

General Policy — The loans transferred to the DRA, which are part of the Restructuring Property transferred from GDB as described in Note 1 to the accompanying basic financial statements, were recorded at GDB's historical carrying value (unpaid principal balance reduced by the corresponding allowance for loan losses and write-down of loans previously recorded by GDB prior to transfer). As such, if the carrying value of the loans and related accrued interest receivable was zero on the GDB financial statements, the carrying value was reflected as a zero balance on the DRA's financial statements. For instance, the Commonwealth loans and 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 4 to the accompanying basic financial statements for additional details on nonaccrual loans.

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

The DRA determined that major sources of repayment on the loan portfolios were property taxes, sales and use taxes, operating revenues of the borrowers, rental income generated by the borrowers, and collateral sales. Public corporations and municipalities portfolios were segregated into the following risk-based buckets taking into consideration their source of repayment, guaranty and payment history. The risk based buckets included (i) loans with a reliable source of repayment for which an allowance for loan losses was not recorded, (ii) loans which were subsequently paid-off or transferred with zero carrying value from the GDB for which no allowance for loan losses was recorded, (iii) loans with unreliable source of repayment that were not performing according to contract terms, 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.

Real Estate Available for Sale

Real estate available for sale are carried at the lower of cost or estimated fair value. DRA’s real estate available for sale was initially recorded upon transfer at the carrying value of GDB, which represented the lower of cost or fair value. The carrying value of those properties 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, 2022 and determined they will not have a material impact on its basic financial statements.

3. INVESTMENT SECURITIES

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

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

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

	Principal Amount	Fair Value
Commonwealth New GO Bonds:		
Current interest bonds	$ 23,879	$ 24,540
Capital appreciation bonds	4,182	2,821
Contingent value instruments	11,563	6,071
Total	$ 39,624	$ 33,432

As these two loans had no carrying value at the DRA, the full amount of the sum of the cash and the fair value of the Commonwealth New GO Bonds and CVIs received, aggregating a total of approximately $53.2 million, was recognized within gain on settlement of loans in the accompanying statement of revenues, expenses and changes in net position (deficit).

Carrying amounts and estimated fair values of these investment securities at June 30, 2022 are summarized as follows:

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

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

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

1. Lack of Market Activity: This instrument has no observable market transactions, making it difficult to obtain reliable market prices or comparable data for valuation purposes.

2. Complexity and/or Unique Characteristics: The instrument possesses complex structures and contingent payment terms such as:

    a. Term – the instrument has a period of 30 years as defined in the POA, allowing the holder to collect funds in periods 1 to 22 if meeting several performance conditions and from years 23-30 subject to additional performance conditions including maximum cap amounts.

    b. Performance conditions – the holder of the instrument would receive cash flows if several outperformance metrics from the baseline Sales and Use Tax from the Commonwealth of Puerto Rico as defined in the POA occurs subject to annual and cumulative conditions and maximum cap amounts.

    c. Waterfall structure – considering this instrument is the fourth priority within the HTA Clawback CVI it results in significant uncertainties about the ability to reasonably estimate the amount of cash flows to be received.

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

Carrying amounts and estimated fair values of the Second Priority HTA Clawback CVIs at June 30, 2022 were estimated to be approximately $55.2 million.

In addition to the HTA Clawback CVIs, the DRA settlement also involved cash in the amount of approximately $4.9 million, which was received in July 2022.

As these HTA 1998 Bonds and the other HTA loans had no carrying value at the DRA, the full amount of the sum of the cash receivable and the determinable fair value of the Second Priority HTA Clawback CVIs received, aggregating a total of approximately $55.2 million, was recognized within gain on settlement of loans in the accompanying statement of revenues, expenses and changes in net position (deficit).

The Commonwealth's New GO Bonds mature over 25 years with different maturity dates and include both Capital Appreciation Bonds (CABs) and Current Interest Bonds (CIBs). All of the CABs and CIBs have term bonds with mandatory sinking fund payments. The Commonwealth's New GO Bonds were issued with various interest rates at 5.0% and 5.375% depending on the type of bond and are secured by (a) a statutory first lien, (b) a pledge of the amounts on deposit in the Commonwealth's Debt Service Fund, and (c) a pledge of the Commonwealth's full faith, credit and taxing power in accordance with Article VI, Section 2 of the Commonwealth Constitution and applicable Puerto Rico law. The Commonwealth's New GO Bonds are dated as of, and will accrue or accrete interest from, July 1, 2021. The Commonwealth's New GO Bonds are not rated.

The Commonwealth CVIs, Second Priority HTA Clawback CVIs and Fourth Priority HTA Clawback CVI (the "CVIs") are instruments that give a holder the right to receive payments in the event that certain triggers are met. The POA establishes revenue-based performance benchmarks and permits the holders of CVIs to receive payments on account of the CVIs only if the benchmarks are exceeded. The CVIs issued under the POA are based on over-performance collections of the Commonwealth's 5.5% sales and use tax (SUT), with some CVIs also being subject to over-performance collections of rum tax. The over-performance collections, if any, may be available for distribution to holders of Commonwealth CVIs, and a portion to holders of HTA Clawback CVIs based on a formula and/or a priority waterfall of distributions. The CVIs represent a conditional promise by the Commonwealth to pay CVI holders only if the SUT or rum tax baselines are exceeded in a given fiscal year. The outperformance metric is measured as of the end of each fiscal year (i.e., June 30) beginning in fiscal year 2022 and is based on a SUT and rum tax collections baselines for fiscal years 2022 to 2043 (subject to certain lifetime caps and annual payment waterfalls, as defined, allocated across the different types of bond claims) as established in the Oversight Board-certified fiscal plan for the Commonwealth, dated May 27, 2020. The CVIs held by the DRA generally have a 30-year term. As with the Commonwealth's New GO Bonds, the Commonwealth pledged its full faith, credit and taxing power under the Puerto Rico Constitution and applicable Puerto Rico law for payment of the CVIs. The CVIs are deemed issued on July 1, 2021. The CVIs are not rated.

The following tables summarize the levels in the ASC 820 fair value hierarchy as of June 30, 2022:

Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Commonwealth New GO Bonds:				
Current interest bonds	$ 23,244	$ -	$ 23,244	$ -
Capital appreciation bonds	2,771	-	2,771	-
Contingent value instruments	5,753	-	5,753	-
HTA Clawback CVIs	55,224	-	55,224	-
	$ 86,992	$ -	$ 86,992	$ -

The DRA evaluates securities for other-than-temporary impairment on at least an annual basis, and more frequently when economic or market concerns warrant such evaluation.

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

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

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

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

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

4. LOANS RECEIVABLE

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

Loans receivable balance as of June 30, 2022 are presented below. In addition, the unpaid principal balance as of the same date is also presented (in thousands):

	Carrying Value	*Unpaid Principal Balance*
Loan:		
Municipal loans	$ 957,487	*$ 991,217*
Public corporation loans	117,038	*2,598,907*
Other loans (private sector loans)	-	*361*
Allowance for loan losses	(10,697)	-
Loans receivable, net	$ 1,063,828	*$ 3,590,485*

As part of the POA, in addition to the settlement of the two Commonwealth loans described in Note 3, the PBA loans carried by the DRA at a carrying value of approximately $19.2 million (net of allowance for losses of approximately $41.5 million) were also discharged in exchange of a cash settlement of approximately $20.7 million, resulting in a gain on settlement of the PBA loans of approximately $1.5 million, recognized within gain on settlement of loans in the accompanying statement of revenues, expenses and changes in net position (deficit).

Of the aforementioned balances, the following table presents cash collected for principal, interest and other income (including the cash settlement for Commonwealth and PBA loans referred to in the previous paragraph) during the year (in thousands):

	Principal Collected	Interest Collected	Other Income Collected
Loans:			
Municipal loans	$ 75,105	$ 45,326	$ 1,797
Commonwealth loans and and guaranteed loan	-	-	19,834
Public corporation loans	10,502	4,268	20,733
Other loans (private sector loans)	-	-	28
Total	$ 85,607	$ 49,594	$ 42,392

Municipal Loans

The carrying value of loans to municipalities as of June 30, 2022 amounted to approximately $957.5 million. For the year ended June 30, 2022, municipal loan collections, excluding payments on zero value loans, amounted to approximately $120.4 million.

The following is a summary of municipal loans considered to be impaired as of June 30, 2022 (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	$	819
Requiring an allowance for loan losses		10,697
Total recorded investment in impaired loans	$	11,516
Related allowance for loan losses	$	10,697
Average recorded investment in impaired loans	$	11,646
Interest income recognized on impaired loans	$	139

During the year ended June 30, 2022, there was an additional $1.5 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, 2022, municipal loans totaling $11.5 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 $1.1 million in fiscal year 2022.

Public Corporation Loans

The carrying amount of loans to Public Corporations as of June 30, 2022, amounted to approximately $117.0 million. For the year ended June 30, 2022, public corporation loan collections amounted to approximately $35.5 million.

The following is a summary of public corporation loans considered to be impaired as of June 30, 2022 (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	$	34,274
Requiring an allowance for loan losses		-
Total recorded investment in impaired loans	$	34,274
Related allowance for loan losses	$	-
Average recorded investment in impaired loans	$	63,872
Interest income recognized on impaired loans	$	-

During the year ended June 30, 2022, there was $41.5 million in loans receivables written off. There was no provision for loan losses recognized on the Public Corporation loans portfolio based on the evaluation of the estimated value of future cash flows and the underlying collateral.

As of June 30, 2022, public corporation loans totaling $34.3 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 2022.

5. ALLOWANCES FOR LOAN LOSSES

The following is an overall summary of the activity in the allowance for loan losses for the year ended June 30, 2022 (in thousands):

	Municipal Loans	Public Corporation Loans	Total
Balance, beginning of year	$ 9,163	$ 41,536	$ 50,699
Provision for loan losses	1,534	-	1,534
Charge-offs	-	(41,536)	(41,536)
Recoveries	-	-	-
Balance, end of year	$ 10,697	$ -	$ 10,697

6. ACCRUED INTEREST ON LOANS

Interest receivable balances on loans as of June 30, 2022 are presented below (in thousands):

Accrued Interest on Loans:	
Municipal loans	$ 22,618
Commonwealth loans and and guaranteed loan	-
Public corporation loans	1,859
Other loans (private sector loans)	-
Interest receivable, net	$ 24,477

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.

7. REAL ESTATE AVAILABLE FOR SALE

Real estate available for sale at June 30, 2022, at the lower of carrying or fair value, consisted of the following (in thousands):

	Amount
Real estate available for sale	
at June 30, 2021	$ 5,909
Additions	-
Subtractions:	-
Sales	(2,310)
Change in recorded market value	-
Real estate available for sale	
at June 30, 2022	$ 3,599

8. BONDS PAYABLE

The activity of the Restructuring Bonds payable for the year ended June 30, 2022 is as follows (in thousands):

	Beginning balance	Additions	Payments	Ending Balance
GDB Debt Recovery Authority Bonds, principal and interest payments on each February 20th and August 20th, due August 20, 2040	$ 2,085,703	$ 53,950	$ (292,738)	$ 1,846,915

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.

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, 2022, 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 2021	$ 79	$ 293	$ -	$ 1,793
February 2022	14	-	54	1,847
Total	$ 93	$ 293	$ 54	

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, 2022, there were no events of default incurred by the DRA.

9. RISK MANAGEMENT

The DRA's by-laws require the DRA to indemnify the members of the Board to the fullest extent permitted under the Commonwealth law against liabilities that may arise by reason of their service to the DRA, and to advance expenses reasonably incurred as a result of proceedings against them for which they could be indemnified. To minimize the risk of loss for potential liabilities, the DRA obtained directors' and officers' insurance coverage, along with legal fees and expenses payable from collections on the Restructuring Property prior to making payments on the Restructuring Bonds. Insurance coverage is updated annually to account for changes in operating risk. For the year ended June 30, 2022, there has been neither insurance settlements nor related claims against the DRA board members.

10. COMMITMENTS AND CONTINGENCIES

The Keepwell Agreement

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

The Keepwell Agreement also provides that GDB will indemnify and hold the bondholders harmless from and against damages and losses suffered or incurred by the bondholders as the result of legislative action or determination by a court of competent jurisdiction causing the Qualifying Modification, the Restructuring Bonds or the rights or liens of the DRA, the Indenture Trustee or the bondholders in respect of the Restructuring Property or the Restructuring Bonds to be impaired, rescinded or avoided or otherwise rendered not enforceable in accordance with their terms; however, an impairment resulting from an immaterial diminution in value of the Restructuring Property will not independently give rise to a claim for indemnification.

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

Litigation

Prior to the commencement of the solicitation for the Qualifying Modification and its ultimate closing on November 29, 2018, numerous lawsuits were filed challenging PROMESA and the actions of the Oversight Board, the Qualifying Modification and the treatment of the claims of various creditors of GDB. Furthermore, other parties filed complaints against GDB and the DRA seeking monetary damages or other relief for claims and other relief primarily related to GDB's previous role as fiscal agent. While the majority of the lawsuits have been dismissed and/or settled and all objections to the Qualifying Modification in the Title VI case were settled prior to the Closing Date, certain of these settlements resulted in cash payments or other agreements (such as an increase in the amount of the Participating Bond Claims) that reduce the projected recoveries on the Restructuring Bonds. In addition, certain pending complaints and other litigation may arise in the future, particularly by parties whose claims are not bound by the Title VI court order and the Qualifying Modification, which has or will seek relief that could materially adversely impact the Qualifying Modification and the validity or enforceability of its related documents, including the Restructuring Bonds. Litigation that existed at June 30, 2022, 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 of Puerto Rico ("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 alleged 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 alleged 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 requested a determination that the plaintiffs' claims against all debtors in Title III proceedings were 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 asserted that the plaintiffs' claims in this case were without merit and vigorously defended itself. An adverse decision or ruling that requires the DRA to pay monetary damages, however, could have reduced 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 District 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 District 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 with the First Circuit Court of Appeals ("First Circuit"). The appeal was fully briefed and oral argument took place before the First Circuit on November 7, 2022. On November 23, 2022, the First Circuit entered an Opinion and Judgment, affirming in all respects the rulings by the District Court contained in the Dismissal Order, including, without limitation, the dismissal of all claims against the DRA (and its Trustees). The time to file a petition for rehearing or rehearing *en banc* with the First Circuit has expired. The time to file a certiorari petition with the United States Supreme Court expired and the case is now closed.

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

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

  The DRA Bond Issue is currently subject to litigation before the District Court. Briefing on the DRA Bond Issue has concluded, and the court has scheduled oral arguments on this matter for May 2023. The Servicer, on behalf of the DRA and the Collateral Monitor, are participating in the litigation on the DRA Bond Issue. The DRA, as the entity that would issue the Additional DRA Bonds (if appropriate), has informed the parties to the litigation that it will not issue any Additional DRA Bonds without an express order of the District Court resolving the DRA Bond Issue and directing it to issue the Additional DRA Bonds.

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

11. SUBSEQUENT EVENTS

Subsequent events were evaluated through June 14, 2023 to determine if such events should either be recognized or disclosed in the 2022 basic financial statements.

Payment on Restructuring Bonds

On the payment date of August 20, 2022, available cash of approximately $281.3 million was used to make interest and principal payments on the Restructuring Bonds in the amounts of $197.6 million and $69.6 million, respectively.

On the payment date of February 20, 2023, available cash of approximately $100.6 million was used to make interest and principal payments on the Restructuring Bonds in the amounts of $37.4 million and $63.2 million, respectively.

Highway and Transportation Authority Settlement

In December 2022, the DRA received cash proceeds of $0.4 million and securities totaling approximately $50.9 million, in relation to the HTA Plan.

In addition, on the same date, DRA received $15.0 million in cash representing the Restriction Fee per the Stipulation in Connection with DRA Related Disputes, Exhibit A of Dkt. No. 19100 of Case No. 17-BK3283 (LTS), entered into between the DRA and the Oversight Board on November 5, 2021 (the “Stipulation”). The Restriction Fee was paid by HTA under the HTA Plan in consideration for the agreements set forth in the Stipulation, including the agreement to “lock-up” the DRA’s HTA 1998 Bonds and the DRA’s twenty-three (23) promissory notes issued by HTA in favor of GDB.

Loan Restructuring and Settlement

In August 2022, the DRA restructured and settled loans outstanding with the Municipal Revenue Collection Center (“CRIM”) (“CRIM loans”), including the receipt of cash and substitution of their repayment source and related collateral.

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

In exchange for the CRIM loans with outstanding principal amounts of $105.3 million and accrued interest of $25.6 million, the DRA received cash in the amount of $62.5 million. In addition, the municipalities agreed to pay the reduced indebtedness under the 2001 CRIM loan in the amount of $31.6 million.

The municipalities ("Participating Municipalities") will be granting a security interest over a portion of taxes each levies on real and personal property within its jurisdiction known as the basic tax ("Basic Tax"). The Basic Tax, which is collected by CRIM for all municipalities, will be the sole source of repayment for the reduced indebtedness of the Participating Municipalities. The Commonwealth Subsidy will no longer be a source of repayment for the CRIM loans, unless a Participating Municipality fails to grant such security interest, in which case the portion of the reduced indebtedness corresponding to such Participating Municipality shall continue to be payable from the Commonwealth Subsidy until such security interest is granted or the Commonwealth subsidy is no longer in place.

Pursuant to the terms of the restructuring and settlement agreement, the 2002 CRIM loan is deemed fully paid. The reduced indebtedness under the 2001 CRIM loan, other than the portion payable by the Municipality of Ponce, is payable by each the Participating Municipalities (to the extent of its corresponding indebtedness) over five years at a variable rate of interest equal to the prime rate plus 2% with a maximum cap of 6.25% and a minimum floor of 5%. The portion of the 2001 CRIM loan payable by the Municipality of Ponce ($26.3 million) is payable pursuant to a 35-year amortization schedule and a balloon payment after 5 years, with the same interest rate structure.