GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and

Required Supplementary Information

June 30, 2020

(With Independent Auditors' Report Thereon)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of
Government Development Bank for Puerto Rico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Government Development Bank for Puerto Rico, a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Bank's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Puerto Rico Housing Finance Authority, which represent 100% of the total assets and revenues of the governmental activities, HUD Programs Fund, Home Program Fund, and the Affordable Housing Mortgage Subsidy Program Fund, the Housing Finance Authority Fund; and 86.9% and 93% of the total assets and revenues, respectively, of the business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as it relates to the amounts included for the Puerto Rico Housing Finance Authority, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Government Development Bank for Puerto Rico (GDB), as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Going Concern Uncertainty

As described in Notes 3 and 5, on November 29, 2018 (the Closing Date), the Bank executed the Qualifying Modification, which resulted in a comprehensive financial restructuring and legal discharge of substantially all of the Bank's debts and the ensuing transfer of almost all its revenue earning assets to the Debt Recovery Authority or to the Public Entity Trust. The execution of the Qualifying Modification continued the process of efficiently winding down the Bank's operations. With the execution of this transaction, the GDB Operating Fund will not emerge as a going concern. In addition, because the Bank's blended component units' activities revolved and depended on the GDB Operating Fund, there is also substantial doubt that such component units will continue as well as going concerns.

With respect to Puerto Rico Housing Finance Authority, it has the intention of putting in place a series of plans and initiatives that, when executed, are expected to result in an alleviation of the substantial doubt referred to in the previous paragraph.

Restatement of Net Position and Fund Balance

As discussed in Note 4 to the basic financial statements, the net position/fund balance of the Bank's government-wide's business-type activities and the proprietary funds' financial statements have been restated to correct misstatements. Our opinions on the basic financial statements are not modified with respect to these matters.

Other Matter

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Combining Schedules-Other Nonmajor Funds at pages 122 through 125 are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 25, the schedule of proportionate share of the collective total pension liability and related ratios on page 126, and the schedule of proportionate share of the collective total other postemployment benefit liability and related ratios on page 127, are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We, and the other auditors, have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries to 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.

San Juan, Puerto Rico
May 18, 2022.

Stamp No. E493650 was affixed
to the original of this report.

RSM Puerto Rico

Management's Discussion and Analysis

This management's discussion and analysis section (MD&A) provides a narrative overview and analysis of the financial activities of the Government Development Bank for Puerto Rico and its components units (the Bank or GDB) as of and for the year ended June 30, 2020. This MD&A is intended to serve as an introduction to GDB's basic financial statements, which have the following components and two required supplemental schedules: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of GDB's financial condition, the financial statements, including the notes thereto, and required supplementary information should be reviewed in their entirety.

On November 6, 2018, the United States District Court for the District of Puerto Rico approved a Qualifying Modification for the Bank (the Qualifying Modification) pursuant to section 601(m)(2) of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) and on November 29, 2018 (the Closing Date), the Bank completed such Qualifying Modification, which resulted in a comprehensive financial restructuring of substantially all of the GDB Operating Fund's debts and continued the process of efficiently winding down GDB's operations.

Following the Qualifying Modification, the principal operation of the Bank relate to the Puerto Rico Housing Finance Authority (HFA), with the GDB Operating Fund's sole activities consisting of continuing the wind down of its operations, servicing those other nonmajor funds, holding and servicing certain public corporation loans (known as the GDB Retained Loans) for the benefit of the GDB Debt Recovery Authority (DRA), and maintaining on its books the defined benefit pension retirement and other postemployment benefit obligations (OPEB) to its retirees.

Financial Highlights

- Total assets government-wide as of June 30, 2020, amounted to approximately $509 million, a decrease of approximately $163 million, or 24.26%, from approximately $672 million as of June 30, 2019. Total liabilities decreased by approximately $155 million, or 25.6%, to approximately $450 million as of June 30, 2020, from approximately $605 million as of June 30, 2019. Total deferred outflows of resources amounted to approximately $27.4 million, an increase of approximately $5.5 million or 24.97%, from approximately $21.9 million as of June 30, 2019, related primarily to pension related items pertaining to the provisions of Governmental Accounting Standards Board's (GASB) Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No 68, an amendment of Certain Provisions of GASB Statements No. 67 and 68.*

- The net position government-wide as of June 30, 2019, amounted to approximately $77 million, a change in net position as of June 30, 2020 of approximately $73 million. The decrease in net position of approximately $4 million during fiscal year 2020 is composed of a positive change in net position of approximately $8 million from Business-Type Activities, and a negative change in net position of approximately $12 million from Governmental Activities. The ratio of net position to total assets improved to 14.30% as of June 30, 2020 from 11.48% as of June 30, 2019.

- The operating results of the GDB Operating Fund changed from an income of $257 million in fiscal year 2019 to a loss of $8 million in fiscal year 2020 or a decrease of approximately $265 million in fiscal year 2020, due primarily to a combination of a release in the provision for loan losses of approximately $376 million, offset by interest expense of approximately $113 million, all during fiscal year 2019, which did not recur during fiscal year 2020, since following the prior year's Qualifying Modification, the GDB Operating Fund remained without loans, deposit liabilities and debt.

- On August 31, 2019, HFA became the sole owner of PRHFA RLF Investment Fund (RLF) by issuing payment of $587,000 to Citi Community Capital as part of an agreement entered when the New Markets Tax Credit Structure was created. From September 1, 2019 to June 30, 2020, HFA recognized a $1.6 million in equity pickup from its investment in RLF.

- During the fiscal year 2020, $138 million, $7.3 million, and $2.1 million were granted in subsidies through the Housing Urban Development Program (HUD or HUD Program), the Investment Partnerships HOME Federal Program (the Home Program), and the Community Development Block Grant Disaster Recovery Program (the CDBG Program), respectively.

- After the issuance of the financial statements for the year ended June 30, 2019, management of the Bank became aware of certain receivables and payables that remained outstanding and unapplied in the GDB Operating Fund after all the adjustments made pursuant to the Qualifying Modification in 2019. These outstanding items should have been eliminated within the Qualifying Modification adjustments. In addition, during the current fiscal year, management also identified certain overpayments to the DRA during the Qualifying Modification. Since such information existed but had not been considered, such changes were considered as corrections of errors. Accordingly, the GDB Operating Fund restated the beginning net position of its business-type activities and proprietary fund in order to correct prior year's unsettled items that consisted in a net payable position of approximately $4.005 million and prior year's overpayments in the amount of approximately $147,000.

- As part of the Qualifying Modification, the Development Fund held a "Participating Bonds Claim" that was restructured under the Qualifying Modification in the amount of $11 million to cover for potential exposures, if any, under the Development Fund guaranty programs. On the Closing Date, this claim was exchanged for bonds issued by the DRA (at an upfront exchange ratio of 55% or at the equivalent face value of $6,050,000). The Development Fund inadvertently omitted the recognition of such bonds during 2019, thus such bonds are restated in the current year by recognizing such DRA bonds at its then estimated fair value and the related collections that had been received on such bonds through June 30, 2019, totaling approximately $4.9 million.

- Given the full dependence of the Puerto Rico Telephone Authority (PRTA) on the GDB Operating Fund's contributions to sustain PRTA's minimal operating expenses, its reporting became part of the Bank as a blended component unit. Accordingly, the beginning net position of the Bank was restated by approximately $10,000 in order to reflect such change in reporting entity.

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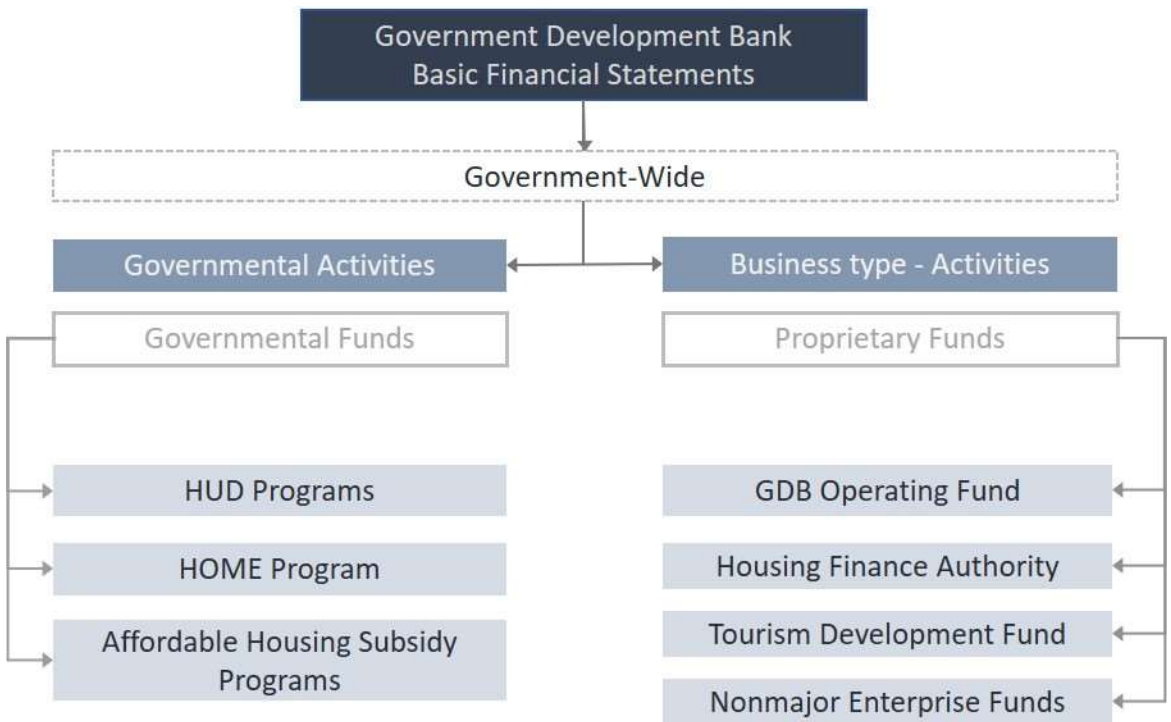
Overview of the Financial Statements

GDB's financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The following chart illustrates the structure of GDB for financial reporting purposes:



(a) ***Government-Wide Financial Statements***

The government-wide financial statements are designed to provide readers with a broad overview of the Bank's finances, in a manner similar to a private-sector business.

(1) **Statement of Net Position** – This statement provides information on the Bank's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the assets plus deferred outflow of resources less liabilities and deferred inflows of resources reported as the overall net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Bank is improving or eroding.

(2) **Statement of Activities** – This statement presents information on how the Bank's net position changed during the reporting period. All changes in net position are reported as soon as the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for certain items that will only result in cash flows in future fiscal periods.

In the Statement of Net Position and the Statement of Activities, GDB's operations are divided into the following two kinds of activities:

(1) Governmental Activities - Governmental Activities generally are financed through intergovernmental and other non-exchange revenues.

(2) Business-Type Activities - Business-Type Activities are financed in whole or in part by fees charged for goods or services and interest earned on investment securities and loans.

(b) ***Fund Financial Statements***

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Bank uses to keep track of specific sources of funding and spending for a particular purpose. The Bank's funds are divided into the following two categories:

(1) **Governmental Funds**– Governmental Funds are used to account for the functions reported as Governmental Activities in the government-wide financial statements. However, unlike the government-wide financial statements, the Governmental Funds financial statements focus on near-term inflows and outflows of expendable resources, as well as balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of Governmental Funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for Governmental Funds with similar information presented for Governmental Activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of financial decisions related to the Bank's Governmental Activities. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances (deficit) provide a reconciliation to facilitate this comparison between Governmental Funds and Governmental Activities.

(2) Proprietary Funds– Proprietary Funds provide the same type of information as the Business-Type Activities in the government-wide financial statements, but in more detail. The proprietary fund financial statements of the Bank provide separate information on the Business-Type Activities of the Bank's blended component units.

(c) ***Notes to the Basic Financial Statements***

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

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Government-Wide Financial Analysis

Total assets, deferred outflow of resources, total liabilities, and deferred inflow of resources of the Bank, as of June 30, 2020, amounted to approximately $509 million, $27 million, $450 million and $13 million, respectively, for a net position of approximately $73 million or 14.30% of total assets. Total assets and total liabilities decreased during fiscal year 2020 by approximately $163 million and $155 million, respectively, responding principally to the continuing winding down of the GDB Operating Fund, which included the completion of certain GDB Retained Loans transfers to the DRA and retirement obligation funds transfers to the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) pursuant to the Qualifying Modification. Total deferred outflows and inflows of resources decreased during fiscal year 2020 by approximately $5.5 million and $1.4 million, respectively, which was primarily as a result of a lower discount rate (from 3.87% as of June 30, 2018 measurement date for 2019 reporting to 3.50% as of June 30, 2019 measurement date for 2020 reporting) used in the retirement and other postemployment benefits obligation (OPEB) actuarial calculation.

Loans as a percentage of total assets decreased 10.47 percentage points from 45.04% at the end of fiscal year 2019 to 34.57% as of June 30, 2020, consisting only of the GDB Retained Loans held by the GDB Operating Fund and the HFA loans. Such loans and related accrued interest decreased during fiscal year 2020 by approximately $133.6 million from $311.7 million as of June 30, 2019 to $178.1 million as of June 30, 2020. The GDB Retained Loans included certain loans labeled as the Additional Recovery Authority Loans, with an unpaid principal balance totaling approximately $142 million as of the Closing Date. The GDB Restructuring Act provided for the Additional Recovery Authority Loans to be transferred to the DRA on the date that was the earlier of the effective date of a modification, restructuring or similar transaction in respect to such loans and 18 months after the Closing Date, an event that occurred in May 2020. Through that date, the GDB Operating Fund had also recognized, as required by the Qualifying Modification and the GDB Restructuring Act, an obligation for such transfer commitment as part of the restructuring transaction. In May 2020, the then carrying amount of such Additional Recovery Authority Loans, including accrued interest, amounted to approximately $106.9 million, which was eventually transferred to the DRA, which explains the majority of the loans and accrued interest decrease referred to above.

With respect to the Bank's most liquid assets, such as cash, it decreased by approximately $28 million, $20.3 million of which represented reductions in the GDB Operating Fund's cash. A substantial portion of this cash reduction responds to the Bank's transfer to FAFAA's Early Retirement Obligation Trust or ERO Trust of certain funds that were held in escrow for the benefit of the former employees of the Bank receiving payments under underlying Early Retirement Programs. The amount earmarked for these early retirement programs remaining at June 30, 2019 amounted to approximately $15 million, which amount the Bank was required to transfer upon the creation of said trust by FAFAA on August 6, 2019, pursuant to the Qualifying Modification. A liability amounting to $11 million had also been accrued by the Bank as of June 30, 2019, payable to FAFAA, which was also transferred at the same time. Additional cash payments and settlements continued to be made during fiscal year 2020 as a result of the winding down of the GDB Operating Fund's operations and outstanding unsettled items, explaining the remaining decrease in cash.

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The remainder of the liquid assets of the Bank are held primarily by HFA as of June 30, 2020 in the form of investments and investment contracts and deposits placed with banks, which remained in the aggregate relatively stable with a slight increase of $5.8 million during fiscal year 2020 to invest in its housing program needs. HFA reinvested upon redemption during fiscal year 2020 approximately $65 million of U.S. Treasury Obligation into deposits placed with banks, which resulted in most of the decrease in investments and investments contracts during 2020 of approximately $61 million from $170.3 million as of June 30, 2019 to $109.5 million as of June 30, 2020; while at the same time its deposits placed with banks increased by approximately $66 million from only approximately $1 million as of June 30, 2019 to approximately $67 million as of June 30, 2020.

As highlighted earlier, HFA became the sole owner of RLF acquiring such membership interests from Citi Community Capital as part of an agreement entered when the New Markets Tax Credit Structure was created. From September 1, 2019 to June 30, 2020, HFA recognized a $1.6 million in equity pickup from its investment in RLF. As a result, a new majority equity investment was recognized, which amounted to $39.7 million as of June 30, 2020

The other significant reductions within assets consisted of real estate available for sale, in the amount of approximately $42.3 million, mostly tied to real estate available for sale activities within the GDB Operating Fund and the Development Fund. The GDB Operating Fund's real estate available for sale balance of $5.4 million as of June 30, 2020 consists of real estate sold to third parties where total control over such properties does not transfer until certain conditions are met by the buyer over a specified time frame. As a result, such sales were accounted for as collateralized borrowing, with the corresponding liability included in the financial statements for the same amount within accounts payable and accrued expenses. During fiscal year 2020, the conditions tied to the transfer of three properties with a total carrying value of approximately $37.3 million were either met or released, prompting the derecognition of such amounts from the asset and liability side. In addition, on September 3, 2019, the Development Fund sold its $4.8 million parcel of land which it had acquired in the previous year from an unrelated party pursuant to an Assignment of Proceeds Agreement, which also required the assignment of the proceeds from such sale to the Puerto Rico Convention Center District Authority (CCDA), in order to repay a loan that had been granted to CCDA by the GDB Operating Fund for the development of such land. This loan had been transferred to the DRA by the GDB Operating Fund on the Closing Date pursuant to the Qualifying Modification.

Total liabilities decreased by approximately $158 million or 26%, which was attributed substantially to reductions in the commitment liabilities accrued as of June 30, 2019, as referred to in the previous paragraphs, and the combination of other decreases and increases related to notes payable and pension/OPEB related accounts activities, respectively.

Total accounts payable, accrued expenses and other liability decreased by approximately $169 million from approximately $258 million as of June 20, 2019, to approximately $89 million as of June 30, 2020. Approximately $113 million was related to the aforementioned transfer of Additional Recovery Authority Loans and related interests of $106.9 million to the DRA plus certain other outstanding GDB Retained Loans collections that remained pending to be transferred as of June 30, 2019; $15 million of ERO Trust commitment liability settled with FAFAA; $37.3 million of real estate available for sale collateralized borrowing derecognized during 2020 as conditions tied to the related transfers of three of the underlying properties were either met or released; and approximately $3.9 million of remaining accrued reserves set aside to cover certain open and disputed vendor claims established pursuant to the Qualifying Modification were also settled during fiscal year 2020.

Due to Commonwealth increased by $9.4 million during fiscal year 2020 as a result of employer pension and OPEB payments made for the same amount subsequent to the measurement date by the Commonwealth on behalf of the GDB Operating Fund, HFA and TDF. A new liability originated at HFA during fiscal year 2020 in the amount of approximately $6.5 million, which relates to advances in the normal course of operations from PRCDF 1, LLC, a community development entity and a new entity related to HFA through its new majority investment in PRHFA RLF Investment Fund, LLC, further described in Note 9.

Total pension and OPEB liability increased in the aggregate by approximately $2.5 million during fiscal year 2020, mostly as a result of the utilization of a lower discount rate from 3.87% to 3.5% for the actuarial calculation of such liabilities as of June 30, 2020 reporting period (June 30, 2019 measurement date).

Total notes and mortgage-back certificates payable as of June 30, 2020 decreased by approximately $2.8 million, almost all of which was attributed to the scheduled repayments made on such obligations, net of its underlying discount accretion for the year.

The net position government-wide as of June 30, 2019, of approximately $77 million, changed to a net position as of June 30, 2020 of $73 million. The decrease in net position of $4 million during fiscal year 2020 is composed of a positive change in net position of approximately $8 million from Business-Type Activities, impacted mostly by transfers of approximately $18 million from the Housing Finance Authority's (HFA) governmental activities into the HFA's business-type activities for repayment of debt, partially offset by the operating losses of the GDB Operating Fund of approximately $8 million and approximately $4 million in transfers from the Development Fund to a Commonwealth public corporation for the settlement of such public corporation's debt with the DRA as per an established settlement agreement; and a negative change in net position of approximately $12 million from Governmental Activities, mostly attributed to the approximately $18 million HFA's transfers referred to above from its governmental activities, partially offset by net revenues in HFA's housing program activities of approximately $11 million. The ratio of net position to total assets improved to 14.30% as of June 30, 2020 from 11.48% as of June 30, 2019.

(d) *Governmental Activities*

Total assets of Governmental Activities amounted to approximately $83.1 million as of June 30, 2020. Total liabilities amounted to-approximately $49 million, for a net position of approximately $34.1 million. The net position has been broken down into a net investment in capital assets of approximately $18 thousand and a net position of approximately $34.1 million restricted for affordable housing programs.

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Condensed financial information on assets, liabilities and net position (deficit) of Governmental Activities as of June 30, 2020, and 2019, is shown below (in thousands):

	June 30,		Change	
	2020	**2019**	**Amount**	**Percent**
Assets:				
Cash and due from banks and deposits placed with banks	$ 40,208	$ 33,487	$ 6,721	20%
Investments and investment contracts	37,393	47,132	(9,739)	-21%
Capital assets	18	34	(16)	-47%
Other assets	5,535	7,603	(2,068)	-27%
Total assets	83,154	88,256	(5,102)	-6%
Liabilities:				
Accounts payable and accrued liabilities	7,778	7,655	123	2%
Due to related party	6,456	-	6,456	100%
Notes payable	23,253	23,250	3	0%
Total liabilities before internal balances	37,487	30,905	6,582	21%
Internal balances	11,545	11,601	(56)	0%
Total liabilities	49,032	42,506	6,526	15%
Net position (deficit):				
Net investment in capital assets	18	34	(16)	-47%
Restricted for affordable housing programs	34,104	45,716	(11,612)	-25%
Total net position (deficit)	$ 34,122	$ 45,750	$ (11,628)	-25%

Investments and investment contracts amounted to approximately $37.4 million and, together with cash and due from banks and deposits placed with banks of approximately $40.2 million, account for the majority of the assets held by Governmental Activities. These assets are restricted to provide funds for the execution of the various affordable and other housing programs managed by the HFA. The aggregate amount of cash, investments and deposits as of June 30, 2020 had a net decrease of approximately $3 million over the prior year. Such decrease responds mostly because of a decrease of $23.1 million in operating grants, capital grants and contributions, thus reflected in reduced expenditures in the housing assistance programs.

Other assets are mainly restricted and are composed mostly of amounts due from the U.S. Department of Housing and Urban Development (HUD) and the Investment Partnerships (HOME) federal programs. Accounts and accrued liabilities, which have remained relatively stable over the years, mainly consist of unpaid expenditures related to the HOME Program fund and of subsidies payable on various housing programs. The net increase in total liabilities of approximately $6.5 million, responds essentially to a new liability originated at HFA during fiscal year 2020 in the amount of approximately $6.5 million, which relates to advances in the normal course of operations from PRCDF 1, LLC, a community development entity and a new entity related to HFA through its new majority investment in PRHFA RLF Investment Fund, LLC, further described in Note 9.

The increase of approximately $3 million in notes payable is all attributed to the discount accretion of the same amount on the appropriation debt payable to the Puerto Rico Public Finance Corporation (PFC), which in turn is collateral to the PFC Commonwealth Appropriation Bonds issued under Act No. 164 of 2001. No repayments were made to the HFA's PFC notes and the notes to the DRA, with an outstanding balance as of June 30, 2020 of approximately $3.3 million and $19.9 million, respectively. Refer to Note 23 regarding the elimination of the Commonwealth appropriations under the Commonwealth Plan of Adjustment and an overview of the PFC Restructuring Support Agreement.

Condensed financial information on expenses, program revenues and changes in net position (deficit) of Governmental Activities (Statement of Activities) during the years ended June 30, 2020, and June 30, 2019 (as restated) is shown below (in thousands):

	Year ended June 30, 2020		
	General government	Housing assistance programs	Total
Expenses	$ 4,372	$ 152,547	$ 156,919
Program revenues:			
Charges for services – fees, commissions and other	-	-	-
Charges for services – financing and investment	-	2,395	2,395
Operating grants and contributions	-	160,898	160,898
Net expenses	$ (4,372)	$ 10,746	6,374
Transfers-out, net			(18,002)
Change in net position (deficit)			(11,628)
Net position (deficit) – beginning of year			45,750
Net position – end of year			$ 34,122

	Year ended June 30, 2019		
	General government	Housing assistance programs	Total
Expenses	$ 5,499	$ 159,025	$ 164,524
Program revenues:			
Charges for services – fees, commissions and other	-	17,980	17,980
Charges for services – financing and investment	-	2,199	2,199
Operating grants and contributions	-	184,039	184,039
Net expenses	$ (5,499)	$ 45,193	39,694
Transfers-in, net			61,683
Change in net position (deficit)			101,377
Net position (deficit) – beginning of year			(55,627)
Net position – end of year			$ 45,750

Governmental Activities Results

Total revenues of the governmental activities decreased by approximately $40.9 million in 2020 from 2019. The decrease was due primarily to a decrease of $23.1 million in operating grants, capital grants, and contributions and a decrease of approximately $18 million in the custodial credit risk loss recovery which was a non-recurring transaction that was recorded in the fiscal year 2019. The grants and contributions decrease were mainly related to a decrease in Commonwealth appropriations of approximately $11.9 million. The appropriation decrease was due primarily to approximately $11.4 million lower funding received under the My New Home Program. There was also a decrease of approximately $9.2 million in Intergovernmental-federal government revenue. The decrease in Intergovernmental-federal government revenue is attributed to: (1) approximately $4.6 million decrease in the revenues of the HOME Program due to lower activity in construction projects subsidized by the Program mainly due to the COVID-19 pandemic and (2) the transfer, effective January 1, 2020, of the Housing Choice Voucher Program to the Puerto Rico Public Housing Administration. This transfer resulted in a decrease in revenues of approximately $6 million. Total expenses of the governmental activities decreased by approximately $7.5 million in 2020 from 2019. The decrease in expenses was mainly due to a decrease of approximately $6 million of expenses due to the transfer of the Housing Choice Voucher Program and a decrease of approximately $4.6 million in expenses of the HOME Program, as previously explained.

The current year net transfers-out of approximately $18 million represented transfers to the HFA's proprietary fund for operational and repayment of debt's purposes, which is normally the case every year. This differed significantly from the net transfers-in received by the governmental activities in fiscal year 2019 of approximately $62 million. Such net transfers-in last year included approximately $65.1 million transfers from the HFA's proprietary fund, originating from the recoveries of the same amount of previously recognized custodial credit risk loss on deposits with the Bank, which were permitted to be used as offset against the lines of credit owed to the Bank pursuant to the Qualifying Modification. The HFA proprietary fund made such transfers to the HFA Affordable Housing Subsidy Program governmental activity, as such program carried the aforementioned debt with the Bank. This situation did not recur in fiscal year 2020.

An analysis of the financial position and results of operations of the Bank's major Governmental Funds follows:

(e) ***HUD Programs***

This fund accounts for the U.S. Housing Act Section 8 programs administered by the HFA under the authorization of the HUD. Presently, HFA operates three programs whereby low-income families receive subsidies directly or indirectly to pay for their rent. The housing vouchers program enables families to obtain rental housing in a neighborhood of their choice. The other programs are project-based subsidies whereby housing developers are given incentives to keep their properties available for certain markets.

The expenditures of the HUD Programs decreased by approximately $6.8 million from approximately $148.6 million in the fiscal year 2019 to approximately $141.8 million in the fiscal year 2020. This decrease is the result of the transfer, effective January 1, 2020, of the Housing Choice Voucher Program to the Puerto Rico Public Housing Administration. This decrease correlates with a decrease in total liabilities of the HUD Programs from approximately $1.9 million as of June 30, 2019 to approximately $935 thousand as of June 30, 2020, for practically the same reasons.

(f) ***HOME Program***

This fund accounts for funds received from HUD for the administration of the HOME Program. The main purpose of this program is to increase the supply of decent and affordable housing for low and very low-income families. Revenues decreased from approximately $8.2 million in the fiscal year 2019 to approximately $6.4 million in the fiscal year 2020 due primarily to lower activity in construction projects subsidized by the Program due to the COVID-19 pandemic, which also reflected similar decreases in its expenditures from approximately $9.6 million in fiscal year 2019 to approximately $7.7 million in fiscal year 2020. This correlates with proportional decreased in the total liabilities of the HOME programs from approximately $5.8 million as of June 30, 2019 to approximately $5.3 million as of June 30, 2020, for similar reasons. These figures and fluctuations also show the cash management being employed in the timing of payment of the program's liabilities, which depends on the timing of collection of funds from HUD.

Revenues decreased from approximately $8.2 million in fiscal year 2019 to approximately $6.4 million in fiscal year 2020, primarily due to lower activity in construction projects subsidized by the Program and a lower grant award. Expenses decreased $2 million to approximately $7.7 million during fiscal year 2020 from $9.6 million during fiscal year 2019, showing the same proportional decreases experienced in revenues, as expenditures on the program are tied to the funding provided by HUD.

(g) ***Affordable Housing Mortgage Subsidy Programs***

Affordable Housing Mortgage Subsidy Programs (AHMSP) Act No. 124 is a fund used to account for the proceeds of specific local revenue sources under the different subsidy programs.

Investments and investment contracts amounted to approximately $37.4 million and, together with cash and due from banks and deposits placed with banks of approximately $30 million, account for the majority of the assets held by the Affordable Housing Mortgage Subsidy Programs. These assets are restricted to provide funds for the execution of the various affordable housing programs managed by the HFA. The aggregate amount of cash, investments and deposits as of June 30, 2020 had a net decrease of approximately $2 million over the prior year. Such decrease responds mostly because of a decrease in Commonwealth appropriations of approximately $11.9 million. The appropriation decrease was mainly due to approximately $11.4 million lower funding received under the My New Home Program, thus reflected in reduced expenditures in the housing assistance programs.

The remaining non-appropriation revenues for fiscal year 2020 decreased by approximately $19.8 million from approximately $23.3 million during fiscal year 2019 to approximately $3.5 million during fiscal year 2020. This was caused principally by the $18 million in recovery of previously recognized custodial credit risk loss on deposits with the Bank, which were permitted to be offset against the lines of credit owed to the Bank pursuant to the Qualifying Modification in fiscal year 2019. This event did not ocur during fiscal year 2020.

The decrease in debt service expenditures of approximately $1.2 million in fiscal year 2019 to approximately $273,000 in fiscal year 2020 was due to the Qualifying Modification last year, which required the settlement of several lines of credit owed to the Bank, aggregating approximately $82.2 million, an event that did not recur in 2020.

As previously discussed, the current year net transfers-out of approximately $18 million represented transfers to the HFA's proprietary fund for operational and repayment of debt's purposes, which is normally the case every year. This contrasted significantly from the net transfers-in received by the governmental activities in fiscal year 2019 of approximately $62 million. Such net transfers-in last year included approximately $65.1 million transfers from the HFA's proprietary fund, originating from the recoveries of the same amount of previously recognized custodial credit risk loss on deposits with the Bank, which were permitted to be used as offset against the lines of credit owed to the Bank pursuant to the Qualifying Modification. The HFA proprietary fund made such transfers to the HFA Affordable Housing Subsidy Program governmental activity, as such program carried the aforementioned debt with the Bank. This situation did not recur in fiscal year 2020.

(h) ***CDBG Programs***

This special revenue fund is used to account for the specific revenue sources related to the sub-recipient agreements entered between the Authority and PRDOH to administer Community Development Block Grant – Disaster Recovery (CDBG-DR) funds. These funds were received for the first time during fiscal year 2020 and the entire amount received of approximately $2.1 million was expended.

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Business - Type Activities

Condensed financial information on assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position as of June 30, 2020, and June 30, 2019 (as restated), is presented below (in thousands):

	June 30,		Change	
	2020	2019 (as restated)	Amount	Percent
Assets:				
Cash and due from banks	$ 57,211	$ 81,789	$ (24,578)	-30.1%
Federal funds sold	2,280	7,123	(4,843)	-68.0%
Deposits placed with banks	56,975	756	56,219	7436.4%
Investments and investment contracts	72,154	123,165	(51,011)	-41.4%
Investment in PRHFARLF Investment, Fund, LLC	39,707	-	39,707	100.0%
Loans receivable – net	175,834	302,547	(126,713)	-41.9%
Accrued interest receivable	2,116	8,948	(6,832)	-76.4%
Real estate available for sale	6,954	49,239	(42,285)	-85.9%
Other receivable, net	2,714	1,295	1,419	109.6%
Other assets	991	126	865	686.5%
Internal balances	11,544	11,601	(57)	-0.5%
Capital assets	8,606	8,521	85	1.0%
Total assets	$ 437,086	$ 595,110	$ (158,024)	-26.6%
Deferred outflows of resources:				
Loss on bond refundings	$ 1,507	$ 1,718	$ (211)	-12.3%
Goodwill	839	-	839	100%
Pension related	24,829	19,983	4,846	24.3%
Other postemployment benefits related	254	247	7	2.8%
Total deferred outflows of resources	$ 27,429	$ 21,948	$ 5,481	25.0%
Liabilities:				
Accounts payable, accrued expenses, and other liabilities	$ 81,778	$ 251,462	$ (169,684)	-67.5%
Unearned revenues	3,263	3,941	(678)	-17.2%
Due to Commonwealth of Puerto Rico	30,306	20,874	9,432	45.2%
Bonds, notes, and mortgage-backed certificates payable:				
Due in one year	8,132	12,976	(4,844)	-37.3%
Due in more than one year	96,441	94,359	2,082	2.2%
Total pension liability and postemployment benefits				
Due in one year	9,554	10,372	(818)	-7.9%
Due in more than one year	183,201	179,903	3,298	1.8%
Total liabilities	$ 412,675	$ 573,887	$ (161,212)	-28.1%
Deferred inflows of resources: Pension related	$ 13,193	$ 11,818	$ 1,375	11.6%
Net position:				
Net investment in capital assets	$ 8,606	$ 8,521	$ 85	1.0%
Restricted for:				
Affordable housing programs	19,572	18,493	1,079	5.8%
Quiality Modification distributions	378	-	378	100.0%
Unrestricted net position (deficit)	10,091	4,339	5,752	132.6%
Total net position	$ 38,647	$ 31,353	$ 7,294	23.3%

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(i) *Cash, Federal Funds Sold, Deposits Placed with Banks and Investments and Investment Contracts*

The combination of cash and due from banks, federal funds sold, deposits placed with banks and investments, representing the most liquid of the financial assets of the Bank, all collectively decreased by approximately $24 million, approximately $20.3 million of which represented reductions in the GDB Operating Fund's cash. A substantial portion of this cash reduction responds to the Bank's transfer to FAFAA's Early Retirement Obligation Trust or ERO Trust of certain funds that were held in escrow for the benefit of the former employees of the Bank receiving payments under underlying Early Retirement Programs. The amount earmarked for these early retirement programs remaining at June 30, 2019 amounted to approximately $15 million, which the Bank was required to transfer upon the creation of the ERO Trust on August 6, 2019 pursuant to the Qualifying Modification. An obligation liability amounting to $11 million had also been accrued by the Bank as of June 30, 2019, payable to FAFAA, which was also transferred at the same time. Additional cash payments and settlements continued to be made during fiscal year 2020 as a result of the winding down of the GDB Operating Fund's operations and outstanding unsettled items, resulting in the remaining decrease in cash.

The rest of the liquid assets of the Bank are held as of June 30, 2020 primarily in the form of investments and investment contracts, federal funds sold and deposits placed with banks, which remained in the aggregate relatively stable with a slight increase of approximately 365 thousand during fiscal year 2020 to invest in HFA's housing program needs (as most of these liquid assets are held at HFA). HFA reinvested upon redemption during fiscal year 2020 approximately $65 million of its U.S. Treasury Obligation into deposits placed with banks, which explains most of the decrease in investments and investments contracts during 2020 of approximately $51 million from approximately $123 million as of June 30, 2019 to approximately $72 million as of June 30, 2020; while at the same time its deposits placed with banks increased by approximately $56 million from approximately $756 thousand as of June 30, 2019 to approximately $57 million as of June 30, 2020.

Investments and investment contracts held in Business-Type Activities in the amount of approximately $72 million as of June 30, 2020, mostly pertaining to the HFA, consisted primarily of highly liquid instruments such as the U.S. Treasury Obligations referred to in the previous paragraph, followed by U.S.-sponsored agency notes and mortgage-backed securities and nonparticipating investment contracts, all with very high credit ratings, reflecting the Bank's prudent and conservative investment policies. Most of the securities that were in the Bank's investment portfolio were AAA to A rated securities (around 82% of the total investment portfolio). The investment portfolio comprised 17% of the total assets of the Bank's Business-Type Activities as of June 30, 2020, down 4% as compared to 21% at the close of fiscal year 2019. All of the Bank's investments in mortgage-backed securities amounting to $58.4 million and $64.2 million as of June 30, 2020 and June 30, 2019, respectively, are held by trustees in connection with bonds issued by the HFA, the terms of which provide for early redemption of the bonds if the securities are repaid early.

(j) ***Investment in PRHFA RLF Investment Fund, LLC***

As highlighted earlier, HFA became the sole owner of RLF acquiring such membership interests from Citi Community Capital for a payment in the amount of $587 thousand, as part of an agreement entered when the New Markets Tax Credit Structure was created. The amount of the payment, plus the loan that HFA had outstanding with RLF and related accrued interest aggregating approximately $38 million, became part of the original investment amount upon acquisition, net of a resulting goodwill of approximately $839 thousand. From September 1, 2019 to June 30, 2020, HFA recognized a $1.6 million in equity pickup from its investment in RLF. As a result, a new majority equity investment was recognized, which amounted to $39.7 million as of June 30, 2020.

(k) ***Loans Receivable, Allowance for Loan Losses and Liabilities under Guaranteed Obligations***

The approximately $175.8 million in loans receivable (net of an allowance for loan losses of approximately $83.9 million) as of June 30, 2020 (all private sector loans), represents approximately $126.7 million or 42% decrease from fiscal year 2019 to fiscal year 2020. Loans as a percentage of total assets decreased 11 percentage points from 51% at the end of fiscal year 2019 to 40% as of June 30, 2020, consisting only of the GDB Retained Loans held by the GDB Operating Fund and the HFA loans. Such loans and related accrued interest decreased during fiscal year 2020 by approximately $133.6 million from $311.7 million as of June 30, 2019 to $178.1 million as of June 30, 2020. The GDB Retained Loans included certain loans labeled as the Additional Recovery Authority Loans, with an unpaid principal balance totaling approximately $142 million as of the Closing Date. The GDB Restructuring Act provided for the Additional Recovery Authority Loans to be transferred to the DRA on the date that was the earlier of the effective date of a modification, restructuring or similar transaction in respect to such loans and 18 months after the Closing Date, an event that eventually occurred during May 2020. Through that date, the GDB Operating Fund had also recognized, as required by the Qualifying Modification and the GDB Restructuring Act, an obligation for such transfer commitment as part of the restructuring transaction. In May 2020, the then carrying amount of such Additional Recovery Authority Loans, including accrued interest, amounted to approximately $106.9 million, which was eventually transferred to the DRA, which explains most of the loans and accrued interest decrease referred to above.

The estimates for recording incurred losses in the loan portfolio remaining after the Qualifying Modification involved significant management judgment based on observable facts and circumstances, mostly related to the ultimate source of repayment. For example, the original source of repayment of many loans granted to public corporations depended on the capacity to bond out such loans in capital/municipal markets. Details on those bonds were identified in the original loan documents. In the case of loans granted to public corporations, even when the operating results and/or debt appropriations served as the original source of repayment, the Commonwealth's limitations to timely provide for those payments were also considered by senior management.

The Bank considers the majority of the public corporation loan portfolio within the GDB Retained Loans as impaired based on current information and events, including the significant delays in the receipt of the scheduled debt service payment mentioned above. In management's opinion, it was highly probable that the Bank would be unable to collect all amounts due according to the loan's original contractual terms.

The Bank's management used applicable authoritative literature, general background information and recent relevant information included in the Commonwealth and Bank's fiscal plan to establish an allowance for loans losses. Specifically, the Bank established an allowance for losses on these impaired loans based on management's estimate of the present value of expected debt service payments discounted at the loans' effective interest rate. The Bank determined that major sources of repayment on this portfolio were from refinancing through bond issuances, appropriations from the Commonwealth, operating revenues of the borrowers, federal funding and collateral sales. To identify loans that must be individually measured for impairment, the population of all loans outstanding was segregated into the remaining two general portfolios based on groups of borrowers: (1) public corporations and (2) private sector loans. The public corporations' portfolio was additionally segregated into risk-based buckets taking into consideration their source of repayment, guarantee and payment history. The risk based buckets included (i) loans with a reliable source of repayment, (ii) loans with an unreliable source of repayment that were not performing according to contract terms (as to principal and interest) and did not have any additional source of repayment, (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 (iv) loans with an unreliable source of repayment that were only paying interest and did not have any additional source of repayment, (v) loans with an unreliable source of repayment that were performing as to principal and interest, but did not have any additional source of repayment. For loans identified as requiring evaluation for impairment individually, the 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. For private loans, the most recent expected future cash flow expectations were used to determine required allowance for loan losses.

In relation to interest income recognition, for loans to public sector entities, the Bank classified loans as nonaccrual when management determined if any of the following characteristics were present: (a) a loan was six months past due; (b) it had no current source of repayment; (c) it was not covered by a formal commitment from the Commonwealth; or (d) it did not have designated collateral or such collateral was insufficient. Based on these four elements, the loan was placed in nonaccrual status and all accrued interest receivable was reversed from interest income. Interest income on nonaccrual loans is thereafter recognized as income only to the extent actually collected. Nonaccrual loans are returned to an accrual status when there is adequate evidence to believe that the loans will be performing as contracted.

As of June 30, 2020, the changes in the allowance for loan losses in the Proprietary Funds were as follows (in thousands):

	Proprietary Funds				
	GDB Operating Fund	Tourism Development Fund	Housing Finance Authority	Other Non-major	Total
Balance – beginning of year (as restated)	$ 927,989	$ 26,488	$ 39,278	$ 18,300	$ 1,012,055
Provision (release) of loan losses	-	-	592	-	592
Transferred to DRA	(26,860)	-	-	-	(26,860)
Write-offs	(11,361)	-	(775)	-	(12,136)
Balance – end of year	$ 889,768	$ 26,488	$ 39,095	$ 18,300	$ 973,651

Allowance for loan losses-collective loans

The allowance for loan losses at the business-type activities level was impacted principally by net write-offs of $11.4 million in the GDB Operating Fund and a reduction in allowance of $26.9 million, as a result of an additional transfer in May 2020 of a fully reserved loan for the same amount to the DRA, pursuant to the Qualifying Modification.

The Bank calculated the allowance on the remaining GDB Retained Loans using risk characteristics in common with other impaired loans. The Bank's evaluation of impaired loans consisted of identifying which public corporation loans had reliable sources of repayment and which had unreliable sources of repayment. Loans with reliable sources of repayment were evaluated collectively. Loans with unreliable sources of repayment were evaluated for impairment individually. Impaired loans are measured individually based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral, if the loan was collateral dependent.

Private Sector Loans

Private sector loans outstanding as of June 30, 2020 and June 30, 2019 amounted to approximately $175.8 million and $192.7 million, respectively, net of an allowance for loan losses of approximately $84 million at each of both years. Private sector loans made primarily through the Bank's component units includes loan facilities for the housing and tourism sectors. As the private sector loans under the GDB Operating Fund were all transferred away to the DRA pursuant the Qualifying Modification, the remaining allowance is accounted under the TDF ($26.5 million), the HFA ($39.1 million) and the Development Fund ($18.3 million). Refer to Note 10 to the basic financial statements for further information on loans receivable and allowance for loan losses.

(l) ***Accrued Interest Receivable***

Accrued interest receivable decreased by $6.8 million or 76.4% from $8.9 million as of June 30, 2019 to $2.1 million as of June 30, 2020. Most of the decrease responds, as previously discussed on the loan section above, to the execution of additional transfers of loans to the DRA, including its accrued interest, pursuant to the Qualifying Modification.

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(m) ***Real Estate Available for Sale and Other Receivables***

Real estate available for sale decreased in the amount of approximately $42.3 million, mostly tied to real estate available for sale activities within the GDB Operating Fund and the Development Fund. The GDB Operating Fund's real estate available for sale balance of $5.4 million as of June 30, 2020 consists of real estate sold to third parties where total control over such properties does not transfer until certain conditions are met by the buyer over a specified time frame (See Note 12). As a result, such sales were accounted for as collateralized borrowing, with the corresponding liability included in the financial statements for the same amount within accounts payable and accrued expenses. During fiscal year 2020, the conditions tied to the transfer of three properties with a total carrying value of approximately $37.3 million were either met or released, prompting the derecognition of such amounts from the asset and liability sides. In addition, on September 3, 2019, the Development Fund sold its $4.8 million parcel of land which it had acquired in the previous year from an unrelated party pursuant to an Assignment of Proceeds Agreement, which also required the assignment of the proceeds from such sale to the Puerto Rico Convention Center District Authority (CCDA), in order to repay a loan that had been granted to CCDA by the GDB Operating Fund for the development of such land. This loan had been transferred to the DRA by the GDB Operating Fund on the Closing Date pursuant to the Qualifying Modification.

(n) ***Capital Assets***

Capital assets, net of accumulated depreciation, amortization and impairment, amounted to $8.6 million as of June 30, 2020, an increase of just $85 capital assets from the prior year, all attributed to the HFA's capital asset activities, as the GDB Operating Fund had already disposed of all its capital assets as part of its ongoing liquidation of its assets following the Qualifying Modification.

(o) ***Accounts Payable, Accrued Expenses and Other Liabilities***

Within total liabilities, there are accounts payable, accrued expenses and other liabilities totaling approximately $81.8 million and approximately $251.5 million as of June 30, 2020, and June 30, 2019, respectively, a decrease of approximately $169.7 million. Approximately $113 million of the decrease is tied to the transfer of Additional Recovery Authority Loans and related interests to the DRA (as referred to in the loans section (k) above), plus certain other outstanding GDB Retained Loans collections transferred to the DRA, which prompted the derecognition of the commitment obligation for such transfers that the Bank had accrued as of June 30 2019; $15 million is related to the ERO Trust commitment liability settled with FAFAA (as previously discussed in the Government-wide analysis and section (i) referred to above); $37.3 million of real estate available for sale collateralized borrowing derecognized during 2020 as conditions tied to the related transfers of three underlying properties were either met or released (as referred to in section (m) above); and approximately $3.9 million of remaining accrued reserves set aside to cover certain open and disputed vendor claims established pursuant to the Qualifying Modification, which were also settled during fiscal year 2020 (as referred to in the Government-wide analysis).

Another component of these balances is attributed to the liabilities under guaranteed obligations of $48.1 million and $48.7 million as of June 30, 2020, and June 30, 2019, respectively. As of June 30, 2020, the changes in such liabilities in the Proprietary Funds were as follows:

	Beginning balance	Provision/ increases	Payments/ reductions/credits	Ending balance	Due within one year
Tourism Development Fund	$ 42,010,364	$ -	$ -	$ 42,010,364	$ -
Development Fund	701,343	-	(698,913)	2,430	-
GDB Operating Fund	-	-	-	-	-
Housing Finance Authority	5,982,402	139,848	-	6,122,250	6,122,250
Total	$ 48,694,109	$ 139,848	$ (698,913)	$ 48,135,044	$ 6,122,250

The corresponding liability of the TDF is based on the best estimate of the discounted present value of the future outflows expected to be incurred on the underlying guaranteed obligations, which has been determined to be approximately $42 million as of June 30, 2020.

Most of the guaratees under the Loan Guaranty Program of the Development Fund expired during fiscal year 2020; therefore, a related guaranty liability existing as of June 30, 2019 of approximately $670,000 was reversed during fiscal year 2020. The remaining liability relates to the Key for Your Business Program, which also decreased as a result of the sale of most of the underlying loans.

The changes in HFA's liabilities relates to its mortgage loan insurance program under which it guarantees up to $75 million of the principal insured by the program. As of June 30, 2020, the mortgage loan insurance program covered loans aggregating approximately $553 million, for which a liability of approximately $6 million was determined to be necessary as an estimate of the losses in the portfolio. Further details about the mortgage loan insurance program are explained in Note 15 to the basic financial statements.

(p) ***Due to Commonwealth***

During fiscal year 2020, the Commonwealth made PayGo pension benefits payments on behalf of the Bank amounting to approximately $9.3 million (approximately $5.9 million for the GDB Operating Fund, approximately $3.4 million for the HFA, and approximately $10 thousand for TDF) and OPEB benefits payments amounting to approximately $254 thousand (approximately $135 thousand for the GDB Operating Fund, approximately $118 thousand for the HFA, and $1 thousand for the TDF). Added to the prior years' PayGo payments in the amount of $20.9 million, also made on behalf of the Bank, an accumulated Due to Commonwealth has been recorded on the basic financial statements as of June 30, 2020 amounting to approximately $30.3 million.

(q) ***Long-Term Debt***

The notes payable at June 30, 2020 pertain all to the HFA. The HFA redeemed several notes and bonds payable during fiscal year 2020 in the amount of approximately $2.8 million (net of the related discount accretion for the year of $4.6 million). There were no gross debt originations during the fiscal year ending June 30, 2020.

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Condensed financial information on expenses, program revenues and changes in net position (deficit) for Business-Type Activities for the years ended June 30, 2020, and June 30, 2019, is presented below (in thousands):

	Year ended June 30, 2020			
		Program revenues		
		Charges for services		
Activity	Expenses	Fees, commissions, and others	Financing and investment	Net revenues/ (expenses)
GDB Operating Fund	$ 8,239	$ 24	$ 185	$ (8,030)
Housing Finance Authority	23,553	11,244	13,630	1,321
Tourism Development Fund	108	-	48	(60)
Other non-major funds	5,556	1,903	(287)	(3,940)
Total	$ 37,456	$ 13,171	$ 13,576	(10,709)
Extraordinary item-gain on Qualifying Modification				-
Transfers from governmental activities, net				18,002
Change in net position				7,293
Net position – beginning of year, as restated				31,354
Net position – end of year				$ 38,647

	Year ended June 30, 2019			
		Program revenues		
		Charges for services		
Activity	Expenses	Fees, commissions, and others	Financing and investment	Net revenues/ (expenses)
GDB Operating Fund	$ (169,400)	$ 349	$ 86,482	$ 256,231
Housing Finance Authority	48,213	11,360	14,158	(22,695)
Tourism Development Fund	(1,979)	300	94	2,373
Other non-major funds	15,041	3,761	1,317	(9,963)
Total	$ (108,125)	$ 15,770	$ 102,051	225,946
Extraordinary item-gain on Qualifying Modification				4,179,511
Transfers to governmental activities, net				(61,683)
Change in net position				4,343,774
Net deficit – beginning of year, as restated				(4,312,420)
Net position – end of year				$ 31,354

Proprietary Funds

Following is a brief discussion of the most significant changes in the Bank's proprietary funds, not previously discussed. For more detailed information of the GDB Operating Fund refer to business-type activities section.

GDB Operating Fund

The deficit increased from $109.1 million as of June 30, 2019 to a deficit of $117.1 million as of June 30, 2020. The increase in net deficit of approximately $8 million in fiscal year 2020 is attributable to approximately $8 million of operating losses sustained.

Following the Qualifying Modification, the remaining operations of the Bank primarily relate to HFA, with the GDB Operating Fund's sole activities consisting of continuing the winding down of its operations, servicing its other nonmajor funds, holding and servicing certain public corporation loans (known as the GDB Retained Loans) for the benefit of the DRA, and maintaining on its books the retirement and other postemployment benefit obligations to its retirees. As a result, its operations are principally pension and OPEB expenses related to the obligations towards its retirees and professional and legal fees as its back office is being outsourced for the most part; thus explaining its operating loss for the year.

Housing Finance Authority

The net position of the HFA increased from approximately $161.4 million at June 30, 2019, to approximately $180.7 million at June 30, 2020, or approximately $19.3 million, responding to the operating income for the year of approximately $1.3 million and transfers in amounting to $18 million.

Going Concern Uncertainty

As described in Note 5, on November 29, 2018 (the Closing Date), the Bank executed the Qualifying Modification, which resulted in a comprehensive financial restructuring and legal discharge of substantially all of the Bank's debts and the ensuing transfer of almost all its revenue earning assets to the DRA or to the PET. The execution of the Qualifying Modification continued the process of efficiently winding down the Bank's operations. With the execution of this transaction, the GDB Operating Fund will not emerge as a going concern. Also, as the Bank's blended component units' activities revolved and depended on the GDB Operating Fund, there is also substantial doubt that such component units will continue as well as going concerns.

With respect to HFA, it has the intention of putting in place a series of plans and initiatives that, when executed, are expected to result in an alleviation of the substantial doubt referred to in the previous paragraph.

Currently Known Facts and Events

On September 16, 2020, pursuant to Section 207 of PROMESA, the Oversight Board approved a settlement agreement whereby the Puerto Rico Infrastructure Financing Authority transferred the World Plaza Building to GDB in full satisfaction of the line of credit which at such date approximated $50 million.

Commonwealth Plan of Adjustment

As described in Note 23, on January 18, 2022, the Title III Court entered its findings of fact and conclusions of law (the Findings of Fact) in connection with the *Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al*. [ECF No. 19812] (the Commonwealth Plan of Adjustment), and an order confirming the Commonwealth Plan of Adjustment [ECF No. 19813] (the Commonwealth Confirmation Order). Between January 28, 2022 and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. By March 11, 2022, the First Circuit denied all parties' motions for a stay pending appeal, which allowed the Commonwealth Plan of Adjustment to become effective despite the appeals. On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

All Commonwealth laws that required the transfer of funds from the Commonwealth to other entities, including laws providing appropriations to the Bank, are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. In addition, the Commonwealth Plan of Adjustment discharges any claim related to budgetary appropriations, including appropriations for the repayment of the PFC Bonds and certain loans held by the PET (defined below). For further information on the Commonwealth Plan of Adjustment refer to note 23 and the Commonwealth Plan of Adjustment, Findings of Fact, and Confirmation Order, which are available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

PFC Restructuring Support Agreement

On January 20, 2022, FAFAA, on behalf of PFC, entered into a Restructuring Support Agreement (the PFC RSA) with holders of a majority of those certain Series 2011A, Series 2011B, and Series 2012A Commonwealth Appropriation Bonds (the PFC Bonds). The PFC RSA contemplates a restructuring and discharge of the PFC Bonds under Title VI of PROMESA. The PFC RSA further contemplates that those promissory notes that were issued to the order of PFC by certain Commonwealth instrumentalities, including by the HFA, for the repayment of the PFC Bonds will be cancelled and extinguished and the HFA will be discharged from any liability arising from or related to such promissory notes. The restructuring contemplated by the PFC RSA remains subject to the occurrence of various conditions, including obtaining the requisite votes required by Title VI of PROMESA in favor of the restructuring and court approval of the restructuring.

Subsequent Distributions to the PET

As discussed in Note 5 and 23, on December 10, 2021, the Bank declared that Excess Reserved Cash, as defined in the PET Deed of Trust, in the amount of approximately $4 million had been realized and distributed such funds immediately to the PET pursuant to the provisions of the PET Deed.

Puerto Rico HFA

On July 2, 2020, the HFA entered into a subrecipient agreement with the Puerto Rico Department of Housing (PRDOH) to administer Community Development Block Grant – Disaster Recovery (CDBG-DR) funds. Under this agreement, the PRDOH allocated $156 million to the HFA to undertake the Homebuyer Assistance Program. This program will provide financial assistance to qualified homebuyers to cover closing costs and down payment assistance. The HFA will be reimbursed from these allocations certain costs incurred in the management of these programs.

On July 19, 2020, Act No. 69 was enacted authorizing the HFA to transfer the ownership of properties acquired via foreclosure or deed in lieu of foreclosures (among others) to Municipalities in Puerto Rico, without cost.

Contacting the Bank's Financial Management

This report is designed to provide all interested parties with a general overview of the Bank's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Government Development Bank for Puerto Rico, P.O. Box 42001, San Juan, Puerto Rico, 00940-2001.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION
JUNE 30, 2020

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and due from banks	$ 30,366,637	$ 57,211,376	$ 87,578,013
Federal funds sold	—	2,280,199	2,280,199
Deposits placed with banks	9,840,824	56,975,048	66,815,872
Due from federal government, net	5,403,966	—	5,403,966
Investments and investment contracts	37,393,432	72,154,352	109,547,784
Investments in PRHFA RLD Investment Fund, LLC	—	39,706,521	39,706,521
Loans receivable, net	—	175,833,753	175,833,753
Accrued interest receivable	131,031	2,116,545	2,247,576
Other receivables, net	—	2,714,206	2,714,206
Real estate available for sale	—	6,953,691	6,953,691
Capital assets:			
Land and other nondepreciable assets	—	7,752,711	7,752,711
Depreciable assets	18,488	853,076	871,564
Other assets	—	991,309	991,309
Total assets	83,154,378	425,542,787	508,697,165
DEFERRED OUTFLOWS OF RESOURCES:			
Loss on bond refundings	—	1,507,002	1,507,002
Goodwill	—	839,461	839,461
Pension related	—	24,828,793	24,828,793
Other post employment benefits related	—	253,578	253,578
Total deferred outflows of resources	—	27,428,834	27,428,834
LIABILITIES:			
Accrued interest payable	$ 69,354	$ —	$ 69,354
Matured interest payable	734,261	—	734,261
Accounts payable and accrued liabilities	6,974,382	33,643,169	40,617,551
Internal balances	11,544,587	(11,544,587)	—
Due to related party	6,456,210	—	6,456,210
Due to Commonwealth of Puerto Rico	—	30,306,470	30,306,470
Mortgage loan insurance and liabilities under guaranteed obligations:			
Due within one year	—	6,122,250	6,122,250
Due in more than one year	—	42,012,794	42,012,794
Unearned revenues	—	3,263,160	3,263,160
Bonds, notes and mortgage-backed certificates payable:			
Due within one year	20,359,879	8,132,073	28,491,952
Due in more than one year	2,893,349	96,441,227	99,334,576
Total pension liability:			
Due within one year	—	9,299,827	9,299,827
Due in more than one year	—	180,495,393	180,495,393
Total other post employment benefit liability:			
Due within one year	—	253,578	253,578
Due in more than one year	—	2,706,343	2,706,343
Total liabilities	49,032,022	401,131,697	450,163,719
DEFERRED INFLOWS OF RESOURCES: Pension related	—	13,192,793	13,192,793
NET POSITION:			
Net investment in capital assets	18,488	8,605,787	8,624,275
Restricted for:			
Qualifying modification distributions	—	377,521	377,521
Affordable housing programs	34,103,868	19,572,502	53,676,370
Unrestricted net position	—	10,091,321	10,091,321
TOTAL NET POSITION	$ 34,122,356	$ 38,647,131	$ 72,769,487

See accompanying notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

		Program Revenues			Net Revenues (Expenses) and Changes in Net Position (Deficit)		
	Expenses	Charges for Services - Fees, Commissions, and Others	Charges for Services - Financing and Investment	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
FUNCTIONS/PROGRAMS:							
Governmental activities:							
General government and other	$ 4,372,442	$ —	$ —	$ —	$ (4,372,442)	$ —	$ (4,372,442)
Housing assistance programs	152,546,898	—	2,395,393	160,898,636	10,747,131	—	10,747,131
Total governmental activities	156,919,340	—	2,395,393	160,898,636	6,374,689	—	6,374,689
Business-type activities:							
GDB Operating Fund	8,239,240	23,836	185,563	—	—	(8,029,841)	(8,029,841)
Housing Finance Authority	23,553,651	11,244,033	13,629,858	—	—	1,320,240	1,320,240
Tourism Development Fund	108,061	—	48,275	—	—	(59,786)	(59,786)
Other non-major	5,556,514	1,903,349	(286,559)	—	—	(3,939,724)	(3,939,724)
Total business-type activities	37,457,466	13,171,218	13,577,137	—	—	(10,709,111)	(10,709,111)
Total	$ 194,376,806	$ 13,171,218	$ 15,972,530	$ 160,898,636	6,374,689	(10,709,111)	(4,334,422)
Transfers in (out) — Net					(18,002,035)	18,002,035	—
CHANGES IN NET POSITION					(11,627,346)	7,292,924	(4,334,422)
NET POSITION — Beginning of year (as restated, see Note 4)					45,749,702	31,354,207	77,103,909
NET POSITION — End of year					$ 34,122,356	$ 38,647,131	$ 72,769,487

See accompanying notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET — GOVERNMENTAL FUNDS

JUNE 30, 2020

	HUD Programs	Home Program	CDBG Program	Affordable Housing Mortgage Subsidy Program	Total Governmental Funds
ASSETS:					
Restricted:					
Cash and due from banks	$ 42,027	$ 339,745	$ 3,415	$ 29,981,450	$ 30,366,637
Deposits placed with banks	—	—	—	9,840,824	9,840,824
Due from federal government	893,396	4,510,570	—	—	5,403,966
Investments and investment contracts	—	—	—	37,393,432	37,393,432
Interest and other receivables	—	—	—	131,031	131,031
Total assets	$ 935,423	$ 4,850,315	$ 3,415	$ 77,346,737	$ 83,135,890
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:					
Due to other funds	$ 893,396	$ 749,432	$ 3,415	$ 9,898,344	$ 11,544,587
Accounts payable and accrued liabilities	41,877	4,521,965	—	2,410,540	6,974,382
Due to related party	—	—	—	6,456,210	6,456,210
Matured note payable	—	—	—	19,909,611	19,909,611
Matured principal on appropriation note	—	—	—	353,097	353,097
Matured interest payable	—	—	—	734,261	734,261
Total liabilities	935,273	5,271,397	3,415	39,762,063	45,972,148
DEFERRED INFLOWS OF RESOURCES - Intergovernmental grants	—	3,942,209	—	—	3,942,209
FUND BALANCES (DEFICIT):					
Restricted for affordable housing programs	—	—	—	37,584,674	37,584,674
Unassigned	150	(4,363,291)	—	—	(4,363,141)
Total fund balances (deficit)	150	(4,363,291)	—	37,584,674	33,221,533
Total liabilities and fund balances	$ 935,423	$ 4,850,315	$ 3,415	$ 77,346,737	$ 83,135,890

See accompanying notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

RECONCILIATION OF THE BALANCE SHEET— GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

JUNE 30, 2020

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances	$ 33,221,533
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds	18,488
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore are not reported in the funds:	
Note payable due in more than one year	(2,990,520)
Accrued interest payable is not due and payable in the current period; therefore, is not reported in the funds	(69,354)
Deferred inflow of resources reported in the governmental funds are recognized as revenue in the governmental activities	3,942,209
Net position of governmental activities	$ 34,122,356

See accompanying notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) — GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2020

	HUD Programs	Home Program	CDBG Program	Affordable Housing Mortgage Subsidy Program	Total Governmental Funds
REVENUES:					
Commonwealth appropriation for operations and housing assistance programs	$ —	$ —	$ —	$ 9,743,419	$ 9,743,419
Intergovernmental - federal government	141,779,736	6,334,927	2,125,168	—	150,239,831
Interest income on deposits placed with banks	—	—	—	122,412	122,412
Interest income on investments	—	—	—	2,094,550	2,094,550
Net decrease in fair value of investments	—	—	—	300,843	300,843
Other	781	34,344	—	1,019,118	1,054,243
Total revenues	141,780,517	6,369,271	2,125,168	13,280,342	163,555,298
EXPENDITURES:					
General government and other	3,820,637	435,058	10,059	90,793	4,356,547
Housing assistance programs	137,959,730	7,279,417	2,115,109	5,010,800	152,365,056
Debt service					
Principal	—	—	—	93,308	93,308
Interest	—	—	—	179,806	179,806
Total expenditures	141,780,367	7,714,475	2,125,168	5,374,707	156,994,717
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	150	(1,345,204)	—	7,905,635	6,560,581
OTHER FINANCING SOURCES (USES):					
Net transfers-out	—	—	—	(18,002,035)	(18,002,035)
NET CHANGES IN FUND BALANCES (DEFICIT)	150	(1,345,204)	—	(10,096,400)	(11,441,454)
FUND BALANCES (DEFICIT) — Beginning of year	—	(3,018,087)	—	47,681,074	44,662,987
FUND BALANCES (DEFICIT) — End of year	$ 150	$ (4,363,291)	$ —	$ 37,584,674	$ 33,221,533

See accompanying notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT)
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

Amounts reported for governmental activities in the statement of net position are different because:	
Net change in fund balances (deficit) - total governmental funds.	$ (11,441,454)
Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(2,658)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources. These amounts are the net efect of these differences in the treatment of long-term debt and related items as follows:	
Principal on appropriation note - matured	93,308
Net decrease in long-term accrued interest payable	622
Some intergovernmental revenue in the statement of activities do not provide current financial resources, and therefore, are deferred in the governmental funds. Also, intergovernmental revenue related to prior periods that became available during the current period is reported in the governmental funds but is eliminated in the statement of activities. This amount is the net adjustment.	(261,269)
Governmental funds report capital outlays as expenditutres; however, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expenses. This is the amount by which depreciation exceeds capital outlays in the current period.	(15,895)
Change in net position of governmental activities	$ (11,627,346)

See accompanying notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION (DEFICIT) — PROPRIETARY FUNDS
JUNE 30, 2020

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Other Non-major	Eliminations	Total
ASSETS						
Current assets:						
Cash and due from banks	$ 19,428,411	$ 9,313,247	$ 11,055,698	$ 3,890,729	$ —	$ 43,688,085
Federal funds sold	2,280,199	—	—	—	—	2,280,199
Deposits placed with banks	—	56,867,706	—	—	—	56,867,706
Accrued interest receivable	127	1,754,035	—	—	—	1,754,162
Other current receivables	528,120	1,821,101	—	—	—	2,349,221
Due from other funds	1,132,506	—	—	—	(1,132,506)	—
Other current assets	948,426	42,883	—	—	—	991,309
Due from governmental funds	—	11,544,587	—	—	—	11,544,587
Restricted:						
Cash and due from banks	8,448,314	2,697,456	—	2,377,521	—	13,523,291
Deposits placed with banks	—	107,342	—	—	—	107,342
Accrued interest receivable	—	362,383	—	—	—	362,383
Other current receivables	—	364,985	—	—	—	364,985
Total current assets	32,766,103	84,875,725	11,055,698	6,268,250	(1,132,506)	133,833,270
Non-current assets:						
Restricted:						
Investments and investment contracts	—	58,710,967	—	—	—	58,710,967
Loans receivable — net	—	71,766,406	—	—	—	71,766,406
Real estate available for sale	—	1,483,858	—	—	—	1,483,858
Investments and investment contracts	—	10,404,007	—	3,039,378	—	13,443,385
Investments in PRHFA RLF Investment Fund, LLC	—	39,706,521	—	—	—	39,706,521
Loans receivable — net	—	104,067,347	—	—	—	104,067,347
Real estate available for sale	5,366,125	103,708	—	—	—	5,469,833
Capital assets:						
Land and other non-depreciable assets	—	7,752,711	—	—	—	7,752,711
Depreciable assets	—	853,076	—	—	—	853,076
Total non-current assets	5,366,125	294,848,601	—	3,039,378	—	303,254,104
Total assets	$ 38,132,228	$ 379,724,326	$ 11,055,698	$ 9,307,628	$ (1,132,506)	$ 437,087,374
DEFERRED OUTFLOWS OF RESOURCES:						
Loss on bond refundings	—	1,507,002	—	—	—	1,507,002
Goodwill	—	839,461	—	—	—	839,461
Pension related	17,556,407	7,247,667	24,719	—	—	24,828,793
Other post employment benefits related	134,692	117,786	1,100	—	—	253,578
Total deferred outflow of resources	$ 17,691,099	$ 9,711,916	$ 25,819	$ —	$ —	$ 27,428,834

See accompanying notes to basic financial statements.

(Continues)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION (DEFICIT) — PROPRIETARY FUNDS
JUNE 30, 2020

(Continued)

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Other Non-major	Eliminations	Total
LIABILITIES						
Current liabilities payable from unrestricted assets:						
Accounts payable and accrued liabilities	$ 20,156,807	$ 7,376,284	$ 506	$ 17,447	$ —	$ 27,551,044
Due to other funds	—	—	579,225	553,281	(1,132,506)	—
Due to Commonwealth of Puerto Rico	19,165,697	11,121,059	19,714	—	—	30,306,470
Total pension liability	5,902,509	3,388,415	8,903	—	—	9,299,827
Total other post employment pension benefits liability	134,692	117,786	1,100	—	—	253,578
Total current liabilities payable from unrestricted assets	45,359,705	22,003,544	609,448	570,728	(1,132,506)	67,410,919
Current liabilities payable from restricted assets:						
Accounts payable and accrued liabilities	3,493,342	598,783	—	2,000,000	—	6,092,125
Unearned revenue	—	3,263,160	—	—	—	3,263,160
Liability for losses on mortgage loan insurance	—	6,122,250	—	—	—	6,122,250
Bonds and mortgage-backed certificates payable	—	8,132,073	—	—	—	8,132,073
Total current liabilities	48,853,047	40,119,810	609,448	2,570,728	(1,132,506)	91,020,527
Non-current liabilities:						
Liability under guaranteed obligations	—	—	42,010,364	2,430	—	42,012,794
Total pension liability	113,755,391	66,609,978	130,024	—	—	180,495,393
Total other post employment pension benefits liability	1,332,882	1,360,088	13,373	—	—	2,706,343
Non-current liabilities payable from restricted assets:						
Bonds and mortgage-backed certificates payable	—	96,441,227	—	—	—	96,441,227
Total non-current liabilities	115,088,273	164,411,293	42,153,761	2,430	—	321,655,757
Total liabilities	163,941,320	204,531,103	42,763,209	2,573,158	(1,132,506)	412,676,284
DEFERRED INFLOWS OF RESOURCES - Pension related	9,001,695	4,182,796	8,302	—	—	13,192,793
NET POSITION (DEFICIT):						
Net investment in capital assets	—	8,605,787	—	—	—	8,605,787
Restricted for:						
Qualifying modification distributions	—	—	—	377,521	—	377,521
Affordable housing programs	—	19,572,502	—	—	—	19,572,502
Unrestricted net position (deficit)	(117,119,688)	152,544,054	(31,689,994)	6,356,949	—	10,091,321
Total net position (deficit)	$ (117,119,688)	$ 180,722,343	$ (31,689,994)	$ 6,734,470	$ —	$ 38,647,131

See accompanying notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION (DEFICIT) — PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2020

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Other Non-major	Eliminations	Total
OPERATING REVENUES:						
Investment income:						
Interest income on federal funds sold	$ 21,468	$ —	$ —	$ —	$ —	$ 21,468
Interest income on deposits placed with banks	164,095	163,264	48,275	6,444	—	382,078
Net increase (decrease) in fair value of investments	—	377,338	—	(663,102)	—	(285,764)
Interest and dividend income on investments and investment contracts	—	3,925,447	—	370,099	—	4,295,546
Total investment income	185,563	4,466,049	48,275	(286,559)	—	4,413,328
Interest Income on loans receivable:						
Private sector	—	9,163,809	—	—	—	9,163,809
Total interest income on loans receivable	—	9,163,809	—	—	—	9,163,809
Total investment and interest income on loans receivable	185,563	13,629,858	48,275	(286,559)	—	13,577,137
Non-interest income:						
Commitment, guarantee and other service fees	—	5,609,609	—	—	—	5,609,609
Mortgage loan insurance premiums	—	3,143,934	—	—	—	3,143,934
Other income	23,836	854,077	—	1,903,349	—	2,781,262
Equity pickup on earnings of PRHFA RLF Investment Fund, LLC	—	1,636,413	—	—	—	1,636,413
Total non-interest income	23,836	11,244,033	—	1,903,349	—	13,171,218
Total operating revenues	209,399	24,873,891	48,275	1,616,790	—	26,748,355
OPERATING EXPENSES:						
Provision for loan losses	—	592,316	—	—	—	592,316
Interest expense:						
Bonds, notes and mortgage-backed certificates	—	7,134,132	—	—	—	7,134,132
Total interest expense	—	7,134,132	—	—	—	7,134,132
Non-interest expenses:						
Salaries, fringe benefits and pension expense	6,208,243	10,723,051	9,845	—	—	16,941,139
Depreciation and amortization	—	416,666	—	—	—	416,666
Occupancy and equipment costs	298,145	891,962	—	—	—	1,190,107
Legal and professional fees	1,584,291	1,566,105	96,538	35,290	—	3,282,224
Office and administrative	54,468	604,558	1,678	25,137	—	685,841
Subsidy and trustee fees	12,180	157,754	—	—	—	169,934
Recovery for losses on guarantees and letters of credit	—	—	—	(698,913)	—	(698,913)
Provision for mortgage loan insurance	—	139,848	—	—	—	139,848
Provision for losses on other real estate owned	—	1,367,108	—	—	—	1,367,108
Distribution expense	—	—	—	1,625,000	—	1,625,000
Other	81,913	29,755	—	266,111	—	377,779
Total non-interest expenses	8,239,240	15,896,807	108,061	1,252,625	—	25,496,733
Total operating expenses	8,239,240	23,623,255	108,061	1,252,625	—	33,223,181
OPERATING INCOME (LOSS)	(8,029,841)	1,250,636	(59,786)	364,165	—	(6,474,826)

(Continues)

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Other Non-major	Eliminations	Total
(Continued)						
NON-OPERATING INCOME (EXPENSES):						
Contributions to others	—	—	—	(4,303,889)	—	(4,303,889)
Net gain on sale of loans	—	69,604	—	—	—	69,604
TOTAL NON-OPERATING INCOME (EXPENSES)	—	69,604	—	(4,303,889)	—	(4,234,285)
OTHER FINANCING SOURCES - net transfer-in (out)	(5,000)	18,002,035	—	5,000	—	18,002,035
CHANGES IN NET POSITION (DEFICIT)	(8,034,841)	19,322,275	(59,786)	(3,934,724)	—	7,292,924
NET POSITION (DEFICIT) — Beginning of year (as restated, see Note 4)	(109,084,847)	161,400,068	(31,630,208)	10,669,194	—	31,354,207
NET POSITION (DEFICIT) — End of year	$ (117,119,688)	$ 180,722,343	$ (31,689,994)	$ 6,734,470	$ —	$ 38,647,131

See accompanying notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2020

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Other Non-major	Eliminations	Total
Cash flows from operating activities:						
Cash received from interest on mortgage and construction loans	$ —	$ 11,011,255	$ —	$ —	$ —	$ 11,011,255
Cash paid for mortgage and construction loans	—	(24,086,621)	—	—	—	(24,086,621)
Principal collected on mortgage and construction loans	—	40,744,955	—	—	—	40,744,955
Cash received from other operating noninterest revenues	135,500	6,459,318	10,314	1,826,105	—	8,431,237
Cash payment for other operating noninterest expenses	(7,435,740)	(2,850,188)	(1,272)	(219,004)	—	(10,506,204)
Cash received from mortgage loans insurance premiums	—	2,757,010	—	—	—	2,757,010
Cash payments for salaries, fringe benefits and pension expense	(17,764,575)	(8,021,765)	—	—	—	(25,786,340)
Cash received (paid) from/to other funds	(375,000)	—	—	375,000	—	—
Cash received from other operating revenues	—	125,066	—	—	—	125,066
Net cash provided by (used in) operating activities	(25,439,815)	26,139,030	9,042	1,982,101	—	2,690,358
Cash flows from noncapital financing activities:						
Cash payment to DRA	(10,772,833)	—	—	—	—	(10,772,833)
Transfers-in	—	19,538,956	—	5,000	(5,000)	19,538,956
Transfers-out	(5,000)	(1,536,920)	—	—	5,000	(1,536,920)
Net decrease in:						
Repayments of bonds, notes and mortgage-backed securities	—	(7,150,059)	—	—	—	(7,150,059)
Interest paid	—	(2,529,939)	—	—	—	(2,529,939)
Net cash provided by (used in) noncapital financing activities	(10,777,833)	8,322,038	—	5,000	—	(2,450,795)

(Continues)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2020

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Other Non-major	Eliminations	Total
(Continued)						
Cash flows from capital and related financing activities:						
Acquisition of capital assets	—	(501,770)	—	—	—	(501,770)
Net cash used in capital and related financing activities	—	(501,770)	—	—	—	(501,770)
Cash flows from investing activities:						
Net decrease (increase) in:						
Federal funds sold and securities purchases under agreements to resell	5,025,228	-	—	—	—	5,025,228
Deposits placed with banks	—	(56,219,253)	—	—	—	(56,219,253)
Purchase of investments	—	(315,643,249)	—	—	—	(315,643,249)
Cash paid for investment in PRHFA RLF Investment Fund, LLC	—	(587,000)	—	—	—	(587,000)
Proceeds from sales and redemptions of investments	—	328,370,077	—	346,922	—	328,716,999
Interest and dividends received on deposits and investments	165,284	3,881,227	48,275	6,444	—	4,101,230
Interest received on other than housing program loans	5,341,651	—	—	—	—	5,341,651
Principal collected on other than housing program loans	5,431,182	—	—	—	—	5,431,182
Proceeds from sale of real estate held for sale	—	1,410,129	—	500,000	—	1,910,129
Acquisition of real estate available for sale	—	(2,392,742)	—	—	—	(2,392,742)
Net cash provided by (used in) investing activities	15,963,345	(41,180,811)	48,275	853,366	—	(24,315,825)
Net change in cash and due from banks	(20,254,303)	(7,221,513)	57,317	2,840,467	—	(24,578,032)
Cash and due from banks – beginning of year, as restated	48,131,028	19,232,216	10,998,381	3,427,783	—	81,789,408
Cash and due from banks – end of year	$ 27,876,725	$ 12,010,703	$ 11,055,698	$ 6,268,250	$ —	$ 57,211,376
Reconciliation to proprietary funds:						
Statement of Net Position (Deficit)						
Cash and due from banks – unrestricted	$ 19,428,411	$ 9,313,247	$ 11,055,698	$ 3,890,729	$ —	$ 43,688,085
Cash and due from banks – restricted	8,448,314	2,697,456	—	2,377,521	—	13,523,291
Total cash and due from banks at year end	$ 27,876,725	$ 12,010,703	$ 11,055,698	$ 6,268,250	$ —	$ 57,211,376

(Continues)

(Continued)

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Other Non-major	Eliminations	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	$ (8,029,841)	$ 1,250,636	$ (59,786)	$ 364,165	$ —	$ (6,474,826)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Investment income	(185,563)		(48,275)	(370,146)	—	(603,984)
Interest income on other than housing program loans	—	(4,046,517)	—	(6,397)	—	(4,052,914)
Other income	—	(854,077)	—	—	—	(854,077)
Capitalized interest	—	(1,977,461)	—	—	—	(1,977,461)
Interest expense	—	7,134,132	—	—	—	7,134,132
Provision (release) for loan losses	—	592,316	—	—	—	592,316
Provision for losses on other assets	(381,935)		—	—	—	(381,935)
Provision for losses on guarantees and letters of credit	—		—	(698,913)	—	(698,913)
Net (increase) decrease in fair value of investments	—	(377,338)	—	663,102	—	285,764
Provision for losses on real estate available for sale	—	1,367,108	—	—	—	1,367,108
Provision for losses on mortgage loan insurance	—	139,848	—	—	—	139,848
Depreciation and amortization	—	416,666	—	—	—	416,666
Net (increase) decrease in operating assets:						
Mortgage and construction loans	—	16,848,439	—	—	—	16,848,439
Accrued interest on mortgage and construction loans	—	4,046,610	—	—	—	4,046,610
Accounts receivable and other assets	(1,272,498)	(1,063,133)	10,314	—	—	(2,325,317)
Deferred outflows-pension related	(1,341,784)	(105,362)	(9,884)	—	—	(1,457,030)
Other post employement pension benefits	(9,411)		100	—	—	(9,311)
Due from/to other funds	(501,585)	—	96,537	410,548	—	5,500
Due from governmental funds	—	56,276	—	—	—	56,276
Net increase (decrease) in operating liabilities:						
Accounts payable and accrued liabilities	(20,739,912)	509,927	407	1,619,742	—	(18,609,836)
Unearned revenues	—	(677,526)	—	—	—	(677,526)
Liability for losses on mortgage loan insurance	—	139,848	—	—	—	139,848
Total other post employement pension liability	114,759	45,633	1,229	—	—	161,621
Net pension liability	(439,226)	2,749,401	8,328	—	—	2,318,503
Deferred inflows-pension related	1,431,101	(56,396)	69	—	—	1,374,774
Due to Commonwealth	5,916,080	—	10,003	—	—	5,926,083
Net cash provided by (used in) operating activities	$ (25,439,815)	$ 26,139,030	$ 9,042	$ 1,982,101	$ —	$ 2,690,358

(Continues)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year ended June 30, 2020

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Other Non-major	Eliminations	Total
(Continued)						
Noncash investing and noncapital financing activities:						
Accretion or amortization of discount and capitalized interest on investments securities and deposits placed with banks	$ —	$ 4,597,620	$ —	$ —	$ —	$ 4,597,620
Decrease on loans receivable for restructuring of debt	$ 106,926,929	$ —	$ —	$ —	$ —	$ 106,926,929
Capitalized interest and deferred amortization on loans	$ —	$ 1,977,461	$ —	$ —	$ —	$ 1,977,461
Change in fair value of investments	$ —	$ 377,338	$ —	$ (663,102)	$ —	$ (285,764)
Non cash conversion of loan and accrued interest to investment	$ —	$ 38,322,569	$ —	$ —	$ —	$ 38,322,569
Amortization of deferred loss (included in interest expense)	$ —	$ 210,889	$ —	$ —	$ —	$ 210,889

See accompanying notes to basic financial statements.

(1) Reporting Entity

The Government Development Bank for Puerto Rico (the Bank or GDB) is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth") created by Act No. 17 of September 23, 1948, as amended ("Act 17-1948"). Before April 6, 2016, the Bank's principal functions were to act as (i) fiscal agent, paying agent and financial advisor for the Commonwealth and its agencies, instrumentalities, and public corporations (collectively referred to as public entities) and municipalities, (ii) to grant interim and long-term loans to public entities and municipalities and private enterprises, which through that date, furthered the economic development of Puerto Rico, and (iii) to act as depository or trustee of funds for the Commonwealth, its public entities and municipalities. The continued deterioration in the Bank's financial condition and inability to repay its obligations prompted, among several remediation efforts, the reduction of the Bank's role to acting as an agent in (i) collecting on its loan portfolio and (ii) disbursing funds pursuant to strict priority guidelines, pursuant to Act No. 21 of April 6, 2016, *Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (*the Moratorium Act) and a series of executive orders and subsequent laws that ensued in order to regulate the Bank's operations and liquidity, including prohibiting loan disbursements. Under the Moratorium Act (subsequently amended by Act No 5 of 2017, the *Puerto Rico Financial Emergency and Fiscal Responsibility Act*), the Puerto Rico Fiscal Agency and Financial Advisory Authority ("FAFAA"), was created to assume, among other functions, the fiscal agency and financial advisory responsibilities that were previously held by the Bank. With these measures, the Bank's management effectively initiated an orderly wind down of its operations and a restructuring of its debt under Title VI of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) in order to mitigate the impact on its stakeholders (municipalities, depositors, and other creditors, etc.). Refer to Note 6 for more details regarding the enactment of PROMESA and Note 5 for details regarding the Qualifying Modification.

The Bank is exempt from taxation in Puerto Rico. The Bank's charter, as amended, allows the Bank to invest in securities issued by any corporate entity engaged in the economic development of Puerto Rico, as well as to guarantee loans and other obligations incurred by public and private entities.

In addition to the Bank's main operations (accounted for through the GDB Operating Fund), it also has the following blended component units: Puerto Rico Housing Finance Authority (the HFA), Puerto Rico Tourism Development Fund (the TDF), Puerto Rico Development Fund (the Development Fund), Puerto Rico Public Finance Corporation (the PFC), José M. Berrocal Finance and Economics Institute (JMB Institute), Puerto Rico Higher Education Assistance Corporation (the Education Assistance Corporation) and Puerto Rico Telephone Authority (PRTA). The balances and transactions of these component units discussed above have been blended with those of the Bank in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") because, while legally separate, they were created and can be dissolved through resolution of the Bank's board of directors. The board of directors of each of the blended component units is substantially the same as the Bank and the Bank may impose its will or obtain a financial benefit or financial burden from each of the blended components units, subject to any applicable limitations that may result from PROMESA. Pursuant to the Qualifying Modification, further described in Note 5, the Public Entity Trust (PET) was newly created through a deed of trust and is presented as a separate non-major fund of the Bank, as the Bank was designated as PET's trustee and given all the corporate powers over the PET. In the case of PRTA, the Bank has begun sustaining PRTA's minimal operating expenses though contributions, thus, meeting the criterial for blending as discussed above.

The blended component units are described below:

- The HFA operates under Act No. 103-2011, to provide public and private housing developers with interim and permanent financing through mortgage loans for the construction, improvement, operation, and maintenance of rental housing for low and moderate-income families. The HFA also issues bonds and notes, the proceeds of which are deposited in separate trusts and generally invested in mortgage-backed securities collateralized by mortgage loans on properties located in Puerto Rico purchased by low and moderate-income families or used to provide subsidies to such families for the acquisition of their primary residence. The HFA is authorized by the U.S. Department of Housing and Urban Development (HUD) to administer the U.S. Housing Act Section 8 program in Puerto Rico, to administer the HOME Investment Partnerships (HOME) Program, and to act as an approved mortgagor, both for multifamily rental units and for single-family homes. In addition, it is an authorized issuer of Government National Mortgage Association (GNMA) mortgage-backed securities and is Puerto Rico's State Credit Agency for the Low-Income Housing Tax Credit Program under Section 42 of the U.S. Internal Revenue Code. On November 15, 2019, the Board of Directors of HFA resolved to consolidate the Housing Choice Vouchers and Project Based Vouchers programs of the HFA and the Puerto Rico Department of Housing (PRDOH) into those same programs of the Puerto Rico Housing Administration, an instrumentality of the Commonwealth, effective January 1, 2020.

  The HFA is the public housing authority in charge of implementing the Low-Income Housing Tax Credit Program in Puerto Rico. The tax credits provide a financial incentive to construct, rehabilitate, and operate rental housing for low-income tenants. A 10-year tax credit is available for each unit set-aside for low-income use as long as eligible households occupy a specific portion of units in a building or project. The rents charged on the set-aside units are restricted, and eligible households occupy them or such units becoming vacant must be held open for eligible households for at least 15 years, plus a minimum of 15 additional years that the HFA requires.

- The TDF was created in 1993 to promote the hotel and tourism industry of the Commonwealth, primarily through the issuance of letters of credit and guarantees. The TDF is also authorized to make capital investments and provide direct financing to tourism-related projects.

- The Development Fund was created in 1977 to expand the sources of financing available for the economic development of the private sector in Puerto Rico and to complement the Bank's lending activities. The Development Fund may also guarantee obligations of private sector enterprises and invest in their equity securities.

- The PFC was created in 1984 to provide the agencies and instrumentalities of the Commonwealth with alternate means of satisfying financial needs. The resolution creating the Public Finance Corporation states that if it were to be dissolved or cease to exist without a successor public entity being appointed, any funds or assets not required for the payment of its bonds or any other obligation, will be transferred to the Secretary of Treasury of the Commonwealth (the Secretary of Treasury) for deposit in the Commonwealth's general fund. Please refer to Note 23 for description of several subsequent events on the bonds issued by PFC.

- The Education Assistance Corporation was created in 1981 to administer the Stafford Loan Program in Puerto Rico and guarantee the payment of student loans granted by financial institutions in Puerto Rico under certain terms and restrictions. The operations of this fund were transferred to a guarantee agency designated by the U.S. Department of Education in a prior fiscal year. The Education Assistance Corporation is currently inactive.

- The JMB Institute was created in 2002 to complement the Bank's mission of promoting economic development by providing specialized training on the theory and practice of public finances and economics to talented young professionals in order to attract them to join public service. The JMB Institute is awaiting to complete its dissolution process, as authorized in fiscal year 2018 by the Bank's Board of Directors.

- The PET was created on November 29, 2018, in order to service the net claims that certain depositors have against the Bank for which they were granted a pro-rata share of interest in such trust and the accompanying collateral assets received from the Bank, pursuant to the GDB Restructuring Act and Qualifying Modification. Further details about the PET are described in Note 5.

- The PRTA was created originally for the purpose of acquiring, developing and operating telephone, telegraph, radio, cable, or other communication systems. The PRTA was engaged in this business through its wholly owned subsidiaries, Puerto Rico Telephone Company, Inc. and Celulares Telefonica, Inc., businesses which were sold to a third party. After such sale, PRTA has remained inactive with just minimal accounting and auditing expenses, which recently, were being absorbed through contributions by the Bank. In June 2015, the Board of Directors of the Bank ratified Resolution 9231, approved on November 19, 2009, which ordered the implementation of a liquidation process for the PRTA. However, in order to implement the liquidation, a law should be enacted to complete this process, something that has not occurred as of June 30, 2020.

(2) Summary of Significant Accounting Policies

The accounting and reporting policies of the Bank conform to U.S. GAAP, as applicable to governmental entities. The Bank follows Governmental Accounting Standards Board (GASB) statements under the hierarchy established by GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* in the preparation of its basic financial statements.

As further described in Note 6, PROMESA was enacted by the United States Congress in response to the Commonwealth's fiscal crisis and to provide a mechanism for the Commonwealth to restructure or adjust its unsustainable debt, since the Commonwealth did not have available the protection from the different provisions of the U.S. Bankruptcy Code. PROMESA provided the Commonwealth with two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of Title 11 of the U.S. Bankruptcy Code. As further described in Note 5, the Bank selected the voluntary process under Title VI of PROMESA to adjust most of its indebtedness within the GDB Operating Fund, pursuant to the Qualifying Modification, a process which was approved by the U.S. District Court in Puerto Rico on November 6, 2018 and finally completed on November 29, 2018. Most provisions of Title VI of PROMESA mirrored provisions from Chapter 9 of the U.S. Bankruptcy Code.

As permitted by the provisions of GASB Statement No. 76 referred to above, in the absence of accounting guidance specifically applicable to the particular circumstances of the Bank going through the aforementioned Qualifying Modification process, the Bank applied by analogy the provisions of GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies,* considering that the voluntary debt restructuring process selected by the Bank under Title VI of PROMESA most closely resembled that of the Chapter 9 voluntary process of the U.S. Bankruptcy Code. Some of the key provision requirements of GASB Statement No. 58 being applied by analogy by the GDB Operating Fund as a result of the completion of the Qualifying Modification included the following:

- All liabilities subject to the Qualifying Modification are discharged, and the GDB Operating Fund is bound to the new debt and payment terms, if any. The GDB Operating Fund would recognize gain (or losses) from adjustments to those liabilities at the Closing Date or a later date when all significant conditions existing prior to the Qualifying Modification becoming binding are resolved.

- When there is a requirement for payments or settlements that are contingent upon future events, a liability is recognized when meeting the recognition requirements in paragraph 14 of National Council of Government Accounting (NCGA) Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*. These recognition requirements coincide with the loss contingencies recognition requirements of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements*.

- As the Bank's obligation for the retirement and other post-employment benefits of its former employees was not included as part of the Qualifying Modification, such liabilities continue to be measured, presented and accounted for under the standards of accounting applicable to the corresponding obligation. See Notes 2(s) and (t), and 17.

- When a government entity is not expected to emerge from bankruptcy as a going concern, as is the case for the GDB Operating Fund, its assets shall be remeasured and reported at a value that represents the amount expected to be received as of the date of the confirmation of the plan of adjustment, which in the Bank's case would be as of the Closing Date.

- Gains or losses resulting from remeasurement or discharge of liabilities or assets are reported as an extraordinary item.

- Professional fees and similar types of transactions costs related to the Qualifying Modification proceedings are reported as an expense as incurred.

The preparation of basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses/expenditures during the reported period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the allowance for loan losses on any retained loans, the liabilities under guaranteed obligations retained by the Bank, valuation of any assets maintained in trust or escrow for the payment of Designated Depositors, useful lives of depreciable capital assets, impairment of capital assets and contingencies.

(a) ***Basis of Presentation***

Government-Wide Financial Statements

The statement of net position and the statement of activities report information on all activities of the Bank. The effect of interfund balances has been removed from the government-wide statement of net position (deficit), except for the residual amounts due between governmental and business-type activities.

Internal balances are not included in the total column of the government-wide statement of net position. Interfund charges for services among functions of the government-wide statement of activities have not been eliminated. The Bank's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged for goods or services and interest earned on investment securities and loans. The following is a description of the Bank's government-wide financial statements.

The statement of net position presents the Bank's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between assets plus deferred outflows of resources less liabilities plus deferred inflow of resources, reported as net position. Net position is reported in three categories:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances of bonds, notes, mortgage and other debt that are attributed to the acquisition, construction, or improvement of those assets, if any. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those capital assets or related debt are included in the component of net position.

- *Restricted component of the net position* consists of restricted assets reduced by liabilities related to those assets. Restricted net assets result when constraints are placed on the use of net assets, either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted component of net position* consists of net amount of the assets, deferred outflow of resources, liabilities, and deferred inflows of resources that do not meet the definition of the two preceding categories. Unrestricted component of net position often is assigned 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.

When both restricted and unrestricted components of net position are available for use, it is the Bank's policy to use restricted components of net position, and then, unrestricted components of net position as they are needed and available.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include: (1) interest income on loans and investments, changes in the fair value of investments, and fees and charges to customers for services rendered, and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements

Fund accounting is designed to aid management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The activities of the Bank that are reported in the accompanying basic financial statements have been classified into governmental and proprietary funds.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column. In the case of proprietary funds, each individual blended component unit of the Bank has been reported as a separate major fund in the fund financial statements, with the exception of the Development Fund, the PFC, the JMB Institute, the Education Assistance Corporation, the PET and the PRTA, which have been grouped as other non-major funds.

Fund balances for each governmental fund are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Non-spendable – amounts that are not in spendable form or are legally or contractually required to be maintained intact.

- Restricted – amounts that are restricted by outside parties, constitutional provisions, or enabling legislation for a specific purpose.

- Committed – amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments are made and can be rescinded only by a formal action of the government's highest level of decision-making authority. The Bank's highest decision-making level of authority rests with the Bank's board of directors. The Bank did not have any committed resources as of June 30, 2020.

- Assigned – intent to spend resources on specific purposes expressed by the governing body.

- Unassigned – amounts that do not fall into any other category above. Negative unassigned amounts are reported, if any, and represent expenditures for specific purposes exceeding the aggregate amounts of the restricted, committed, or assigned classification.

When both restricted and unrestricted resources (the total amount of committed, assigned and unassigned fund balance) are available for use, it is the Bank's policy to use restricted resources first, and then, unrestricted resources as they are needed and available. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

The following governmental activities of the Bank are classified as major governmental funds:

- **HUD Programs** – This special revenue fund accounts for the subsidy to low and moderate-income families for the rental of decent and safe dwellings under the U.S. Housing Act Section 8 programs.

  On November 15, 2019, the Board of Directors of HFA resolved to consolidate the Housing Choice Vouchers and Project Based Vouchers programs of the HFA and the Puerto Rico Department of Housing (PRDOH) into those same programs of the Puerto Rico Housing Administration, an instrumentality of the Commonwealth, effective January 1, 2020.

- **HOME Program** – This special revenue fund is used to account for the specific revenue sources related to the HOME Program. The objectives of this special revenue fund include: (1) expanding the supply of decent and affordable housing, particularly housing for low-income families; (2) strengthening the abilities of state and local governments to design and implement strategies for achieving adequate supplies of decent, affordable housing; (3) providing financial and technical assistance to participating jurisdictions, including the development of model programs for affordable low-income housing; and (4) extending and strengthening partnership among all levels of government and private sector, including for-profit and nonprofit organizations, in the production and operation of affordable housing.

- **CDBG Programs** – This special revenue fund is used to account for the specific revenue sources related to the subrecipient agreements entered between the Authority and PRDOH on September 19, 2019, and July 2, 2020, to administer Community Development Block Grant – Disaster Recovery (CDBG-DR) funds. Under the first agreement, the PRDOH allocated $100 million to the HFA, which will be used in conjunction with the Low-Income Housing Tax Credit Program for the construction of affordable rental housing. Under the second agreement, the PRDOH allocated $156 million to the HFA to undertake the Homebuyer Assistance Program. This program will provide financial assistance to qualified homebuyers to cover closing costs and down payment assistance. The HFA will be reimbursed from these allocations certain costs incurred in the management of these programs.

- **Affordable Housing Subsidy Programs** – This special revenue fund is used to account for the proceeds of specific revenue sources under the different subsidy programs of the HFA, which are as follows:

  – ***Affordable Housing Mortgage Subsidy Programs (AHMSP) Act. No. 124*** – Under this program, the HFA commits to provide a subsidy for the down payment and/or the principal and interest payments on mortgage loans originated under a predetermined schedule of originations. Loans originated, as well as servicing, are kept by the originating financial institution. There was no open schedule of originations under this program as of June 30, 2020.

  – ***My New Home Program*** – This program has revenues provided by Act. No. 122 of August 6, 2010, as amended, which assigned to the HFA, in perpetuity, a portion of no less than 85% of the unreserved monies and other liquid funds abandoned or unclaimed in financial institutions that will be transferred to the general fund of the Commonwealth. This program provides subsidies to eligible families in the purchase of a principal residence through reimbursement of origination and closing costs.

- ***My Own Home Program*** – This program has revenues provided by Act. No. 34 of June 26, 2014. This program provides subsidies to eligible families in the purchase of a principal residence through reimbursement of origination and closing costs.

- ***New Secure Housing Program*** – This program provided federal and local resources directed to plan, coordinate, and develop the construction of new housing units as a replacement for those destroyed by Hurricane Georges in 1998, and to attend to the housing needs of those families living in hazard-prone areas. No additional subsidies are expected to be provided under this program. As of June 30, 2020, the New Secured Housing Program fund has been closed.

(b) ***Measurement Focus and Basis of Accounting***

The government-wide and proprietary funds 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 at the time liabilities are incurred, regardless of the time the related cash flow takes place. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds' financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Bank considers revenues to be available if they are collected within 120 days after the end of the fiscal year. Principal revenue sources considered susceptible to accrual include federal and Commonwealth funds to be received by the HUD Programs and HOME Program. Other revenues are considered to be measurable and available only when cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses are those that result from the Bank and its components units providing the services that correspond to their principal ongoing operations. Operating revenues are generated from lending, investing, banking and fiscal agency services, and other related activities. Operating expenses include interest expense, any provision for losses on loans, advances, letters of credit, or guarantees and all general and administrative expenses, among others. Revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

(c) ***Securities Purchased under Agreements to Resell and Federal Funds Sold***

The Bank entered occasionally into purchases of securities under agreements to resell and federal funds sold. The amounts advanced under these agreements generally represent short-term loans and are reflected as an asset. The securities underlying these agreements are usually held by the broker or his/her agent with whom the agreement is transacted. As of June 30, 2020, there were $2.3 million in federal funds sold and no securities purchased under agreements to resell outstanding.

(d) ***Fair Value Measurement***

The Bank categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the assets or liability, either directly or indirectly; Level 3 inputs are significant unobservable inputs.

(e) ***Investments and Investment Contracts***

Investments and investment contracts are reported at fair value, except for money market instruments and participating investment contracts with a remaining maturity at the time of purchase of one year or less, and nonparticipating investment contracts (guaranteed investment contracts), which are carried at cost; and investment positions in 2a-7 like external investment pools, which are carried at the pools' share price. Investments also include preferred stocks/interests of various local enterprises that do not have readily determinable fair value. These investments in preferred stocks are temporary and the Bank generally does not have the ability to exercise significant influence over the investees' operating and financial policies; therefore, such investments are carried at the lower of cost or net realizable value based on management's evaluation of the financial condition of each investee. Realized gains and losses from the sale of investments and unrealized gains and losses of outstanding investments are included in net increase (decrease) in fair value of investments in the statement of revenues, expenditures and changes in fund balances (deficit)-governmental funds as well as in the statement of revenues, expenditures and changes in net position (deficit)-proprietary funds.

Fair value of the Bank's investments is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations (Level 1 inputs), based upon quoted prices for similar instruments in active markets (Level 2 inputs) or based on unobservable inputs that may also be impacted by adjustments to reflect nonperformance or credit risk (Level 3 inputs).

In accordance with the specific requirements established in the bond indentures, the Bank has invested certain debt proceeds in U.S. government obligations, U.S. and Puerto Rico mortgage-backed securities, and investment contracts. These U.S. government obligations, mortgage-backed securities, and investment contracts are held in custody in the name of the Bank or the Bank's component units, as applicable, by the respective trustees of the applicable bond issuances. The investment and investment contracts balance at June 30, 2020 are all those held by HFA, none by the GDB Operating Fund.

(f) ***Investment in PRHFA RLF Investment Fund***

HFA accounts for its investment in PRHFA RLF Investment Fund (RLF) using the equity method of accounting. Under the equity method of accounting, HFA recognizes the net income or loss of RLF, by increasing or decreasing its investment, after intra-entity profits and losses are eliminated, if any. Dividends paid by RLF, if any, will decrease the investment.

(g) ***Loans Receivable, Allowance for Loan Losses and Liabilities under Guaranteed Obligation***

As further described in Note 5, on November 29, 2018, the Bank completed the restructuring of most of the GDB Operating Fund's indebtedness pursuant to the Qualifying Modification, which required the GDB Operating Fund to transfer the majority of its loans to the GDB Debt Restructuring Authority (the DRA); and certain other loans, representing claims against the Commonwealth, were held in custody in the PET as collateral for certain deposits known as Designated Deposits to the extent such collateral could be recovered. As a result, all loans, except those retained by the GDB Operating Fund (defined as GDB Retained Loans) are no longer existing at the GDB Operating Fund. Therefore, accounting policies information disclosed herein applies only to the GDB Retained Loans and those loans outstanding under the Bank's blended component units, all to the private sector.
General Policy — The remaining loans at the Bank are presented at the outstanding unpaid principal balance reduced by the allowance for loan losses. The allowance for loan losses is established through a provision recorded in the statement of activities. The Bank determines the allowance for loan losses by portfolio sector, which consists of the public and private sector loans. The allowance for loan losses is based on management's evaluation of the risk characteristics of the loans including such factors as the nature of individual credits outstanding, past loss experience, 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 any underlying collateral, and general economic conditions. Loan charge-offs are recorded against the allowance when management believes that the collection of the principal is unlikely. Recoveries of amounts previously charged off are credited to the respective allowance. Because of uncertainties inherent in the estimation process, 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. Such adjustments to original estimates, as necessary, are made in the period for which these factors and other relevant considerations indicate that loss levels vary from previous estimates. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

i. Allowance for Loan Losses– Public Sector

The Bank's principal function was to provide financing to the Commonwealth and its public entities and municipalities. The financing activities included interim financing for capital improvements payable from the Commonwealth's general obligation bonds or revenue bonds issued by the corresponding public entity, and loans to finance the Commonwealth's budget deficit payable from the Puerto Rico Sales Tax Financing Corporation (COFINA), seasonal collection of income taxes and annual appropriations made by the Legislative Assembly of the Commonwealth of Puerto Rico (the Legislature or Legislative Assembly). The aggregate amount of allowance of losses on these loans had increased in recent years as a result of (i) the deterioration of the fiscal situation and financial condition of the Commonwealth and its public entities, (ii) the inability to complete certain financing and liability management transactions due to limited market access and (iii) general market conditions, which in turn negatively affected the ability of the Commonwealth and its public entities to permanently finance their capital expenditures and operating deficits by issuing bonds and notes. These were essentially the circumstances that prompted the execution of the Qualifying Modification on November 29, 2018, at which time, all public sector loans were transferred away from the GDB Operating Fund, with the exception of the GDB Retained Loans.

The Bank considers most of the GDB Retained Loans as impaired based on current information and events, including the significant delays in the receipt of the scheduled debt service payments mentioned above. The Bank's management used applicable authoritative literature, general background information and recent relevant information included in the Commonwealth and Bank's fiscal plan to establish an allowance for loan losses. Specifically, the Bank established an allowance for losses on these impaired loans based on management's estimate of the present value of expected debt service payments discounted at the loans' effective interest rate. The Bank determined that major sources of repayment on this portfolio were property taxes, refinancing through bond issuances, appropriations from the Commonwealth, operating revenues of the borrowers or collateral sales. With a few exceptions, the GDB Retained Loans consist of loans with an unreliable source of repayment that were not performing according to contract terms (as to principal and interest) and did not have any additional source of repayment. These loans were individually measured for impairment and their 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.

In relation to interest income recognition, the GDB Retained Loans are classified as nonaccrual when management determined that any of the following characteristics were present: (a) a loan was six months past due; (b) it had no current source of repayment; (c) it was not covered by a formal commitment from the Commonwealth; and (d) it did not have designated collateral or such collateral was insufficient. Based on these four elements, most of the GDB Retained Loans were placed in nonaccrual status and all accrued interest receivable was reversed from interest income. Interest income on non-accrual loans is thereafter recognized as income only to the extent actually collected. Nonaccrual loans are returned to an accrual status when there is adequate evidence to believe that the loans will be performing as contracted.

ii.Allowance for Loan Losses – Private Sector

Another function of the Bank was to provide financing to private entities operating within specific industries of interest to the Commonwealth, due to the economic impact of their operations on the Puerto Rico economy. All of these transactions were approved by the Bank's board of directors and as of June 30, 2020, are mainly related to the dairy industry, tourism industry, and affordable housing programs in Puerto Rico. The HFA grants mortgage loans to low and moderate-income families for the acquisition of single-family housing units and to developers of low and moderate-income multifamily housing units in Puerto Rico. Historical loss factors are separately calculated for each segment and applied to the outstanding loan balance of the portfolio. The HFA has a policy of charging off real estate single-family unit mortgage loans that are over 60 months past due.

Loans considered to be impaired are generally reduced to the present value of expected future cash flows, discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral, if the loan is collateral dependent, by establishing an allowance for loan losses.

As a general procedure, the Bank internally reviews appraisals as part of the underwriting and approval process and also for credits considered impaired. Appraisals may be adjusted by management 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.

In relation to interest income recognition for loans to private sector entities, the Bank classified loans as nonaccrual when management determined that any of the following characteristics were present: (a) a loan was six months past due; (b) it had no current source of repayment; (c) it was not covered by a formal commitment from the Commonwealth; and (d) it did not have designated collateral or such collateral was insufficient. Based on these four elements, a loan is placed in nonaccrual status and all accrued interest receivable is reversed from interest income. Interest income on nonaccrual loans is thereafter recognized as income only to the extent actually collected. Nonaccrual loans are returned to an accrual status when there is adequate evidence to believe that the loans will be performing as contracted.

(h) ***Liabilities Under Guaranteed Obligations and Letters of Credit***

As further disclosed in Notes 5 and 16, certain guarantees from the GDB Operating Fund were discharged in the Qualifying Modification, but other were retained by the GDB Operating Fund, the Tourism Development Fund and the Development Fund.

Management of the Bank periodically evaluates the credit risk inherent in the guarantees and letters of credit portfolio on the same basis as loans are evaluated. The Bank charges, as expense, the amount required to cover estimated losses by estimating a liability under guaranteed obligations and letters of credit relating to guaranteed debt in default, determined on the basis of the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. Such outflow estimates incorporate considerations about the fair value of the debt's collateral, timing frame of payments and a general component for the risk inherent in the guarantees and letters of credit outstanding, established as a percentage of the principal amount of the underlying debt, based on the Bank's loss experience on financial guarantees and letters of credit, and management's best judgment.

When a guarantee or letter of credit is honored, the Bank recognizes any disbursement as a non-performing loan; therefore, no interest is accrued on the principal. Such disbursement reduces the liability under guaranteed obligation that had been previously recognized, while creating at the same time a related allowance for loan losses for the same amount on such non-performing loan recognized. Any deficiency in the liability under guaranteed obligation for remaining outstanding guarantees is recorded as an additional expense.

The concentration of risk in the guarantees and letters of credit issued, predominantly those issued by the TDF (small number of large guarantees, geographical concentration in Puerto Rico, industry concentration in hotel and tourism), as well as other economic factors, compounds the uncertainty in management's estimate of the liability under guaranteed obligation and letters of credit. As a result, the aggregate losses on guarantees and letters of credit ultimately incurred by the Bank may differ from the liability under guaranteed obligation and letters of credit as reflected in the accompanying basic financial statements, and such differences may be material.

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Pursuant to the legislation under which the TDF was created, the Executive Director of the TDF is required to certify each year to the Office of Management and Budget the amount, if any, that is necessary to reimburse the TDF for disbursements made, as defined, in the previous year in excess of revenues collected (net disbursement). On December 16, 2009, Act No. 173 was enacted, which amended the legislation that created the TDF, to modify the definition of net disbursement to include disbursements made by the TDF for (i) loans to third parties, (ii) the acquisition of loan participations, and (iii) the acceleration of maturities of loans, notes, bonds or other type of debt guaranteed by the TDF. However, Act No. 173 provides that such disbursements shall not be deemed made in the year in which the disbursement occurs but shall be deemed made in the year in which the Executive Director of the TDF determines that a loss was incurred with respect to a loan, note, bond or debt (such determination being referred to as a realized loss). The Director of the Office of Management and Budget may include the amount subject to reimbursement in the Commonwealth's general fund budget for the following fiscal year for the Legislature's consideration and approval. The Legislature is not obligated to authorize such appropriations. As of June 30, 2020, there were no outstanding claims for reimbursements requested by the Executive Director of the TDF to the Director of the Office of Management and Budget.

(i) *Debt Issue Costs*

Bond issue costs are recognized as an expense in the period incurred.

(j) *Real Estate Available for Sale*

Real estate available for sale comprised, through the Closing Date, properties acquired in lieu of payment. It also included loans that are treated as if the underlying collateral had been foreclosed because the Bank had taken possession of the collateral, even though legal foreclosure or repossession proceedings have not taken place. Those properties were carried at the lower of cost or fair value, which was established by the Bank using a third-party professional assessment or based upon an appraisal, less estimated costs to sell. At the time of acquisition of properties in full or in partial satisfaction of loans, any excess of the loan balance over the fair value of the properties less estimated costs to sell was charged against the allowance for loan losses. Subsequent declines in the value of real estate available for sale was charged to expense. Gain or loss on sale of real estate available for sale, if any, prior to the Closing Date would be included within revenues or expenses, respectively, in the accompanying statement of activities and within non-interest income or non-interest expense in the accompanying statement of revenues, expenditures, and changes in net position.

Upon the Closing Date of the Qualifying Modification, all real estate available for sale at the GDB Operating Fund was transferred to the DRA at its carrying value then.

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(k) *Capital Assets*

Capital assets, which include premises and equipment, are stated at cost less accumulated depreciation and amortization. Capital assets are defined by the Bank as assets that have a cost of $500 or more at the date of acquisition and have an expected useful life of three or more years. Depreciation is charged to operations and included within expenses and is computed on the straight-line basis over the estimated useful lives of the depreciable assets. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Costs of maintenance and repairs which do not improve or extend the lives of the respective assets are charged to expense as incurred. Estimated useful lives are as follows:

Capital asset	Years
Building	40 years
Leasehold improvements	Lesser of 10 years or lease term
Information systems	3–5 years
Office furniture and equipment	5 years
Vehicles	5 years

The Bank reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable and in accordance with GASB 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. The amount of the impairment of these assets is determined by comparing the carrying value with the fair value of the asset. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets.

As described in Note 2, management adopted for the GDB Operating Fund the accounting provisions of GASB Statement No. 58 as a result of the Qualifying Modification. Under GASB Statement 58, when a government entity is not expected to emerge from bankruptcy as a going concern, as is the case for the GDB Operating Fund, its assets shall be remeasured and reported at a value that represents the amount expected to be received. All the capital assets of the GDB Operating Fund were either disposed or transferred to another government entity following the Qualifying Modification.

(l) ***Securities Sold under Agreements to Repurchase***

The Bank entered into sales of securities under agreements to repurchase. These agreements generally represent short-term borrowings and are reflected as a liability. The securities underlying these agreements are usually held by the broker or his/her agent with whom the agreement is transacted. All sales of investments under agreements to repurchase are based on fixed terms. In investing the proceeds of securities sold under agreements to repurchase, the Bank's policy is for the term to maturity of investments to be on or before the maturity of the related repurchase agreements. As of and during the year ended June 30, 2020, there were no securities sold under agreement to repurchase.

(m) ***Compensated Absences***

The liability for compensated absences reported in the government wide and proprietary funds financial statements consists of unpaid and accumulated vacation balances, as applicable. In the governmental funds, a liability for compensated absences is recorded only to the extent the obligation has matured. The liability has been calculated using the vesting method, in which leave amounts are included for both, employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination. The liability has been calculated based on the employee's current salary level and includes salary related costs.

The employees of the Bank are granted 30 days of vacation and 18 days of sick leave annually. Vacation and sick leave may be accumulated up to a maximum of 60 and 90 days, respectively. In the event of employee resignation, an employee is reimbursed for accumulated vacation days up to the maximum allowed, as applicable. The government wide and proprietary funds basic financial statements present the cost of accumulated vacation within accounts payable and accrued liabilities.

(n) ***Liability for Losses on Mortgage Loans Insurance***

The estimated liability for losses on mortgage loans insurance is determined on the basis of the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the loan insurance guarantee. Such outflows estimate incorporates considerations based on management's evaluation of potential losses on insurance claims after considering economic conditions, market value of related property, and other pertinent factors. Such amount is, in the opinion of management, adequate to cover estimated future probable mortgage loans insurance losses. Actual losses for mortgage loans insurance are charged, and recoveries, if any, are credited to the estimated liability for losses on mortgage loans insurance. Because of uncertainties inherent in the estimation process, management's estimate of losses in the outstanding loans guarantee portfolio and the related liability may change in the near future.

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(o) ***Deferred Outflow/Inflow of Resources***

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s), and so will not be recognized as an outflow of resources (expense/expenditure) until then. On the business-type activities of the government-wide financial statements and proprietary funds' statement of net position, there are four major captions that qualify for reporting in this category: (i) the unamortized balance of losses on bond refunding, (ii) pension related items, (iii) other postemployment benefit related items and (iv) goodwill. A loss on refunding of debt results from the difference between the reacquisition price and the net carrying amount of the old debt. This amount is capitalized and amortized over the shorter of the life of the refunded or refunding debt and the amortization recognized as a component of interest expense in a systematic and rational manner. Of the pension related items (further disclosed in Note 17), changes in assumptions are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants, while changes in proportion are recognized over the average of the expected remaining service lives of all plan members, which is 6 years for 2019 (measurement date). Pension benefit payments made subsequent to the measurement date will be recognized as a reduction of the total pension liability after the next measurement date. Of the other postemployment benefit related items (further disclosed in Note 17), only other postemployment benefit payments made subsequent to the measurement date are presented as a deferred outflow item, which will be recognized as a reduction of the other postemployment benefit liability after the next measurement date. The goodwill is related to an acquisition by HFA during fiscal year 2020 of a majority equity interest in a community development fund. The goodwill represented the consideration provided by HFA in such acquisition in excess of the net position of the equity fund acquired. Such deferred excess consideration is recognized in a systematic and rational manner, which was determined to be five years. There were no deferred outflows of resources at the governmental funds level.

In addition to liabilities, the statement of net position (deficit) and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position and resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. On the business-type activities of the government-wide financial statements and proprietary funds' statement of net position (deficit) there is one major caption that qualifies for reporting in this category, which consists of pension related items. With respect to the pension related items (further disclosed in Note 17), changes in assumptions and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining lifetime of active and inactive participants. A deferred inflow of resources has also been recorded in the governmental funds representing intergovernmental grant revenue that does not meet the "available" criteria for revenue recognition in the current period under the modified accrual basis of accounting. In subsequent periods, when the applicable resources become available, the deferred inflow of resources is removed from the balance sheet and the revenue is recognized.

(p) ***Conduit Debt***

The HFA has issued notes and bonds in connection with the financing of low and moderate-income housing projects. Certain of the obligations issued by the Housing Finance Authority are considered conduit debt and are excluded, along with the related assets held in trust, from the accompanying basic financial statements. The Bank, the HFA and the Commonwealth, except for the assets held in trust and earnings thereon, are not liable directly or indirectly for the payment of such obligations.

Certain other collateralized obligations of the HFA are included in the accompanying basic financial statements either because they represent general obligations of the HFA or it maintains effective control over the assets transferred as collateral.

From time to time, the Public Finance Corporation has issued bonds, the proceeds of which were used to purchase from the GDB Operating Fund promissory notes of the Commonwealth, and of certain of its public entities, or to refund such previously issued bonds. The bonds are limited obligations of the Public Finance Corporation and, except to the extent payable from bond proceeds and investments thereon, are payable solely from the pledge and assignment of amounts due on the notes. Principal and interest on the notes are payable solely from legislative appropriations to be made pursuant to acts approved by the Legislature. The underlying notes represent debt of the issuing instrumentalities. The bonds are considered conduit debt, and therefore, neither the bonds nor the notes purchased with the proceeds therefrom are presented in the accompanying basic financial statements. There was no issuance of these bonds during fiscal year 2020. Refer to note 23 for PFC Restructuring Support Agreement.

(q) ***Guarantee Fees***

Guarantee fees are amortized over the life of the related guarantee using the straight-line method.

(r) ***Transfers of Receivables***

Transfers of receivables are accounted and reported as a sale if the Bank's continuing involvement with those receivables is effectively terminated. This approach distinguishes transfers of receivables that are sales from transfers that are collateralized borrowings.

The Bank's continuing involvement is considered to be effectively terminated if all of the following criteria are met: (i) the transferee's ability to subsequently sell or pledge the receivables is not significantly limited by constraints imposed by the Bank, either in the transfer agreement or through other means, (ii) the Bank does not have the option or ability to unilaterally substitute for or reacquire specific accounts from among the receivables transferred, except in certain limited circumstances, (iii) the sale agreement is not cancelable by either party, including cancellation through payment of a lump sum or transfer of other assets or rights, and (iv) the receivables and the cash resulting from their collection have been isolated from the Bank.

Pursuant to the Qualifying Modification, the Bank transferred all the GDB Operating Fund's Municipal Loans and loans to the private sector, and a substantial volume of its loans to public corporations (except for the GDB Retained Loans) to the DRA. These transfers qualified as true sales since the Bank's continuing involvement with these loans were effectively terminated and the Bank's legal obligations for these loans were released, as set forth by the GDB Restructuring Act (see details in Note 5).

The HFA services loans for investors and receives servicing fees generally based on stipulated percentages of the outstanding principal balance of such loans. Loan servicing fees, late charges, and other miscellaneous fees are recognized as revenues as the related mortgage payments are collected, net of fees due to any third-party servicers. No servicing asset is recognized since fees are considered adequate compensation.

(s) ***Mortgage Loans Insurance Premiums***

Premiums on insured mortgage loans are recognized as earned during the period of the insurance coverage.

(t) ***Accounting for Pension Cost***

As further disclosed in Note 17, effective July 1, 2017, a new "pay-as-you-go" (PayGo) system was enacted into law by Act No. 106 of 2017 (Act 106-2017), significantly reforming the defined benefit plan (the Plan) of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). Under the PayGo system, employers' contributions and other contributions ordered by special laws were all eliminated and substantially all the assets of the Plan were liquidated and its proceeds transferred to the Commonwealth's General Fund for payment of pension benefits; therefore, since the enactment of Act 106-2017, the Commonwealth's General Fund makes direct payments to the pensioners and is then reimbursed for those payments by the participating employers.

As a result of the implementation of the PayGo system, the Plan no longer met the criteria of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27 (*GASB Statement 68) to be considered a plan that is administered through a trust or equivalent arrangement, and therefore, it was necessary to start applying the guidance of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No 68, an amendments of Certain Provisions of GASB Statements No. 67 and 68* (GASB Statement 73). Statement No. 73 maintains the "accrual basis" model under Statement 68, where the Total Pension Liability is actuarially determined. GASB Statement No. 73 requires a liability for pension obligations, known as the Total Pension Liability, to be recognized on the balance sheets of participating employers. Changes in Total Pension Liability are immediately recognized as pension expenses. As Act 106-2017 eliminated all contribution requirements for the Plan and converted it into a PayGo system, the corresponding actuarial calculation of the total pension liability and related accounts became one based on benefit payments rather than contributions. As a result, the Bank recognizes a Total Pension Liability, pension expenses and related accounts, accordingly. Further details on the accounting for pension costs are disclosed in Note 17.

The Central Government and its component units are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan. Other employers also participate in the Plan. Because certain employers that are component units of the Commonwealth, such as the Bank, prepare individual financial statements, a proportionate share of pension related amounts is determined for these employers. Such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2019 actuarial measurement data was used for the pension benefits financial reporting recognition as of and for the fiscal year ended June 30, 2020.

The Bank's pension activity for the year ended June 30, 2020 amounted to a pension expense of approximately $8.1 million and the Total Pension Liability as of June 30, 2020 amounted to approximately $189.8 million. Disclosures required can be found in Note 17.

(u) ***Accounting for Postemployment Benefit Costs other than Pensions***

The Bank accounts for postemployment benefit costs other than pensions (OPEB) under the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*, which also requires additional reporting and disclosures for OPEB benefits provided through the ERS sponsored Medical Insurance Plan Contribution (ERS MIPC). GASB Statement No. 75 requires a liability for OPEB obligations, known as the Net OPEB Liability (Total OPEB Liability for unfunded plans), to be recognized on the balance sheets of participating employers. Changes in the Net OPEB Liability (Total OPEB Liability for unfunded plans) are immediately recognized as OPEB expenses.

GASB Statement No. 75 employs an "accrual basis" model, where the total OPEB obligation (actuarially determined) is compared to the plan net position and the difference represents the Net OPEB Liability (Total OPEB Liability for unfunded plans). Further details on the accounting for OPEB costs are disclosed in Note 17.

The Central Government and its component units are considered to be one employer. Other employers also participate in the ERS OPEB Plan. Because certain employers that are component units of the Commonwealth, such as the Bank, prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers. Statement No. 75 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

Because all participants in the ERS OPEB plan are inactive, there are no deferred inflows and outflows as any changes due to changes in actuarial assumptions or economic or demographic gains and losses are recognized immediately during the measurement year. However, a deferred outflow has been recognized only for the amount of the benefit payments made by the Commonwealth on behalf of the Bank subsequent to the measurement date, of approximately $408 thousand (approximately $240 thosuand for the GDB Operating Fund, approximately $166 thosuand000 for HFA and approximately $2 thosuand for TDF).

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2019 actuarial measurement data was used for the OPEB financial reporting recognition as of and for the fiscal year ended June 30, 2020.

The Bank's annual OPEB expense for the year ended June 30, 2020 amounted to approximately $408 thousand and the OPEB liability as of June 30, 2020 amounted to approximately $3 million. Disclosures required under GASB Statement No. 75 can be found in Note 17.

GASB Statement No. 75 requires certain disclosures if an actuarially determined contribution has been calculated.

(v) *Future Adoption of Accounting Pronouncements*

The following new accounting standards have been issued by the GASB but are not yet effective as of June 30, 2020:

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

- GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance,* which allowed for an eighteen-month postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

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- GASB Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61.* The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

- GASB Statement No. 91, *Conduit Debt Obligations.* The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

  This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2021, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- GASB Statement No. 92, *Omnibus 2020.* The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: The effective date of Statement No. 87, *Leases,* and Implementation Guide No. 2019-3, *Leases*, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.

- GASB Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR most notably the London Interbank Offered Rate (LIBOR).

  As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

- GASB Statement No. 94, *Public-Private and Public-Public Partnership and Availability Payment Arrangement*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA): (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform. This Statement also requires that the financial burden criterion in paragraph 7 of GASB Statement No. 84, *Fiduciary Activities,* be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of GASB Statement No. 67, *Financial Reporting for Pension Plans,* or paragraph 3 of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* respectively.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of GASB Statement 67 or paragraph 3 of GASB Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

- GASB Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

- GASB Statement No. 99 – *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

    - Classification and reporting of derivative instruments within the scope of Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument

    - Clarification of provisions in Statement No. 87, Leases, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives

    - Clarification of provisions in Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset

    - Clarification of provisions in Statement No. 96, Subscription-Based Information Technology Arrangements, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability

    - Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt

    - Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)

    - Disclosures related to nonmonetary transactions

    - Pledges of future revenues when resources are not received by the pledging government

    - Clarification of provisions in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as amended, related to the focus of the government-wide financial statements

    - Terminology updates related to certain provisions of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

    - Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this Statement that are effective as follows:

The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.

The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Management is evaluating the impact that these Statements will have on the Banks's basic financial statements.

(3) Going Concern Uncertainty

As described in Note 5, on November 29, 2018 (the Closing Date), the Bank executed the Qualifying Modification, which resulted in a comprehensive financial restructuring and legal discharge of substantially all of the Bank's debts and the ensuing transfer of almost all its revenue earning assets to the DRA or to the PET. The execution of the Qualifying Modification continued the process of efficiently winding down the Bank's operations. With the execution of this transaction, the GDB Operating Fund will not emerge as a going concern. In addition, because the Bank's blended component units' activities revolved and depended on the GDB Operating Fund, there is also substantial doubt that such component units will continue as well as going concerns.

With respect to HFA, it has the intention of putting in place a series of plans and initiatives that, when executed, are expected to result in an alleviation of the substantial doubt referred to in the previous paragraph.

(4) Restatement of Beginning Net Position

After the issuance of the financial statements for the year ended June 30, 2019, management of the Bank became aware of certain receivables and payables that remained outstanding and unapplied in the GDB Operating Fund after all the adjustments made pursuant to the Qualifying Modification. These outstanding items should have been eliminated pursuant to the Qualifying Modification adjustments. In addition, during the current fiscal year, management identified certain overpayments to the DRA made under the Qualifying Modification. Since such information existed but had not been considered, such changes were considered as corrections of errors. Accordingly, the GDB Operating Fund restated the beginning net position of its business-type activities and proprietary fund in order to correct prior year's unsettled items that consisted in a net payable position of approximately $4,005 million and prior year's overpayments in the amount of approximately $147 thousand.

As part of the Qualifying Modification, the Development Fund held a "Participating Bonds Claim" in the Qualifying Modification totaling $11 million to cover for potential exposures, if any, under the Development Fund guaranty programs. On the Closing Date, this claim was exchanged for bonds issued by the DRA (at an upfront exchange ratio of 55% or at the equivalent face value of $6,050,000). The Development Fund inadvertently omitted the recognition of such bonds during 2019, thus such bonds are restated in the current year by recognizing such DRA bonds at its then estimated fair value and the related collections that had been received on such bonds through June 30, 2019, totaling approximately $4.9 million.

In addition, as disclosed in Note 1, given the full dependence of PRTA on the GDB Operating Fund's contributions to sustain PRTA's minimal operating expenses, its reporting became part of the GDB Operating Fund as a blended component unit. Accordingly, the beginning net position of the Bank was restated in order to reflect such change in reporting entity.

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The impact of the aforementioned related adjustments to beginning net position is summarized as follows (in thousands):

Government-wide Financial Statements

	Business-Type Activities
Net position (deficit) – July 1, 2019, as previously reported	$ 22,295
Correction of error:	
Overtatement of net payables at the GDB Operating Fund that remained unapplied after the Qualifying Modification	4,005
Overpayments to the DRA during Qualifying Modification	147
Unrecognized investment in DRA bonds and related proceeds	4,917
Change in reporting entity-PRTA	(10)
Net position (deficit) – July 1, 2019, as restated	$ 31,354

Proprietary Funds

	GDB Operating Fund	Other Non-major
Net position (deficit) – July 1, 2019, as previously reported	$ (113,237)	$ 5,762
Correction of error:		
Overstatement of net payables that remained unapplied after Qualifying Modification	4,005	–
Overpayments to the DRA during Qualifying Modification	147	–
Unrecognized investment in DRA bonds and related proceeds	–	4,917
Change in reporting entity	–	(10)
Net position (deficit) – July 1, 2019, as restated	$ (109,085)	$ 10,669

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(5) Qualifying Modification and the Title VI Approval Process

On November 6, 2018, the United States District Court for the District of Puerto Rico approved the Qualifying Modification pursuant to section 601(m)(2) of PROMESA and on November 29, 2018 (the Closing Date), the Bank completed the restructuring of substantially all of its indebtedness pursuant to the Qualifying Modification. Pursuant to PROMESA, the Qualifying Modification is valid and binding on any person or entity asserting claims or other rights, including a beneficial interest (directly or indirectly, as principal, agent, counterpart, subrogee, insurer or otherwise) in respect of Participating Bond Claims (as defined below), and any trustee, any collateral agent, any indenture trustee, any fiscal agent, and any bank that receives or holds funds related to such Participating Bonds. The Qualifying Modification, including all settlements, compromises, releases, discharges, and injunctions, were deemed by the District Court to be full, final, complete, binding, and conclusive as to the Commonwealth, all Commonwealth instrumentalities, and any creditors of such entities, and is not subject to any collateral attack or other challenge by any such entities in any court or other forum.

Under the Qualifying Modification, holders of the GDB Senior Notes, certain deposit claims against the GDB Operating Fund and certain guarantee claims, including related accrued interest (each a Participating Bond Claim) exchanged their claims for bonds issued and future additional bonds to be issued (the DRA Bonds or Restructuring Bonds), at an upfront exchange ratio of 55%, by a newly created public instrumentality—the DRA created under the GDB Restructuring Act—and the Bank assigned and transferred to the DRA (executed through a Master Transfer Agreement on the Closing Date) certain assets to secure the DRA (the Restructuring Property).

The Restructuring Property as of the Closing Date of the Qualifying Modification consisted principally of the GDB Operating Fund's municipal loan portfolio and a certain portion of its public entity loan portfolio (including Commonwealth's loans, Commonwealth's guaranteed loans and certain public corporation loans), which pursuant to the GDB Restructuring Act, were reduced as of the Closing Date by certain deposits of such government entities with the GDB Operating Fund. The Restructuring Property also included the GDB Operating Fund's loans to the private sector, real estate available for sale and its unencumbered cash.

The GDB Retained Loans consist of certain loans designated to be retained and continued to be serviced by the GDB Operating Fund pursuant to the Qualifying Modification, but which beneficial interests and proceeds therefrom would be transferred from time to time by the Bank to the DRA upon collection. The GDB Retained Loans, although not transferred to the DRA on the Closing Date, were also reduced at that date by certain deposits of such government debtors with the GDB Operating Fund, as set forth in the GDB Restructuring Act. The GDB Retained Loans included certain loans labeled as the Additional Recovery Authority Loans, with an unpaid principal balance totaling approximately $142 million as of the Closing Date. The GDB Restructuring Act provided for the Additional Recovery Authority Loans to be transferred to the DRA on the date that was the earlier of the effective date of a modification, restructuring or similar transaction in respect to such loans and 18 months after the Closing Date, an event that eventually occurred during May 2020. Through that date, the GDB Operating Fund had recognized, as required by the Qualifying Modification and the GDB Restructuring Act, an obligation for such transfer commitment as part of the restructuring transaction. At May 2020, the then carrying amount of such Additional Recovery Authority Loans, including accrued interest, amounted to approximately $106.9 million, which was eventually transferred to the DRA. Therefore, the commitment obligation for such transfer that was recognized on the Closing Date, was fully repaid upon the transfer of the Additional Recovery Authority Loans to the DRA.

In addition, pursuant to the GDB Restructuring Act, claims on account of deposits held by the Commonwealth and other Non-Municipal Government Entities were exchanged for interest in a newly formed trust created pursuant to the GDB Restructuring Act, titled Public Entity Trust (the PET). Under the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates (each a Non-Municipal Government Entity) and the Bank was determined by applying the outstanding balance of any deposits held at the Bank in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to the Bank or of any bond or note of such Non-Municipal Government Entity held by the Bank as of such date. Those Non-Municipal Government Entities having net claims against the Bank (also known as Designated Deposits), after giving effect to the foregoing adjustment received their pro rata share of interests in the PET, which was deemed to be in full satisfaction of any and all claims such Non-Municipal Government Entity may have against the Bank. The assets of the PET (the PET Assets) consist of the claim of the Bank against the Commonwealth, asserted in the Commonwealth's Title III case and transferred to the PET, with an original potential value to be recovered of $926.9 million (the PET Claim). However, the value of the PET Claim was capped at approximately $578 million, on account of several federal funds on deposits at the Bank, in the amount of approximately $349 million, which amount was (or will be) restored by the Commonwealth pursuant to the terms of the Commonwealth's certified fiscal plan. The Designated Deposits' recoveries on their interests in the PET will depend upon the recovery ultimately received by the PET on account of the PET Assets. As of June 30, 2020, the PET has been able to collect $2 million from such assets ($1.625 million during fiscal year 2020), which at the same time has prompted the recognition of an obligation for the same amount within accounts payable and accrued liabilities in the accompanying statement of net position. Of the total amount collected by the PET, none has been relayed to the Designated Depositors at June 30, 2020, leaving an obligation amount outstanding of $2 million (see Note 14).

Prior to the approval and Closing Date of the Qualifying Modification, the Official Committee of Unsecured Creditors (UCC) had objected to the GDB Restructuring Act and the Qualifying Modification through several proceedings brought at the Title III U.S. District Court against the defendants (the Commonwealth, the Bank, FAFAA and the Oversight Board). On October 5, 2018, the UCC and the defendants signed a stipulation agreement (the UCC Stipulation) resolving the aforementioned objections, which settlement was incorporated within the deed of constitution of trust that created the PET (the PET Deed). The UCC stipulation provided for the cap of $578 million on the PET Claim. The UCC stipulation, as defined in the PET Deed, also included the following:

- Cash of $20 million to be transferred from the Bank to the PET to become PET Assets in order to cover settlement payments to honor a portion of deposits held by the Puerto Rico Electric Power Authority (PREPA) and the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) (together known as Tittle III Debtor Designated Deposits). The $20 million was transferred on February 12, 2019.

- Cash and/or cash equivalents to be transferred to the PET as PET Assets not to exceed $10 million, but only to the extent such amount represents excess or unused funds from the Specified Cash Assets, as defined in the Master Transfer Agreement (and further described in the next paragraph below). This cash potential is also known as Excess Reserved Cash or Contingent Settlement Cash. No such excess exists or has been confirmed as of June 30, 2020.

- The first cash or cash equivalents that remain after all contingent claims against the Bank arising on or before the Closing Date have been satisfied, will be transferred to the PET up to the amounts necessary to honor the Title III Debtor Designated Deposits at a 55% exchange ratio. This cash potential is also known as Excess Litigation Proceeds. No such Excess Litigation Proceeds existed or have been confirmed as of June 30, 2020.

- The PET was to be structured to provide priority treatment for claims arising from deposits of certain federal funds with the Bank. In order to receive distribution from the PET on account of such federal funds claims, the applicable Designated Depositor must have the amounts of such claims validated and certified by FAFAA and the PET must have secured the restoration of such deposits from the Commonwealth if, and to the extent included in the annual budgetary appropriation process of the Commonwealth. No such claims have been confirmed and validated by FAFAA, neither have they been included in the annual budgetary appropriation process of the Commonwealth as of and during the fiscal year ended June 30, 2020.

One of the items labeled as Specified Cash Asset (further described in subsequent paragraphs below), consisted of a reserve account transferred to the PET to cover its estimated operating expenses after the Closing Date, with an opening balance of $1,780,000, of which $1,771,638 remain unexpended as of June 30, 2020.

Certain assets of the Bank were not required to be transferred to the DRA or the PET pursuant to the Qualifying Modification (these assets defined as Cash Adjustments in the Master Transfer Agreement). In particular, the Bank segregated certain funds categorized as Specified Cash Assets in the Master Transfer Agreement in order to comply with its obligation to the Bank's retired employees and other beneficiaries under the following programs: (i) Act 70 approved on fiscal year 2010, (ii) employees benefits under the early retirement windows of Act 112 approved on fiscal year 2000 and (iii) Act 188 approved for fiscal year 2007, the voluntary pre-retirement program established with Act 211 approved on fiscal year 2015 and the voluntary separation program included in the Fiscal Plan and implemented. At June 30, 2019, the present value of these retirement obligations that was accrued in the financial statements amounted to approximately $11.1 million. The GDB Restructuring Act provided for the creation of a trust (the Early Retirement Obligations Trust or the "ERO Trust") for the benefit of the former employees of the Bank receiving payments under these Early Retirement Programs to satisfy all its ultimate obligation under such programs. The amount earmarked for these early retirement programs remaining at June 30, 2019 amounted to approximately $15 million, funds which the Bank was required to transfer upon the creation of said trust. It was not until August 6, 2019, that the ERO Trust was created and maintained at FAFAA (also the named trustee of said trust), at which time both the aforementioned funds earmarked for these purposes and the related obligations (the approximately $11.1 million early retirement obligation and the approximately $3.9 million obligation for the excess funds available over the early retirement obligation) existing then, were transferred to FAFAA (refer to Note 17B).

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Another Specified Cash Asset maintained by the Bank consisted of reserve accounts to cover the estimated operating expenses of the Bank with opening balances of $24.7 million. Approximately $17.4 million remain as of June 30, 2020, for the operating expenses of the Bank. The final Specified Cash Asset consisted of another reserve account set aside and used for the settlement of certain open and disputed vendor claims in the amount of $15 million. As of June 30, 2020, approximately $4.9 million of the vendor claims reserve remain in the bank account for such purpose, which may potentially turn into a surplus cash from the original $15 million set aside; however, the Bank has not confirmed the existence of such excess cash as of June 30, 2020, as would be required pursuant to the UCC stipulations and the PET Deed. In accordance with the PET Deed, any Excess Reserved Cash shall be distributed to the PET once confirmed by the Bank. An Excess Reserved Cash of approximately $4 million was declared by the Bank on December 10, 2021 (refer to Notes 14 and 23).

In addition to the Specified Cash Assets described in the previous paragraph, other Cash Adjustments not transferred to either the DRA or the PET, were maintained at the Bank in order to cover other settlements and expenses established pursuant to the GDB Restructuring Act. These other Cash Adjustments were all settled during fiscal year 2019.

The UCC Stipulation allowed the UCC to preserve any rights it may have to object to the PET Claim. The Title III U.S. District Court has not determined if the PET Claim is an allowed claim that will be entitled to a distribution. On the other hand, claims that the Commonwealth and other governmental entities may have had against the Bank have been released pursuant to the GDB Restructuring Act.

GDB accounts for a extraordinary gain amounting to $4 billion due to the execution of the Qualifying Modification during the fiscal year 2019.

(6) Enactment of PROMESA

The United States Congress enacted PROMESA in response to the Commonwealth’s fiscal crisis. In general terms, PROMESA seeks to provide the Commonwealth with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA (the Title IV Stay); and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of Title 11 of the United States Code (the U.S. Bankruptcy Code).

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On May 1, 2017, the temporary stay under Title IV of PROMESA expired, permitting substantial litigation by bondholders and other creditors against the Commonwealth and its component units to resume and new suits to be initiated. As a result, on May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Title III Court). Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to Title III cases pursuant to PROMESA section 301(a). Accordingly, upon the filing of the Commonwealth's Title III case, an automatic stay immediately went into effect to stay creditor litigation. All claims against the Commonwealth that arose prior to the filing of its Title III case (whether or not discussed herein) may be subject to the laws governing Title III. As of the date of these financial statements, the Bank is not the subject of a Title III case.

The Bank has completed the restructuring under Title VI of PROMESA, as discussed in further detail in Note 5.

(7) Cash and Due from Banks, Federal Funds Sold, Deposits Placed with Banks and Claims from PET

Custodial credit risk is the risk that, in the event of a financial institution failure, the Bank's deposits may not be returned to it. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of Treasury. The Bank does not have a formal policy for custodial credit risk for cash accounts opened with commercial banks outside Puerto Rico.

The Bank's policies for deposits placed with banks and federal funds sold establish maximum exposure limits for each institution based on the institution's capital, financial condition and credit rating assigned by nationally recognized rating agencies, except for the Bank's component units' deposits in the GDB Operating Fund. Deposits placed with banks of approximately $66.8 million mature in fiscal year 2020. Federal funds sold mature overnight and no collateral is required.

The table presented below discloses the level of custodial credit risk assumed by the Bank as of June 30, 2020. As of June 30, 2020, $108,425,507 of the depository bank balance of $262,616,918 was uninsured and uncollateralized as follows:

	Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Cash and due from banks	$ 87,578,013	$ 88,960,370	$ 1,584,830
Federal funds sold	2,280,199	2,280,199	2,280,199
Deposits placed with banks	66,815,872	171,376,349	104,560,478
Total	$ 156,674,084	$ 262,616,918	$ 108,425,507

Deposit Claims from PET by Blended Component Units

Pursuant to the GDB Restructuring Act, the terms of Qualifying Modification and the UCC Stipulation (see more details in Note 5), claims on account of deposits held by the Commonwealth and other public entities were exchanged for beneficial units in the PET. Specifically, under the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates (each a Non-Municipal Government Entity) and the Bank was determined by applying the outstanding balance of any deposits held at the Bank in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to the Bank or of any bond or note of such Non-Municipal Government Entity held by the Bank as of such date. The aforementioned UCC stipulation also provided for offset adjustments on account of federal funds deposit claims. The PET provides priority treatment for these federal funds deposit claims only to the extent these amounts are validated and certified by FAFAA and included in the annual budgetary appropriation process of the Commonwealth. Those Non-Municipal Government Entities having net claims against the GDB Operating Fund (also known as Designated Deposits), after giving effect to the foregoing adjustments, received their pro rata share of interests in the PET, which was deemed to be full satisfaction of any and all claims such Non-Municipal Government Entity may have had against the Bank.

The remaining balance of these claims and the accompanying custodial credit risk loss, after the foregoing adjustments, were reclassified to a deposit claim receivable from the PET and an allowance for doubtful accounts, respectively, with a carrying value of zero. Pursuant to the Qualifying Modification and the PET Deed, the recovery on account of these deposit claims will depend upon the recovery ultimately received by the PET on account of the PET Assets. The balance of these claims with their corresponding allowance follows:

	Deposit Claims Receivable from PET at June 30, 2020		
Entity	**Deposit Claim**	**Allowance for Doubtful Accounts**	**Carrying Value**
Housing Finance Authority	$ 56,704,776	$ (56,704,776)	$ -
Other Non-major Funds:			
Development Fund	9,790,521	(9,790,521)	-
PFC	28,621,578	(28,621,578)	-
JMB Institute	128,139	(128,139)	-
Total	$ 95,245,014	$ (95,245,014)	$ -

The HFA, a blended component unit of the Bank, was audited by another auditor which issued its opinion on the 2020 stand-alone financial statements with a custodial credit loss recognition on its claims receivable from the PET of $56.7 million as of June 30, 2020.

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Custodial Credit Loss on Deposits at EDB

In the case of deposits with EDB, due to the economic deterioration affecting the Puerto Rico government, including downgrades in credit ratings of the Commonwealth's bonds, the private sector retired deposits and exercised their put options on notes payable from EDB. In addition, the GDB financial and liquidity crisis made public governmental agencies and corporations move their deposits from EDB to GDB, reducing EDB's capacity to issue commercial loans or make investments in financial instruments. In addition to these factors, the investments held by EDB declined in value and EDB operated only on the interest income generated by its loan portfolio. This posed a difficult liquidity situation for EDB because, due to the high default rate on its loan portfolio, its ability to raise cash through loan repayments was limited. Therefore, the Bank's ability to use its funds deposited with EDB have been significantly restricted. Based on the evaluation of the availability and recoverability of such deposits (all time deposits), a custodial credit loss on them has been recognized on the following Bank and blended component units' deposits:

	Bank's Deposits held with EDB at June 30, 2020		
Entity	**Deposit Balance**	**Custodial Credit Loss**	**Book Balance**
GDB Operating Fund:			
Overnight deposits	$ 35,070,000	$ (35,070,000)	$ -
Time deposits	1,233,653	(1,233,653)	–
Housing Finance Authority	65,242,680	(65,242,680)	–
Tourism Development Fund	1,609,472	(1,609,472)	–
Total	$ 103,155,805	$ (103,155,805)	$ -

The GDB Operating Fund had an overnight deposit with EDB prior to the Closing Date in the amount of $35.4 million. At Closing Date, a deposit of approximately $330 thousand that EDB had with the Bank was applied to offset it against these overnight deposits, pursuant to the Qualifying Modification. The Bank recognized accordingly a custodial credit risk loss recovery for the amount of this offset. The depository bank balance amounted to $35,074,917 at June 30, 2020.

The GDB Operating Fund has another time deposit with EDB, for which it has recognized custodial credit losses as of June 30, 2020 in the amount of approximately $1.2 million (none recognized during fiscal year 2020). Interest income that had been recognized on this time deposit during fiscal year 2020 in the amount of approximately $18 thousand was reversed. The depository bank balance as of June 30, 2020 amounted to $1,251,983.

The HFA, a blended component unit of the Bank, was audited by another auditor and issued its 2020 stand-alone financial statements with a custodial credit loss recognition on its cash and deposits with EDB of $65.2 million as of June 30, 2020 (none recognized during fiscal year 2020). The depository bank balance as of June 30, 2020 amounted to $66,596,316.

The TDF has recognized custodial credit losses on its cash and deposits with EDB as of June 30, 2020 in the amount of $1,609,472 (none recognized during fiscal year 2020). Interest income that had been recognized and capitalized on these cash and deposits during fiscal year 2020 in the amount of approximately $27 thousand was also reversed, which is the basis for the custodial credit loss of $1,609,472 as of June 30, 2020. The depository bank balance as of June 30, 2020 amounted to $1,637,262.

(8) Investments

The Bank's investment policies allowed management to purchase or enter into the following investment instruments:

- U.S. government and agencies obligations
- Certificates of deposit and time deposits
- Bankers' acceptances
- Obligations of the Commonwealth, its public entities, and municipalities
- Federal funds sold
- Securities purchased under agreements to resell
- World Bank securities
- Mortgage-backed and asset-backed securities
- Corporate debt, including investment contracts
- External investment pools
- Stock of corporations created under the laws of the United States of America or the Commonwealth
- Options, futures, and interest-rate swap agreements for hedging and risk control purposes, as well as for the creation of synthetic products which qualify under any of the foregoing investment categories
- Open-end mutual funds with acceptable underlying assets and rated AAA by Standard & Poor's or its equivalent by Moody's Investors Services

The Bank's investment policies established limitations and other guidelines on maturities and amounts to be invested in the aforementioned investment categories and by issuer/counterparty and on exposure by country. In addition, such policies provided guidelines on the institutions with which investment transactions could be entered into. In addition, the Risk Management Committee (RMC), formerly known as the Asset Liability Management Committee (ALCO) and the Bank's board of directors determined, from time to time, other transactions that the Bank could enter into.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Bank's investment policies provide that investment transactions could only be entered into with counterparties that are rated BBB+/A-1 or better by Standard & Poor's or its equivalent rating by Moody's Investors Service or Fitch Ratings (Fitch), depending on the type and maturity of the investment and the counterparty to the transaction. Any exceptions had to be approved by the Bank's board of directors. The investment policies also provided that purchases and sales of investment securities must have been made using delivery instead of payment procedures.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Bank's investment policies also provide that the RMC was responsible for implementing and monitoring the Bank's interest rate risk policies and strategies. Historically, the RMC met on a monthly basis to coordinate and monitor the interest rate risk management of interest sensitive assets and interest sensitive liabilities, including matching anticipated level and maturities, consistent with the Bank's liquidity, capital adequacy, risk and profitability goals set by the Bank's board of directors.

The following table summarizes the type and maturities of investments held by the Bank as of June 30, 2020. Investments by type in any one issuer representing 5% or more of total investments of either the Bank or its blended component units have been separately disclosed. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment type	Within one year	After one to five years	After five to ten years	After ten years	Total
U.S. Treasury Obligations	$ 10,421,047	$ -	$ -	$ -	$ 10,421,047
Mortgage and asset-backed securities:					
Government National Mortgage Association ("GNMA")	-	7,189,782	39,879,795	9,091,789	56,161,366
Federal National Mortgage Association ("FNMA")	-	1,157,127	962,630	-	2,119,757
Other	-	-	-	100,543	100,543
External investment pools-Federated Government Obligations	-	-	13,270,340	-	13,270,340
GDB Debt Recovery Authority bonds	-	-	-	3,039,378	3,039,378
Nonparticipating investment contracts:					
Trinity Funding Co	-	-	-	13,902,154	13,902,154
Popular Bank of Puerto Rico	-	-	-	5,273,883	5,273,883
Santander Bank Puerto Rico	-	-	-	5,254,816	5,254,816
Total investments	$ 10,421,047	$ 8,346,909	$ 54,112,765	$ 36,662,563	109,543,284
Preferred securities/interest:					
Other					4,500
Total					$ 109,547,784

Total investments in fixed-income external investment pools were approximately $13.3 million, consisting of Federated Government Obligations with an average maturity of five to ten years.

During fiscal year 2013, the TDF entered into an agreement with a third party to redeem its investment in class B preferred special interest in Desarrolladora Del Norte, S. en C. for $32 million in cash and an $8 million non-interest-bearing promissory note. The non-interest-bearing promissory note requires annual payments of $800 thousand through June 2023. The TDF will forebear these annual payments if Desarrolladora Del Norte, S. en C. maintains its hotel operations in Puerto Rico with approximately 600 employees and complies with other requirements during the term of the contract. Management of the Tourism Fund understand that the collection of the promissory note is contingent on future events, therefore, the amounts under such promissory note will be recognized once they are collected. No collections were recorded during the year ended June 30, 2020.

As of June 30, 2020, substantially all of the Bank's investments in mortgage and asset-backed securities were held by trustees in connection with bonds issued by the HFA (approximately $40.9 million as of June 30, 2020), the terms of which generally provide for early redemption of the bonds if the securities are repaid early.

During the year ended June 30, 2020, proceeds from redemptions of investments from all the proprietary funds amounted to approximately $328 million. There were no gains or losses on the sale and redemption of investments during fiscal year 2018. Purchases of investments during the year ended June 30, 2020, amounted to approximately $316 million.

All the Bank's investments in U.S. Treasury securities and mortgage-backed securities guaranteed by GNMA carry the explicit guarantee of the U.S. government. The investment in the GDB Debt Recovery Authority bonds is not rated. The credit quality ratings for investments in debt securities, excluding U.S. Treasury securities and mortgage-backed securities guaranteed by GNMA and the investment in the GDB Debt Recovery Authority bonds, are as follows:

	Credit Risk Rating [1]					
Securities type	**AAA**	**AA**	**A**	**BBB**	**BB**	**Total**
Mortgage and asset-backed securities						
FNMA	$ -	$ 2,119,757	$ -	$ -	$ -	$ 2,119,757
Other	-	100,543	-	-	-	100,543
External investment pools-Federated						
Government Obligations	13,270,340	-	-	-	-	13,270,340
Non-participating investment contracts	-	-	5,254,816	13,902,154	5,273,883	24,430,853
Total	$ 13,270,340	$ 2,220,300	$ 5,254,816	$ 13,902,154	$ 5,273,883	$ 39,921,493

[1] Rating obtained from Standard & Poor's or equivalent rating by Moody's Investor Service or Fitch Rating.

The credit quality ratings of non-participating investment contracts are based on the credit quality ratings, as of June 30, 2020, of the counterparties with whom these contracts are entered into. The credit quality ratings of the counterparties follow the ratings required by the investment policies of the Bank.

As of June 30, 2020, the fair value of the Bank's investments based on the hierarchy of inputs is as follows:

Investment type	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. Treasury Obligations	$ 10,421,047	$ -	$ -	$ 10,421,047
Mortgage and asset-backed securities:				
Government National Mortgage Association ("GNMA")	-	56,161,366	-	56,161,366
FNMA	-	2,119,757	-	2,119,757
Other	-	100,543	-	100,543
External investment pools-Federated				
Government Obligations	-	13,270,340	-	13,270,340
GDB Debt Recovery Authority bonds	-	3,039,378	-	3,039,378
Preferred securities/interest	-	-	4,500	4,500
Total investments measured at fair value	$ 10,421,047	$ 74,691,384	$ 4,500	85,116,931
Investments not measured at fair value:				
Nonparticipating investment contracts (at amortized cost)				24,430,853
Total investments				$ 109,547,784

(9) Investment in PRHFA RLF Investment Fund (RLF)

Puerto Rico Community Development Fund, LLC (PRCDF), an entity organized under the laws of Delaware, is a Community Development Entity (CDE). PRCDF has two members, the HFA (50%) and the PRDOH (50%). On November 30, 2009, PRCDF was allocated $45 million of New Markets Tax Credits for investments in, or loans to, Qualified Active Low-Income Community Businesses (QALICB's) whose principal activities involve the development or rehabilitation of real estate. In October 2011 and in February 2012, PRCDF transferred $13.5 million and $31.5 million, respectively, of its allocation to PRCDF I, LLC (PRCDF I). PRCDF I, an entity organized under the laws of Delaware, is also a CDE. PRCDF I has one managing member, PRCDF (0.01%) and one investor member, PRHFA RLF Investment Fund, LLC (RLF) (99.99%), which was wholly owned by Citi Community Capital (Citi). The managing member and the investor member have made capital contributions of $4 thousand and $45 million, respectively. The capital contributions have been used to establish a loan revolving fund for loans to QALICB's. As of June 30, 2020, HFA owes $6.4 million to PRDCF I for cash transfers- made during the normal course of operations.

At the creation of PRCDF, Citi and the HFA entered into a Fund Option Agreement pursuant to which (1) the HFA granted Citi the option to require that the HFA purchased Citi's fund interest for $587 thousand and (2) Citi granted the HFA the option, exercisable if Citi did not exercise its option to sell within six months following the end of the New Markets Tax Credits compliance period, to require Citi to sell its fund interest to the HFA for a purchase price equal to the fair market value of the fund interest. In August 2019, Citi informed the HFA its intention to exercise its option for the HFA to purchase its fund interest. Accordingly, in September 2019, the HFA issued a payment to Citi for $587 thousand and thus became the sole owner of RLF and accordingly the investor member of PRCDF I. Total investment in RLF was determined as follows:

Description	Amount
Payment to Citi	$ 587,000
Loan to RLF	33,250,000
Interest accrued in loan to RLF	5,072,569
Less Goodwill	(839,461)
Original Investment	38,070,108
Net income of RLF from date of acquisition to June 30, 2020	1,636,413
Investment in RLF as of June 30, 2020	$ 39,706,521

The equity pickup related to the net income of RLF from date of acquisition to June 30, 2020 amounting to $1,636,413 is recorded separately in the Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds.

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(10) Loans Receivable and Allowance for Loan Losses

As of June 30, 2020, the outstanding balance (in thousands) of loans is as follows:

	GDB Operating Fund [1]	Tourism Development Fund	Housing Finance Authority	Development Fund	Total
Public corporations and agencies	$ 889,768	$ -	$ -	$ -	$ 889,768
Allowance for loan losses	(889,768)	-	-	-	(889,768)
Net loans to public sector	-	-	-	-	-
Private sector	-	26,488	214,929	18,300	259,717
Allowance for loan losses	-	(26,488)	(39,095)	(18,300)	(83,883)
Net loans to private sector	-	-	175,834	-	175,834
Total loans receivable, net	$ -	$ -	$ 175,834	$ -	$ 175,834

(1) Excluding loans to component units.

As described in detail in Note 5, pursuant to the Qualifying Modification, the Bank (through its GDB Operating Fund) assigned and transferred to the DRA a substantial portion of the GDB Operating Fund's loan portfolio to secure the DRA Bonds, while another set of Commonwealth agencies' loans were exchanged as collateral for interests in a newly formed trust, the PET, created pursuant to the GDB Restructuring Act. After the Closing Date, the only loans retained by the GDB Operating Fund was the GDB Retained Loans (further described below), consisting of certain loans designated to be retained and continued to be serviced by the GDB Operating Fund pursuant to the Qualifying Modification, but which beneficial interests and proceeds therefrom would be transferred from time to time by the Bank to the DRA. The GDB Retained Loans include certain loans labeled as the Additional Recovery Authority Loans, with an unpaid principal balance totaling approximately $142 million as of the Closing Date. The Additional Recovery Authority Loans were scheduled to be transferred to the DRA on the date that was the earlier of the effective date of a modification, restructuring or similar transaction in respect to such loans and 18 months after the Closing Date, an event that eventually occurred during May 2020. As of May 2020, the then carrying amount of such Additional Recovery Authority Loans, including accrued interest, amounting to approximately $106.9 million, was transferred to the DRA. This amount does not consider a fully reserved Additional Recovery Authority loan with an unpaid principal balance of $26.9 million (no carrying value), which was also transferred to the DRA.

As of June 30, 2020, GDB Retained Loans, totaling $889.8 million, are repayable from the following sources (in thousands):

Repayment Source	Amount
General fund and/or legislative appropriations	$ 883,609
Operating revenues	6,159
	$ 889,768

For the year ended June 30, 2020, there were no further disbursements or collections on the GDB Retained Loans, other than the collection of principal amounting to approximately $5.4 million through May 2020, all from operating revenues, on the Additional Recovery Loans, which as previously discussed, were transferred then to the DRA at that date. In addition, the Bank recognized approximately $11.4 million of write-off on one of the GDB Retained Loans, based on a subsequent sale of its underlying collateral which left such portion of the loan eventually uncollected. As further disclosed in Note 23, the budget certified by the Oversight Board for fiscal years 2019 through 2021 did not include appropriations for the payment of debt service of the GDB Retained Loans.

The following is a summary of the GDB Retained Loans considered to be impaired as of June 30, 2020, and the related interest income for the year then ended (in thousands):

	GDB Retained Loans (in thousands)
Recorded investment in impaired loans:	
Not requiring an allowance for loan losses	$ -
Requiring an allowance for loan losses	889,768
Total recorded investment in impaired loans	$ 889,768
Related allowance for loan losses	$ 889,768
Average recorded investment in impaired loans	$ 895,448
Interest income recognized on impaired loans	$ -

As of June 30, 2020, all the GDB Retained Loans has been classified in non-accrual status. The beneficial interest that would have been earned and transferred to the DRA, if such non-accrual loans had been accruing in accordance with their original terms, was approximately $47.1 million in fiscal year 2020.

The Bank's evaluation of impaired loans consisted of identifying which GDB Retained loans have reliable sources of repayment and which have unreliable sources of repayment. Loans with reliable sources of repayment that were performing did not require an allowance. Loans with unreliable sources of repayment were evaluated for impairment individually. Impaired loans are measured individually based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral, if the loan is collateral dependent.

Private Sector Loans

All private sector loans within the GDB Operating Fund (approximately $443 thousand, fully impaired, at the Closing Date) were transferred to the DRA pursuant the Qualifying Modification, and therefore written off upon transfer. As a result, the are no more private sector loans at the GDB Operating Fund. Loans to the private sector also include the outstanding principal balance of credit facilities granted by TDF and the Development Fund to private enterprises in Puerto Rico, the activities of which are deemed to further the development of Puerto Rico's economy and tourism. Loans to the private sector also include the outstanding principal balance of mortgage loans granted by HFA to low and moderate-income families for the acquisition of single-family housing units and to developers of low and moderate-income multifamily housing units in Puerto Rico. These credit facilities, net of allowance for loan losses, amounted to approximately $176 million as of June 30, 2020, all related to mortgage loans for low and moderate-income housing units. The rest of the loans for tourism projects are fully reserved.

During fiscal year 2013, the TDF sold a loan receivable to a third party for $50 million, of which $40.7 million was paid upon signing of the agreement. TDF agreed to write off any remaining loan balance as long as the buyer continued the development of certain tracks of land. The remaining $9.3 million under the sales contract will be paid contingent on future events. Based on the contingent nature on the collection of the remaining balance, such amount was not recognized as a receivable; instead, income would have been recognized in the year it is collected. Through June 30, 2020, the TDF had collected $4.5 million on such contingency (none of which was collected during the year ended June 30, 2020).

Private sector loans classified as nonaccrual amounted to approximately $83.8 million as of June 30, 2020. Interest income that would have been recorded if these loans had been performing in accordance with their original terms was approximately $5.2 million in 2020.

The following is a summary of private sector loans considered to be impaired as of June 30, 2020, and the related interest income for the year then ended (in thousands):

	Tourism Development Fund	Housing Finance Authority	Development Fund	Total
Recorded investment in impaired loans:				
Not requiring an allowance for loan losses	$ -	$ 11,176	$ -	$ 11,176
Requiring an allowance for loan losses	26,488	27,840	18,300	72,628
Total recorded investment in impaired loans	$ 26,488	$ 39,016	$ 18,300	$ 83,804
Related allowance for loan losses	$ 26,488	$ 25,071	$ 18,300	$ 69,859
Average recorded investment in impaired loans	$ 26,488	$ 39,594	$ 18,300	$ 84,382
Interest income recognized on impaired loans	$ -	$ -	$ -	$ -
Interest income that would have been recognized had these loans not been impaired	$ 1,589	$ 2,536	$ 1,120	$ 5,245

In the case of the HFA, an additional general reserve of $15 million was provided on its second mortgage loans originated by private banking institutions under the requirements of the Puerto Rico Economic Stimulus Plan Act. The loans under this program do not collect principal and interest until after the first ten years of the term of the loans, thus they are not considered impaired; however, a general reserve was provided based on experience with similar loans.

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

	Proprietary Funds				
	GDB Operating Fund	Tourism Development Fund	Housing Finance Authority	Development Fund	Total
Balance – beginning of year, as restated	$ 927,989	$ 26,488	$ 39,278	$ 18,300	$ 1,012,055
Provision (release) of loan losses	-	-	592	-	592
Transferred to DRA	(26,860)	-	-	-	(26,860)
Write-offs	(11,361)	-	(775)	-	(12,136)
Balance – end of year	$ 889,768	$ 26,488	$ 39,095	$ 18,300	$ 973,651

(11) Due from Federal Government

The HFA, as a public housing agency, is authorized to administer the U.S. Housing Act Section 8 Programs in Puerto Rico. The revenues and expenses of such federal financial assistance are accounted for as a major governmental fund under the HUD Programs fund. Revenues and expenditures related to the administration of the U.S. Housing Act Section 8 Programs amounted to approximately $141.8 million during the year ended June 30, 2020. This amount includes approximately $3.8 million of administrative fees for services performed as contract administrator, which are reimbursed by HUD. As of June 30, 2020, the amounts due from the federal government under the HUD Programs fund amounted to approximately $893 thousand.

During the year ended June 30, 2020, the HFA expended approximately $7.7 million of HOME Program funds. The HFA has approximately $4.5 million due from the federal government as of June 30, 2020 related to the HOME Program.

The New Secure Housing Program (the "NSH Program") constituted an inter-governmental effort to provide long-term hazard mitigation assistance to the Commonwealth by providing funding for relocation of eligible participants who were affected by Hurricane Georges in 1998 or who lived in hazard-prone areas under the Federal Emergency Management Agency Hazard Mitigation Grant Program (HMGP). Through a series of collaborative agreements, the Office of the Governor's Authorized Representative (the GAR) was named the grantee, the Puerto Rico Department of Housing (the Department of Housing) was named the sub-grantee, and the HFA was named the administrator of the NSH Program. Under the NSH Program, the HFA was responsible for project management, including contracting, supervising and paying the designers, inspectors, and legal services needed for the NSH Program. The HFA also provided all funding for the NSH Program through a $67 million nonrevolving line of credit with the Bank, and for land acquisitions, awarding construction contracts, qualifying participants, and selling housing units to eligible participants.

Under the terms of the grant, the construction of, and relocation of participants, into new secure housing facilities was to be completed by December 31, 2007. In addition, FEMA would reimburse 75% of the allowable costs of the NSH Program. Funds collected under the NSH Program, since its inception, amounted to approximately $113 million. In April 2007, FEMA discontinued reimbursing the HFA's allowable costs based on the NSH Program's non-compliance with the scheduled dates for construction activities and case management. The Department of Housing requested various extensions and reconsiderations, the last one up to June 30, 2010 and FEMA granted such requests. Although significant progress was made through June 30, 2010, in the construction activities and in the case management of the NSH Program, the HFA was not able to fully comply with the terms of the extensions granted by FEMA. On September 30, 2011, the HFA provided FEMA and the GAR the NSH Program's closeout documentation, which was reviewed by FEMA.

On January 30, 2012, the HFA and the Department of Housing entered into a transition agreement by which the Department of Housing would assume its obligations as the NSH Program sub-grantee and project owner, including vacant property dispositions, open space monitoring and other related matters. The Department of Housing would prospectively assume, without recourse, any additional funds that might be requested by FEMA for events of noncompliance, including related costs. The amounts payable by HFA under the $67 million nonrevolving line of credit with the Bank was fully offset with certain deposits HFA had with the Bank, pursuant to the Qualifying Modification.

Based on all these facts and the fact that no reimbursements have been received from FEMA since April 2007, management had decided to establish an allowance for the $26 million due from FEMA, which was written-off from books during fiscal year 2020.

(12) Real Estate Available for Sale

Real estate available for sale as of June 30, 2020, at fair value, consisted of the following:

	Proprietary Funds		
	GDB Operating Fund	Housing Finance Authority	Total
Residential (1-4 units)	$ -	$ 1,587,566	$ 1,587,566
Commercial	5,366,125	-	5,366,125
Total real estate available for sale	$ 5,366,125	$ 1,587,566	$ 6,953,691

During fiscal year 2009, the Bank entered into an interagency agreement with a public entity of the Commonwealth whereby the GDB Operating Fund received several properties with appraised values (based on appraisals made near the transaction date) of $155.9 million in lieu of payment of a loan whose principal balance and accrued interest receivable amounted to $144.2 million as of December 30, 2008. The interagency agreement provided that the agency of the Commonwealth would transfer to the Bank additional properties to cover any deficiency in the properties' values during a period of five years. On November 20, 2013, the agreement was extended until December 30, 2018. As part of such agreement, any subsequent loss or reduction of fair value shall be repaid by the Commonwealth or one of its agencies or component units. As of June 30, 2020, total receivables of approximately $73.8 million, related to the losses or reductions in fair value from the aforementioned properties, were considered uncollectible and fully reserved.

The GDB Operating Fund balance of $5.4 million consists of real estate sold to third parties where total control over such properties does not transfer until certain conditions are met by the buyer over a specified time frame. As a result, such sales were accounted for as collateralized borrowing, with the corresponding liability included in the financial statements for the same amount within accounts payable and accrued expenses (see Note 14). During fiscal year 2020, the conditions tied to the transfer of three properties with a total carrying value of approximately $37.3 million were either met or released, prompting the derecognition of such amounts from the asset and liability side.

On October 12, 2018, the Bank, Puerto Rico Convention Center District Authority (CCDA), the Development Fund and an unrelated third party entered into an Assignment of Proceeds Agreement for the transfer from the unrelated third party to the Development Fund of a parcel of land located in the Convention Center District Area for $4,803,889, net of expenses amounting to $266,111. The property acquired by the Development Fund served as collateral to a mortgage granted by the Development Fund to the unrelated third party which had an outstanding principal balance of approximately $8.5 million. Pursuant to the Assignment of Proceeds Agreement, the unrelated third party was relieved from its mortgage obligation to the Development Fund, while at the same time the Development Fund agreed to assign the proceeds to CCDA from an eventual sale of such parcel of land, in order to repay a loan that had been granted to CCDA by the GDB Operating Fund for the development of such land. Pursuant to the Qualifying Modification, the loan from the GDB Operating Fund was transferred to the DRA on the Closing Date. On September 3, 2019, the parcel of land was eventually sold and the loan transferred to the DRA was repaid by the CCDA with $4.3 million (of the net proceeds of $4.8 million received from the sale by the Development Fund), pursuant to the Assignment of Proceeds Agreement.

(13) Capital Assets

Capital assets activity for the year ended June 30, 2020, was as follows:

	Governmental activities			
	Beginning balance	Additions	Reductions/ reclassifications	Ending balance
Capital assets:				
Information systems	$ 66,329	$ -	$ -	$ 66,329
Office furniture and equipment	37,633	-	-	37,633
Vehicles	109,746	-	(12,460)	97,286
Total capital assets	213,708	-	(12,460)	201,248
Less accumulated depreciation and amortization for:				
Information systems	(66,307)	-	-	(66,307)
Office furniture and equipment	(37,437)	(112)	-	(37,549)
Vehicles	(75,581)	(15,783)	12,460	(78,904)
Total accumulated depreciation	(179,325)	(15,895)	12,460	(182,760)
Capital assets governmental activities – net	$ 34,383	$ (15,895)	$ -	$ 18,488

	Business type – activities			
	Beginning balance	Additions/ reclassifications	Reductions/ reclassifications	Ending balance
Capital assets not being depreciated:				
Land and land improvements	$ 7,752,711	$ -	$ -	$ 7,752,711
Total capital assets not being depreciated	7,752,711	-	-	7,752,711
Capital assets being depreciated:				
Leasehold improvements	4,238,098	38,380	-	4,276,478
Information systems	5,075,427	446,627	-	5,522,054
Office furniture and equipment	2,307,616	4,303	-	2,311,919
Vehicles	239,347	12,460	-	251,807
Total capital assets being depreciated	11,860,488	501,770	-	12,362,258
Less accumulated depreciation and amortization for:				
Leasehold improvements	(4,091,316)	(27,706)	-	(4,119,022)
Information systems	(4,573,577)	(340,485)	-	(4,914,062)
Office furniture and equipment	(2,220,278)	(33,372)	-	(2,253,650)
Vehicles	(207,345)	(15,103)	-	(222,448)
Total accumulated depreciation and amortizatior	(11,092,516)	(416,666)	-	(11,509,182)
Total capital assets being depreciated – net	767,972	85,104	-	853,076
Capital assets business type activities – net	$ 8,520,683	$ 85,104	$ -	8,605,787
Total capital assets – net				$ 8,624,275

(14) Bonds, Notes, and Mortgage-Backed Certificates Payable, and Other Liabilities

The activity of bonds payable and other borrowed funds for the year ended June 30, 2020, is as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities –					
Commonwealth appropriation bonds and notes - note payable - AHMSP Act No. 124	$ 3,397,686	$ -	$ -	$ 3,397,686	$ 450,268
Less unaccreted discount	(56,727)	2,658	-	(54,069)	-
Total appropriation bonds	3,340,959	2,658	-	3,343,617	450,268
Note payable to the DRA	19,909,611	-	-	19,909,611	19,909,611
Total governmental activities	$ 23,250,570	$ 2,658	$ -	$ 23,253,228	$ 20,359,879

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Business-type activities:					
Housing Finance Authority:					
Revenue bonds-					
Mortgage-Backed Certificates 2006 Series A	$ 49,972,461	$ -	$ (5,756,563)	$ 44,215,898	$ 8,132,073
Subtotal	49,972,461	-	(5,756,563)	44,215,898	8,132,073
Notes payable:					
Special obligation notes (Home Purchase Stimulus Program)	70,617,093	-	(1,603,513)	69,013,580	-
Plus unamortized premium	185,872	-	(25,089)	160,783	-
Less unaccreted discount	(13,439,670)	-	4,622,709	(8,816,961)	-
Total Housing Finance Authority	107,335,756	-	(2,762,456)	104,573,300	8,132,073
Total business-type activities	$ 107,335,756	$ -	$ (2,762,456)	$ 104,573,300	$ 8,132,073

The GDB Operating Fund had issued the GDB Notes Series 2010B and 2010D, which were issued as Build America Bonds under which the Bank received a subsidy payment from the federal government equal to 35% of the amount of each interest payment. The Bank continued receiving such subsidies until June 30, 2018 at which time such subsidies ceased. As of June 30, 2020, such interest subsidies received and not paid amounted to approximately $4 million. Pursuant the Qualifying Modification, the Bank established a reserve account to cover the estimated operating expenses of the Bank after the Closing Date, with opening balances of approximately $24.7 million, $12.8 million of which consisted of several exposures, which included those related to the aforementioned subsidy interest payments not made. The $12.8 million has been accrued within accounts payable and accrued liability in the accompanying GDB Operating Fund's statement of net position (deficit) (see further detail below on section (c)).

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The annual debt service requirements to maturity, including principal and interest on HFA's long-term debt, as of June 30, 2020, are as follows:

	Housing Finance Authority			
	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
Years ending June 30:				
2021	$ 20,359,879	$ 983,154	$ 8,132,073	$ 4,097,555
2022	101,402	170,766	6,992,051	4,335,649
2023	106,017	165,800	6,732,066	5,955,754
2024	31,541	163,621	6,029,263	5,617,503
2025	130,875	159,426	5,476,645	5,305,588
2026-2030	2,242,438	501,040	28,625,235	21,924,648
2031-2035	335,145	9,216	19,470,302	14,386,354
2036-2040	-	-	24,617,261	7,107,131
2041-2045	-	-	7,154,585	454,194
Total	$ 23,307,297	$ 2,153,023	$ 113,229,481	$ 69,184,376

(a) *Governmental Activities*

Bonds and notes payable related to governmental activities as of June 30, 2020, consist of the following:

Description and maturity date	Interest rate	Amount outstanding
Note payable AHMSP Act No. 124 due on August 1, 2016 and each August 1, thereafter to August 1, 2031	6%	$ 3,343,617
Note payable to the DRA	3%	19,909,611
Total governmental activities		$ 23,253,228

Note Payable to Puerto Rico Public Finance Corporation – On December 27, 2001, the HFA entered into a loan agreement (the "Note") with the GDB Operating Fund to refinance the AHMSP Stage 7 note payable of the HFA, as authorized by Act No. 164 of December 17, 2001. The PFC acquired and restructured the Note through the issuance of its Commonwealth appropriations bonds (i.e., the PFC Bonds). The PFC Bonds were issued under certain trust indentures whereby the PFC pledged the Note, along with other notes under Act No. 164, to certain trustees and created a first lien on the revenues of the notes sold (consisting of Commonwealth appropriations earmarked to repay these notes) for the benefit of the bondholders.

During June 2004, the PFC advance refunded a portion of certain of its outstanding Commonwealth appropriation bonds issued in 2001 under Act No. 164 of December 17, 2001. The HFA recognized a mirror effect of this advance refunding by the PFC on its own notes payable in proportion to the portion of the HFA's note payable included in the PFC refunding. The aggregate debt service requirements of the refunding and unrefunded notes are payable from annual appropriations from the Commonwealth. However, the certified budget by the Oversight Board for fiscal years 2019 and 2020 did not include appropriations for the payment of debt service by the Commonwealth and its public corporations. And, for those borrowers that are Title III debtors, any future repayment may be subject to an approved plan of adjustment for such debtor.

The outstanding balance of this note as of June 30, 2020 was $3,343,617 and matures on August 1, 2031. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on the PFC Bonds. The applicable percentage is the percentage representing the proportion of the amount paid by the PFC on the PFC Bonds serviced by the Note to the aggregate amount paid by the PFC on all the PFC Bonds issued by PFC under Act No. 164, which was 6% as of June 30, 2020. Please refer to Note 23 for description of several subsequent events on the PFC Bonds referred to above.

Immediately before the Closing Date, HFA owed the Bank $19.9 million under an Investment Repurchase Agreement with an original maturity date of July 1, 2018. Pursuant to the Qualifying Modification (see Note 5), this debt was transferred to the DRA and as of June 30, 2020, remains unpaid. On November 2021, the DRA filed a lawsuit against the HFA alleging breach of contract and seeking immediate repayment of the debt. The initial court hearing is set for May 2022. Legal counsel of HFA advised that given the circumstances of this case and its early stage, an outcome cannot be predicted.

(b) *Business-Type Activities*

Bonds, notes and mortgage-backed certificates payable of business-type activities consist of the following:

Description and maturity date	Interest rate	Carrying amount
Mortgage-Backed Certificates, 2006 Series A – Principal and interest payable monthly from September 29, 2006 to August 29, 2030	2.95–6.56	$ 40,859,120
Special Obligation Notes, 2010 Series A and B – Principal and interest payable monthly from July 1, 2019 to May 1, 2040	6.95–6.97	25,016,836
Special Obligation Notes, 2011 Series A – Principal and interest payable monthly from September 1, 2021 to September 1, 2041	7.00	14,758,852
Special Obligation Notes, 2012 Series A – Principal and interest payable monthly from June 18, 2012 to September 1, 2041	7.00	23,938,492
Total		$ 104,573,300

(c) *Accounts Payable and Accrued Liabilities*

A substantial portion of the Bank's accounts payable and accrued liabilities resides at the GDB Operating Fund and HFA, and some of its accounts are related to the remaining balances outstanding from the Qualifying Modification, obligations contracted under real estate available for sale, compensated absences, certain fees retention payable, and other liabilities. Within the non-major funds, the most significant liability resides at the PET, which carries at June 30, 2020 a $2 million distribution payable to the Designated Depositors. A summary of the composition of these liabilities follows:

Description		Amounts	
Obligations contracted under the real estate available for sale	$	5,366,125	(See Note 11)
Contingency commitments as part of the Bank's operating reserve		12,800,000	(See Note 5)
Escrow accounts payable from restricted cash, mostly to CRIM		3,493,342	
Obligations to Designated Depositors under the PET		2,000,000	(See Note 5)
In transit and oustanding items due from Qualifying Modification		866,054	
Compensated absences		313,764	
Remaining accounts payable and accrued liabilities, mostly at HFA		8,803,884	
	$	33,643,169	

The activity for compensated absences included within accounts payable and accrued liabilities during the year ended June 30, 2020, are as follows:

	Beginning balance	Provision	Reductions	Ending balance	Due within one year
Vacation	$ 222,132	$ 581,087	$ (489,455)	$ 313,764	$ 313,764

No significant changes have been made during fiscal year 2020 to the Bank's compensated absences policies for its employees. On March 2018, the GDB Operating Fund ceased operations and all compensated absences balances are either to be liquidated within one year or to be transferred to the government entity eventually absorbing the Bank's related employees.

(15) Mortgage Loan Insurance Fund

The Mortgage Loan Insurance Fund was created by Act No. 87 of 1965, as amended, known as the Mortgage Loan Insurance Act. This Act provides mortgage credit insurance to low and moderate-income families on loans originated by the HFA and other financial institutions. This activity can be increased through legislative appropriations, if and when needed, and derives its revenue from premiums charged to the borrowers, interest on investments, and sales of properties acquired through foreclosure. The HFA manages the risk of loss of its mortgage loan insurance activities by providing its insurance program only to financial institutions that (1) maintain certain defined minimum capital, (2) are qualified based on experience and resources, (3) perform certain collection efforts, and (4) comply with established procedures and requirements. In addition, the HFA requires certain loan-to-value ratios on insured loans and the recording of the collateral in the property registry of the Commonwealth.

Additionally, the HFA created the Puerto Rico Housing Administration program, expanding the requirements and parameters under the existing Act No. 87. The program allows citizens, paying an annual insurance premium, to originate mortgage loans with up to a 98% loan-to-value ratio. The program insures participating lending institutions in the event of foreclosure. The program is financed through annual insurance premiums, commitment and transaction fees, and proceeds from any sale of foreclosed real estate. The program also requires participants to comply with various eligibility requirements.

The Commonwealth guarantees up to $75 million of the principal insured by the mortgage loan insurance program. As of June 30, 2020, the mortgage loan insurance program covered loans aggregating approximately $553 million. A liability of approximately $6.1 million was recorded as of June 30, 2020, determined on the basis of the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the loan insurance guarantee. The mortgage loans insurance premiums amounted to $3,143,934 for the year ended on June 30, 2020.

The regulations adopted by the HFA require the establishment of adequate reserves to guarantee the solvency of the Mortgage Loan Insurance Fund. As of June 30, 2020, the HFA had an unrestricted deficit for such purposes of approximately $3.5 million.

(16) Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Bank is party to transactions involving financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. These instruments involve, to varying degrees, elements of credit risk in excess of amounts recognized in the accompanying statements of net position and fund balance sheet. These off-balance-sheet risks are managed and monitored in manners similar to those used for on-balance-sheet risks. The Bank's exposures to credit loss for lending commitments, financial guarantees, and letters of credit are represented by the contractual amount of those transactions.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements, particularly in light of the impact of the Qualifying Modification, which resulted specifically in the release of those commitments issued by the GDB Operating Fund. The Bank, as applicable, evaluates each customer's creditworthiness on a case-by-case basis. Commitments to extend credit remain active under the HFA. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the counterparty. The collateral held varies, but may include property, plant, and equipment, and income-producing commercial properties.

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Standby letters of credit and financial guarantees are written conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. All the standby letters of credit and financial guarantees issued by the GDB Operating Fund were discharged on November 29, 2018 as a result of the Qualifying Modification, leaving only outstanding the payment guarantees in favor of (i) Autopistas Metropolitanas de Puerto Rico, LLC (Metropistas) and HTA, in connection with the concession agreement of toll roads PR-22 and PR-5 (the Toll Roads) and (ii) Aerostar Airport Holdings, LLC (Aerostar) in connection with the concession and lease agreement for the Luis Muñoz Marín International Airport (the Airport), as further described below. According to the most recent approved fiscal plan of the Bank, these two payment guarantees will remain outstanding and unasserted during the existence of the GDB Operating Fund as an entity.

As of June 30, 2020, the off-balance-sheet risks consisted of the following, all belonging to the Bank's blended component units (in thousands):

		Amount
Financial instruments whose credit risk is represented by contractual amounts:		
Financial guarantees – Private sector	$	44,855
Commitments to extend credit (Housing Finance Authority) – Private sector	$	15,100

Liabilities under guaranteed obligations are recognized in accordance with the provisions of GASB Statement No. 70, – *Accounting and Financial Reporting for Nonexchange Guarantees* (GASB Statement 70). GASB Statement 70 requires the recognition of a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the Bank or any of its blended component units, as guarantors, will actually be required to make payments as a result of the guarantee agreement to a third-party obligation holder. Such liability is recognized by using the best estimate of the discounted present value of the future outflows expected to be incurred as a result of the guarantee.

Following is the activity of the liability for guaranteed obligations for the year ended June 30, 2020:

	Beginning balance	**Provision/ Increases**	**Payments/ Credits/Reductions**	**Ending balance**	**Due within one year**
Tourism Development Fund	$ 42,010,364	$ -	$ -	$ 42,010,364	$ -
Development Fund	701,343	-	(698,913)	2,430	-
GDB Operating Fund	-	-	-	-	-
Total	$ 42,711,707	$ -	$ (698,913)	$ 42,012,794	$ -

Government Development Bank (GDB Operating Fund)

Upon the closing of the Qualifying Modification during fiscal year 2019, a Participating Bond Claim was provided to applicable creditors of the Bank, including holders of most of the GDB Operating Fund's guaranteed obligations. Such obligations were exchanged for new bonds issued by the DRA at the exchange rate of 55%. As a result, the previous liability under these guarantees recognized by the GDB Operating Fund was discharged on the Closing Date. Only two guarantees remains as follows:

On July 24, 2013, Aerostar and the Puerto Rico Ports Authority (the Ports Authority) entered into a lease agreement (the Lease Agreement) for the Airport, for a term of forty years. In connection with the lease of the Airport, the Bank, through the GDB Operating Fund. executed a payment guarantee (the "Bank Guarantee") in favor of Aerostar for any "Termination Damages" due and payable in cash by the Ports Authority under the Lease Agreement. In accordance with the Bank Guarantee, Aerostar has the right to terminate the Lease Agreement mainly under three different noncompliance scenarios on the part of the Ports Authority.

- First, if Aerostar has the right to terminate this Agreement in connection with an "Adverse Action" or "AA", as defined in the Lease Agreement, and Aerostar has exercised such right, the Lease Agreement, subject to certain conditions specified in the Lease Agreement, shall terminate 120 days following the date of receipt of the AA-Notice by the Ports Authority, and on the "Reversion Date" the Ports Authority shall pay an amount (which amount shall be paid from general Ports Authority's funds and not from Airport revenues) equal to the aggregate, without duplication, of (i) the Airport "Facility Leasehold Value", as defined, as of the date of termination (which shall be determined as if no Adverse Action has occurred), plus (ii) the reasonable out-of-pocket and documented costs and expenses incurred by Aerostar as a direct result of such termination, plus (iii) the "Leasehold Compensation" calculated for the period between the date of the Adverse Action and the Reversion Date, less (iv) any insurance or condemnation proceeds payable to Aerostar.

- Secondly, if termination relates to a default (a Default) on the part of the Ports Authority, that is, in accordance with Section 16.2 (b) (ii) or Section 16.2 (b) (iii) of the Lease Agreement, the Ports Authority shall be obligated to pay on the Reversion Date to Aerostar an amount (which amount shall be paid from general Ports Authority funds and not from Airport revenues) equal to the aggregate, without duplication, of (i) the Airport "Facility Leasehold Value" as of the date of termination, plus (ii) the reasonable out-of-pocket and documented costs and expenses incurred by Aerostar as a direct result of such termination, plus (iii) the "Leasehold Compensation" calculated for the period between the date of the Ports Authority's Default and the date of termination, less (iv) any insurance or condemnation proceeds payable to Aerostar.

- Thirdly, and as a general provision, the Lease Agreement may be rescinded in accordance with Section 16.6 thereof which relates to termination pursuant to conviction or the entering of a plea of guilty in respect to any Act No. 458 Crime. If the Lease Agreement is rescinded or terminated pursuant to Section 16.6 (a) or (b) and, in the case of a rescission caused by the conviction or the entering of a plea of guilty for an Act No. 458 Crime, such crime was not committed in connection with the procurement of the Lease Agreement, then the Ports Authority shall be obligated to pay to Aerostar an amount equal to the lesser of (i) the Airport "Facility Leasehold Value" and (ii) the "Unamortized Leasehold Fee".

In connection with the Bank Guarantee, on February 27, 2013, the GDB Operating Fund and the Ports Authority entered into a Reimbursement Agreement (the Reimbursement Agreement) whereby the Ports Authority agreed to reimburse the GDB Operating Fund any amounts paid under the Bank Guarantee. Notwithstanding the Qualifying Modification, the GDB Operating Fund agreed to remain the guarantor with respect to the Lease Agreement and Aerostar provided written confirmation that the contingent guarantee claims against the GDB Operating Fund shall remain against the GDB Operating Fund notwithstanding the transfer of assets outside of the GDB Operating Fund pursuant to the Qualifying Modification. No liability for this guaranteed obligation has been recognized as management has concluded that it is not more likely than not that the GDB Operating Fund will be required to make payments under this guarantee agreement as it relates to the Lease Agreement.

On September 22, 2011, Metropistas and HTA entered into a concession agreement (the Concession Agreement) with respect to certain underlying toll roads ("Toll Roads"). In connection with this transaction, HTA received a lump-sum payment of $1.1 billion and a commitment from Metropistas to make immediate improvements to the Toll Roads amounting to $56 million and to comply with world-class operating standards in exchange for HTA granting Metropistas the right to operate the Toll Roads and a commitment that may require HTA to invest more than $600 million over the life of the concession.

In connection with the closing of the concession of the Toll Roads, the Bank executed a payment guarantee (the Guarantee) in favor of Metropistas pursuant to which it acts as guarantor of any "Termination Damages" due and payable in cash by HTA under the Concession Agreement. In connection with the Guarantee, on September 22, 2011, the Bank and HTA entered into a Reimbursement Agreement (the Reimbursement Agreement) whereby HTA agreed to reimburse the Bank any amounts paid under the Guarantee. Under the Reimbursement Agreement, in order to reimburse the Bank fully for any payments made under the Guarantee, HTA was required to issue bonds secured by the revenues generated by the Toll Roads within one year from the effective date of a termination of the Concession Agreement requiring the payment of Termination Damages. On September 22, 2011, HTA approved the bond resolution under which such bond issue could be authorized. Pending such bond issuances, the reimbursement obligation will be secured by the revenues of the Toll Roads generated after the termination of the Concession. Notably, notwithstanding the Qualifying Modification, which resulted in a restructuring of substantially all of the GDB Operating Fund's debts, the GDB Operating Fund agreed to remain the guarantor with respect to this Guarantee and Metropistas provided written confirmation that the contingent guarantee claims against the GDB Operating Fund shall remain against the GDB Operating Fund notwithstanding the transfer of assets outside of the GDB Operating Fund pursuant to the Qualifying Modification. No liability for this guaranteed obligation has been recognized as management has concluded that it is not more likely than not that the GDB Operating Fund will be required to make payments under this guarantee agreement.

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Puerto Rico Development Fund

On January 19, 2012, the Boards of Directors of the Bank and the Development Fund approved a loan guarantee program (the Guarantee Program) to stimulate lending by private banks to businesses in Puerto Rico in order to promote job creation and economic development in Puerto Rico. On April 3, 2012, the Bank, the Development Fund and certain participating banks entered into guarantee and commitment and funding agreements under which the Development Fund will guarantee eligible loans made by those banks to eligible businesses up to a maximum of 30% of the principal amount of the loans, in accordance with criteria established in the Guarantee Program. The Bank had committed to provide up to $200 million to the Development Fund to enable it to honor payments related to guarantees issued under the Guarantee Program. The Guaranty Program had a term of one year, and it ended on April 2, 2013. Guarantees issued for each guaranteed loan were in effect for a maximum term of seven years; therefore, the guarantees under this program (Loan Guarantee Program) expired during fiscal year 2020 and there are no outstanding claims from participating banks to make draws against the expired guarantees from this program as of June 30, 2020. As a result, the related guaranty liability existing at June 30, 2019 of approximately $670 thousand was reversed during fiscal year 2020.

The Development Fund has entered into an agreement with EDB whereby the Development Fund would guarantee a portion of loans granted by EDB under a government program named The Key for Your Business (the Business Program). Under the agreement, the Development Fund assigned $15 million of its capital for the Business Program. The Development Fund guarantees one-third of the outstanding principal balance of each loan plus accrued interest and certain other charges. The Development Fund charges one percent of the loan amount as a guarantee fee and no loan can exceed $50,000. As of June 30, 2020, the outstanding balance of these loans guaranteed by the Development Fund decreased to a balance of approximately $20 thousand, as most of the underlying loans had been sold. The best estimate of the discounted present value of the future outflows expected to be incurred under the Key for Your Business Program has been determined to be approximately $2, thousand as of June 30, 2020, reflecting a decrease of approximately $20 thousand, mostly as a result of the aforementioned decrease in the underlying loans under the program.

Puerto Rico TDF

The TDF was created in 1993 to promote the hotel and tourism industry of the Commonwealth, primarily through the issuance of letters of credit and guarantees. The TDF was also authorized to make capital investments and provide direct financing to tourism-related projects. As of June 30, 2020, the outstanding commitment amount under these guarantees amounted to approximately $44.8 million. Since 2009, the TDF has been honoring various of its guarantees, upon which time such honoring payments are presented as loans from the TDF, with their corresponding loan loss estimates already recognized within the allowance for loan losses discussed in Note 10. Given the current financial situation and limited payment capacity of some of the underlying tourism projects, the TDF's management believes that TDF may be responsible for most of these projects under its guarantee, which guarantees could potentially be restructured under a PROMESA related restructuring proceeding.

Non-Appropriation of Funds for the Payment of Debt Service on PFC Bonds

PFC, a component unit of the Bank, issued several series of bonds pursuant to a trust agreement between PFC and U.S. Bank National Association, as trustee (the Trustee), dated as of June 1, 2004 (the Trust Agreement), of which three series are outstanding (the PFC Bonds). The outstanding series are: (i) 2011 Series A Bonds – Act 164; (ii) 2011 Series B Bonds – Act 164 and PRASA Superaqueduct; and (iii) 2012 Series A Bonds – Act 164 Maritime. As of June 30, 2020, the outstanding balances of the PFC Bonds are approximately $242.4 million, $437.6 million, and $410.7 million, respectively.

On July 1, 2015, Joint Resolution 63-2015 was enacted creating the Economic Development and Obligations Payment Fund (the EDOP Fund) to be funded with $275 million from available resources. As of the date of the issuance of these financial statements, no moneys have been available to transfer to the EDOP Fund. Under the legislation, the utilization and distribution of the EDOP Fund requires a Joint Resolution of the Legislature. The EDOP Fund may only be used for economic development initiatives and for the payment of Commonwealth's obligations. On August 10, 2015, a resolution was filed in the Senate authorizing the transfer of $93.7 million from the EDOP Fund to the Bank in order to pay the unpaid interest and principal which was due on the PFC Bonds on August 3, 2015. This resolution was not approved by the Legislature. On July 15, 2015, the PFC filed a notice with the Municipal Securities Rulemaking Board (EMMA) indicating that the Puerto Rico Legislative Assembly had not included in the approved budget for fiscal year 2016 the funds necessary to pay principal and interest on all outstanding PFC Bonds. Such appropriation is the sole source of payment of principal and interest on such bonds. The EMMA notice indicated that the Office of Management and Budget had included the necessary appropriation for the payment of such debt service, but such appropriation was not included in the budget that the Legislature ultimately approved and sent to the Governor for approval. As a result, except as indicated below, the Trustee for such PFC Bonds did not receive the funds from fiscal year 2016 legislative appropriations to pay the debt service due during fiscal year 2016. The first payment of the debt service for fiscal year 2016 was due on August 3, 2015. On August 3, 2015, the PFC made a partial payment of interest in the amount of $628,000 from funds held by the Public Finance Corporation representing funds remaining from prior legislative appropriations. On August 10, 2015, a resolution was introduced in the Legislative Assembly authorizing the payment of past due amounts to the PFC bondholders. However, this resolution was not approved, and no legislative appropriation has been made to pay principal and interest on outstanding PFC Bonds during fiscal year 2016. For fiscal years from 2017 through 2020, no amounts were included in the Commonwealth General Fund budget for the payment of any debt, including the PFC Bonds; hence, the introduction of a resolution authorizing a payment to the PFC bondholders was neither made nor necessary. Please refer to Note 23 for a description of the impact of the Commonwealth Plan of Adjustment on past and future appropriations related to the PFC Bonds.

The PFC Bonds also included as credit support a Letter of Credit provided by the Bank (the "Bank Letter of Credit").

Upon the execution of the Qualifying Modification on November 29, 2018, the New Bonds issued by the DRA did not initially provide for any distribution to the PFC bondholders; however, the Indenture governing the DRA Bonds provides for the potential of additional DRA Bonds to be issued to them in order to cover any potential claim on account of the Bank Letter of Credit. Therefore, upon the execution of the Qualifying Modification, any potential exposure under this guarantee by the GDB Operating Fund was discharged and the related contingent claim relayed to the DRA, to be satisfied only with the potential issuance of additional DRA bonds to PFC bondholders in accordance with the terms of the Trust Indenture covering the DRA Bonds. Please refer to Note 23 for a description of several subsequent events related to the PFC Bonds referred to above.

(17) Retirement Benefits Systems

A. Structure of Retirement System and Accounting for Pension Costs

The ERS was a trust created by the Legislature under Act No. 447 of May 15, 1951, as amended (Act No. 447), to provide pension and other benefits to retired employees of the Commonwealth, its public corporations (including the Bank) and municipalities. Before the enactment of Act No. 106-2017 on August 23, 2017, ERS administered different benefit structures under Act No. 447, as amended, including a cost-sharing, multiple-employer, defined benefit program, a defined contribution program and a contributory hybrid program. Act 106-2017 approved a substantial pension reform for all of the Commonwealth's retirement systems, including the ERS. This reform modified most of the ERS's activities, eliminated the employer contributions, created the legal framework to implement a PayGo system, and required the ERS to liquidate substantially all of its assets and to transfer the proceeds from such liquidation to the Commonwealth for the payment of pension benefits. Under the PayGo system, the Commonwealth's General Fund makes direct payments to the pensioners and then is reimbursed for those payments by the participating employer, including the Bank. Future benefits will not be paid by the ERS.

Under Act 106-2017, the ERS's board of trustees was eliminated and a new Retirement Board was created. Act 106-2017 also ordered a suspension of ERS's loan programs and ordered a merger of the administrative structures of the Retirement Systems. At the Retirement Board's discretion, the administration of ERS benefits may be externalized. The Retirement Board is currently responsible for governing both ERS, the Judiciary Retirement System (JRS), and Teachers Retirement Systems (TRS).

Act 106-2017 also created a Defined Contributions Plan, similar to a 401(k) plan, which is managed by a private entity. Act 106-2017 terminated the previously existing pension programs for ERS participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 have been enrolled into this new Defined Contributions Plan program. The accumulated balance on the accounts of the prior program were transferred to the member accounts in the new Defined Contributions Plan, effective as of June 22, 2020.

The benefits provided to the Plan's participants were established by Commonwealth law and may be amended only by the Legislature with the Governor's approval. Certain benefit provisions are different for the three groups of members who entered the ERS before July 1, 2013, as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990 (contributory, defined benefit program).
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (together with Act No. 447 participants, the Defined Benefit Program).
- Members of Act No. 305 of September 24, 1999 (Act No. 305) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (the System 2000 Program).

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All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, became members of a newly established defined contribution program similar to the System 2000 Program (the Contributory Hybrid Program) as a condition to their employment. In addition, employees who as of June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3 of April 4, 2013 (Act No. 3) froze all future benefits accrued under the define contribution formula used for the System 2000 program participants. Importantly, the Commonwealth Plan of Adjustment (as discussed in Note 23 below) preserves all accrued pension benefits for active and retired public employees, which will continue to be paid through the PayGo system pursuant to Act 106-2017.

Pursuant to a settlement incorporated into the Commonwealth Plan of Adjustment, on the Effective Date of March 15, 2022, all participants in the System 2000 Program received a one-time payment in the amount of their contributions (plus accrued interest) as of the Commonwealth's petition date in their defined contribution accounts established under Act 106-2017. As a result of the payment of those refunds, all claims related to the System 2000 Program have been discharged.

In addition, under the Commonwealth Plan of Adjustment and Commonwealth Confirmation Order, a Pension Reserve Trust was created to fund future ERS pension liabilities with an initial funding contribution from the Commonwealth of $5 million on the Commonwealth Effective Date to fund the initial administrative costs and expenses of the Pension Reserve Board. Additional annual Commonwealth contributions will also be made to the Pension Reserve Trust in amounts to be determined each fiscal year in accordance with the terms of the Commonwealth Plan of Adjustment. The Commonwealth Plan of Adjustment and Commonwealth Confirmation Order also prevent the Commonwealth from implementing existing legislation or enacting new legislation within 10 years of the Commonwealth Effective Date that would create or increase any defined benefit pension payment or obligation to current or future retirees without the Title III Court's prior approval.

A summary of benefits and eligibility requirements is presented below:

(a) Service Retirement Eligibility Requirements

(1) *Eligibility for Act No. 447 Members-Act* No. 447 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

Act No. 447 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire with 10 years of credited service upon attainment of the retirement eligibility age shown in the table below.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements of the table above, Act No. 447 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013, are eligible to retire directly from active service upon the attainmentof age 55 with 30 years of credited service.

(2) *Eligibility for Act No. 1 Members* - Act No. 1 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with 10 years of credited service, (3) for Public Officers in High Risk Positions, any age with 30 years of credited service, and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(3) *Eligibility for System 2000 Members* - System 2000 members who were eligible to retire as of June 30, 2013 in High Risk Positions and attainment of age 60 otherwise. 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers.

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System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

(4) *Eligibility for Members Hired after June 30,* 2013-Attainment of age 58 if a Public Officer in a High-Risk Position and attainment of age 67 otherwise.

(b) Compulsory Retirement

All Act No. 447 and Act No. 1 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of credited service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authorityas applicable.

(c) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the Defined Contribution Hybrid Contribution Account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

(1) *Accrued Benefit as of June 30, 2013 for Act No. 447 Members* - The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as ofJune 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

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If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013, or 75% of average compensation if the member was at least age 55 as of June 30,2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if the member was at least age 55 as of June 30, 2013) of average compensation in excessof $6,600. If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attained 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the Defined Contribution Hybrid Contribution Account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to $6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(2) *Accrued Benefit as of June 30, 2013 for Act No. 1 Members* - The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act No. 1, Mayors with at least 8 years of credited service as a Mayor, the accrued benefit will not be less than 5% of the highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(d) Special Benefits

(1) Minimum Benefits

- Past Ad hoc Increases

  The legislature, from time to time, increases pensions for certain retirees as described in Act No. 124 approved on June 8, 1973 and Act No. 23 approved on September 23, 1983.

- Minimum Benefits for Members who Retired before July 1, 2013 (Act No. 156 of 2004, Act No. 35 of 2007, and Act No. 3 of 2013).

  The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007 and $300 per month up to June 30, 2007).

- Coordination Plan Minimum Benefit

  A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

(2) Cost-of-Living Adjustments (COLA) to Pension Benefits

The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year since1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35 of 2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month (Act No. 35 of 2007). Under the Commonwealth Plan of Adjustment, these COLAs were eliminated from and after the Effective Date of March 15, 2022.

(3) Special "Bonus" Benefits

- Christmas Bonus (Act No. 144, as Amended by Act No. 3)

  An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013.

- Medication Bonus (Act No. 155, as Amended by Act No. 3)

  An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

Effective July 1, 2017, contributions by members consists of 8.5% of compensation and are being directly deposited by the Department of the Treasury of the Commonwealth in the individual member accounts under the new Defined Contributions Plan. Also, as of that date, the ERS participants shall make no individual contributions or payments to the accumulated pension benefits payment accounts or additional contributions to the ERS. Total employee contributions for the different retirement programs during the year ended June 30, 2020, were approximately $559 thousand.

Total Pension Liability of the ERS

The total pension liability as of June 30, 2019 (the measurement date used for financial reporting for fiscal year 2020) was determined by an actuarial valuation as of July 1, 2018 that was rolled forward to June 30, 2019 and assuming no gains or losses.

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(1) *Actuarial Methods and Assumptions*

The actuarial valuation used the following actuarial methods and assumptions, applied to all periods in the measurement:

Actuarial cost method	Entry age normal
Actuarial assumptions:	
Inflation rate	Not applicable
Salary increases	3.0% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 03-2017, four-year extension of Act No. 66-2014, and the current general economy

The mortality tables used in the actuarial valuations were as follows:

- Pre-retirement Mortality – For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year, and projected forward using MP-2019 on a generational basis. For general employees covered under Act No. 127, RP-2014 Employee Mortality Rates were assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 on generational basis. As generation tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service were assumed to be occupational only for members covered under Act No. 127.
- Post-retirement Healthy Mortality - Rates that vary by gender are assumed for healthy retirees and beneficiaries based on a study of the plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for males and 95% of the rates from the UP-1994 Mortality Table for females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflected mortality improvements both before and after the measurement date.
- Post-retirement Disabled Mortality - Rates which vary by gender are assumed for disabled retirees based on a study of the plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for males and 115% of the rates from the UP-1994 Mortality Table for females. The base rates were projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

  Actuarial assumptions were revised periodically to more closely reflect actual, as well as anticipated future experience. Due to the change in the census collection date to the beginning of the fiscal year, rather than the end of the fiscal year, demographic gain/loss during the year was limited to the difference between actual and expected benefit payments, which arose from differences in termination and retirement activity and mortality versus expectations.

(2) *Discount Rate*

The discount rate used to measure the total pension liability was 3.50% as of June 30, 2019 (measeurement date). This rate represents the municipal bond return as chosen by the Commonwealth. The source is the Bond Buyer General Obligation 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

The Bank's Proportionate Share of Total Pension Liability of ERS

The following table presents the Bank's proportionate share of the total pension liability of the ERS at June 30, 2019 (the measurement date), and the proportion percentage of the aggregate net pension liability of the ERS allocated to the Bank:

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Total for the Bank
The corresponding entity's proportion of the total pension liability	0.48151%	0.28168%	0.00056%	0.76375%
The corresponding entity's proportionate share of the total pension liability	$ 119,657,900	$ 69,998,393	138,927	$ 189,795,220

The Bank's proportion of ERS's total pension liability was based on the ratio of the Bank's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date.

The following table presents the Bank's proportionate share of the total pension liability for ERS calculated using the discount rate of 3.50%, as well as what the Bank's proportionate share of the total pension liability would be if it were calculated using a discount rate of one percentage point lower (2.50%) or one percentage-point higher (4.50%) than the current rate:

	1% decrease or 2.50%	Current Discount rate of 3.50%	1% increase or 4.50%
GDB Operating Fund's proportionate share of the net pension liability	$ 136,069,380	$ 119,657,900	$ 106,323,988
Housing Finance Authority's proportionate share of the net pension liability	79,599,641	69,998,393	62,198,793
Tourism Development Fund's proportionate share of the net pension liability	158,250	138,927	123,656
Total Bank	$ 215,827,271	$ 189,795,220	$ 168,646,437

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources from Pension Activities

A pension expense recognized by the Bank for the fiscal year ended June 30, 2020, related to ERS amounted to a net amount of approximately $8.1 million.

Deferred outflows and deferred inflows of resources from pension activities by source reported by the Bank in the statement of net position (deficit) at June 30, 2020 are as follows:

	GDB Operating Fund	
Source	**Deferred outflows of resources**	**Deferred inflows of resources**
Differences between expected and actual experience	$ –	$ 4,056,752
Changes in assumptions	3,885,589	3,093,477
Changes in proportion	7,768,309	1,851,466
Employer pension payments made subsequent to the measurement date	5,902,509	–
Total	$ 17,556,407	$ 9,001,695

	Housing Finance Authority	
Source	**Deferred outflows of resources**	**Deferred inflows of resources**
Differences between expected and actual experience	$ –	$ 2,373,150
Changes in assumptions	2,273,021	1,809,646
Changes in proportion	1,586,231	–
Employer pension payments made subsequent to the measurement date	3,388,415	–
Total	$ 7,247,667	$ 4,182,796

	Tourism Development Fund	
Source	**Deferred outflows of resources**	**Deferred inflows of resources**
Differences between expected and actual experience	$ –	$ 4,710
Changes in assumptions	4,511	3,592
Changes in proportion	10,205	–
Employer pension payments made subsequent to the measurement date	10,003	–
Total	$ 24,719	$ 8,302

	Total Business-Type Activities	
Source	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ —	$ 6,434,612
Changes in assumptions	6,163,121	4,906,715
Changes in proportion	9,364,745	1,851,466
Employer pension payments made subsequent to the measurement date	9,300,927	—
Total	$ 24,828,793	$ 13,192,793

Amounts reported as deferred outflows/inflows of resources from pension activities at June 30, 2020 will be recognized in the pension expense as follows:

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Total Bank
Year ending June 30:				
2021	$ (816,156)	$ (477,446)	$ (949)	$ (1,294,551)
2022	(816,156)	(477,446)	(949)	(1,294,551)
2023	(816,156)	(477,446)	(949)	(1,294,551)
2024	(816,172)	(477,437)	(944)	(1,294,553)
Total	$ (3,264,640)	$ (1,909,775)	$ (3,791)	$ (5,178,206)

The previous amounts do not include employer specific deferred outflows and deferred inflows of resources related to changes in proportion; therefore, the deferred outflows and inflows of $9,365,845 and $1,851,466, respectively, related to changes in proportion have not been included in the table above.

Deferred outflows of resources related to pension benefit payments made by the Bank subsequent to the measurement date which amounted to $9,300,927 as of June 30, 2020 ($5,902,509 from the GDB Operating Fund, $3,388,415 from the HFA and $10,003 from the Toursim Development Fund), will be recognized as a reduction of the total pension liability in the fiscal year ended June 30, 2021. This amount is also not included in the table above. These amounts were paid on behalf of the Bank; therefore, a due to Commonwealth for the $9.3 million of such pension benefit payments was recognized accordingly during fiscal year 2020.

B. Early Retirement Programs

During the fiscal year ended June 30, 2017, the Bank extended to its employees a new voluntary early retirement program. This program was approved by the Bank's Board of Directors based on provisions established in Act No. 211, which was enacted on December 8, 2015. Act No. 211 provided that eligible employees may retire from employment with the Bank in exchange for an early pension and other benefits. Act No. 211 only applied to employees with twenty years or more participation in ERS and who have not reached 61 years of age.

Act No. 211 provided that the employee would receive an annuity equivalent to 60% of the average compensation, as defined, as of December 31, 2015 and until the participating member attained 61 years of age, which is the age at which the employee will become part of ERS. The Bank is responsible for the payment of the employer contribution to Social Security and Medicare, based on the 60% of the average compensation as of December 31, 2015. The Bank is also responsible for the payment of the related employee and employer contributions to ERS based on the 100% of average salary as of December 31, 2015, for amounts which guarantee a 50% minimum compensation to an eligible employee of his or her average compensation as of June 30, 2013. The participating employee will also receive the benefits of health insurance for a period not more than two years, and until he or she reaches 61 years old.

From fiscal year 2011 through fiscal year 2013 the Bank extended to its employee's voluntary early retirement programs, based on provisions established in Act. No. 70 which was enacted on July 2, 2010. Act No. 70 provided that eligible employees may retire from employment with the Commonwealth in exchange for an early pension, an economic incentive and other benefits. Act. No. 70 only applied to employees who were fifteen years or less from retirement in accordance with their applicable retirement plans. Twenty-one employees voluntarily separated from employment under the provisions of Act No. 70. Payments of such voluntary termination plans are expected to be made until November 1, 2030. Employee and employer contributions to the Retirement System and the employee annuity for the applicable period were discounted based on the average interest rate of return of unpledged investments. In addition, during the fiscal years 1995, 2000 and 2007, the Bank's Board of Directors authorized early retirement's programs for certain Bank employees, subject to different eligibility provisions that are detailed in the corresponding laws signed by the Governor of the Commonwealth.

As discussed in Note 5, pursuant to the GDB Restructuring Act, a trust was required to be created to secure and manage the benefits of the aforementioned early retirement programs. On August 6, 2019, such trust, known as the ERO Trust, was created by FAFAA, which also serves as the named trustee of said trust, with the corresponding funding transferred from the Bank, which up until that date maintained the funds for such benefits in the amount of $15.2 million. The Bank also transferred to FAFAA the corresponding liability existing then of approximately $11.1 million, which activity is presented as follows:

Beginning balance	Provision	Reductions	Ending balance	Due within one year
$ 11,092,091	$ -	$ (11,092,091)	$ -	$ -

C. Other Postemployment Benefits

In addition to the pension benefits described in section A above, the Bank participates in the OPEB plan of the Commonwealth for retired employees, through the ERS MIPC, in accordance with local law. The OPEB plan is administered on a pay-as-you-go basis.

ERS MIPC is an unfunded single employer defined benefit OPEB sponsored by the Commonwealth. This OPEB Plan was created under Act No. 95-1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS MIPC covers substantially all full-time employees of the Commonwealth, certain municipalities and component units of the Commonwealth, such as the Bank, not having their own post-employment benefit plans. For ERS MIPC, Commonwealth and Bank employees became plan members upon their date of employment. Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age.

The ERS MIPC covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The ERS MIPC is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursements from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. The legislative appropriations are considered estimates of the payments to be made by the ERS MIPC. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

Actuarial Methods and Assumptions

The total OPEB liability as of June 30, 2020, was determined by the actuarial valuation as of July 1, 2018, which was rolled forward to June 30, 2019 (measurement date) and assumed no liability gains or losses.

The following are the most significant actuarial methods and assumptions used to estimate the total OPEB liability at June 30, 2020 and the OPEB expense for the year then ended:

Inflation	Not applicable
Municipal bond index	3.50%%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017 and the current general economy.
Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year, and projected forward using MP-2019 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year, and projected forward using MP-2019 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

The discount rate for June 30, 2019 and June 30, 2018 was 3.50% and 3.87%, respectively. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of ocurrence of events far into the future; including for example, assumptions about future employement and mortality. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing costs between the employer and plan member at the time of each valuation. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Actuarial assumptions are revised periodically to more closely reflect actual, as well as anticipated future experience. Due to the change in the census collection date to the beginning of the fiscal year, rather than the end of the fiscal year, demographic gain/loss during the year is limited to the difference between actual and expected benefit payments, which arise from differences in termination and retirement activity and mortality versus expectations.

The Bank's Proportion of Total OPEB Liability of ERS MIPC

The following table presents the Bank's proportionate share of the total OPEB liability of the ERS MIPC at June 30, 2019 (the measurement date), and the proportion percentage of the aggregate total OPEB liability of the ERS MIPC allocated to the Bank:

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Total for the Bank
The corresponding entity's proportion of the total OPEB liability	0.17634%	0.17758%	0.00174%	0.35566%
The corresponding entity's proportionate share of the total OPEB liability	$ 1,467,574	$ 1,477,874	$ 14,473	$ 2,959,921

As the ERS MIPC is a single employer plan and the benefits are not funded by an OPEB trust, Statement No. 75 applies to the OPEB provided to each particiapting employer's own employees. The Central Government and its component units are considered to be one employer. Other employers also participate in the ERS OPEB plan. Because certain employers that are componment units of the Commonwealth, such as the Bank, prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers. Statement No. 75 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

The following table presents the Bank's proportionate share of the total OPEB liability for ERS MIPC calculated using the discount rate of 3.50%, as well as what the Bank's proportionate share of the total OPEB liability would be if it were calculated using a discount rate of one percentage point lower (2.50%) or one percentage-point higher (4.50%) than the current rate:

	1% decrease or 2.50%	Discount Rate or 3.50%	1% increase or 4.50%
GDB Operating Fund's proportionate share of total OPEB liability	$ 1,609,627	$ 1,467,574	$ 1,346,888
Housing Finance Authority's proportionate share of the total OPEB liability	1,620,946	1,477,874	1,356,359
Toursism Development Fund's proportionate share of the total OPEB liability	15,883	14,473	13,290
Total Bank	$ 3,246,456	$ 2,959,921	$ 2,716,537

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources from OPEB Activities

OPEB expense recognized by the Bank for the year ended June 30, 2020, related to ERS MIPC amounted to approximately $408 thousand.

Because all participants in the ERS MIPC are inactive, there are no deferred inflows and outflows as any changes due to changes in actuarial assumptions or economic or demographic gains and losses are recognized immediately during the measurement year. However, a deferred outflow has been recognized only for the amount of the benefit payments made by the Commonwealth on behalf of the Bank subsequent to the measurement date, which amounted to $253,578 during fiscal year 2020 ($134,692 for the GDB Operating Fund, $117,786 for the HFA and $1,100 for the TDF), which will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2021. These amounts were paid on behalf of the Bank; therefore, a due to Commonwealth for $253,578 of such pension benefit payments was recognized during fiscal year 2020.

Additional information on ERS is provided in its standalone financial statements for the year ended June 30, 2019, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

(18) Risk Management

To minimize the risk of loss, the Bank purchases insurance coverage for public liability, hazard, automobile, crime, and bonding as well as workmen's compensation insurance for employees. The selection of the insurer has to be approved by the Public Insurance Office of the Department of the Treasury of the Commonwealth. Insurance coverage is updated annually to account for changes in operating risk. For the last three years, insurance settlements have not exceeded the amount of coverage.

(19) Commitments and Contingencies

(a) *Lease Commitments*

The GDB Operating Fund used to operate from the leased office space in what is known as "Minillas" from the governmental sector. The office space was leased under an operating lease agreement with an expiration date of July 1, 2039. As a result of the GDB Operating Fund's winding down of its operations, the said lease agreement was assumed by FAFAA as such entity has replaced the GDB Operating Fund in its former fiscal agency functions and has occupied almost the same space. Therefore, there are no further lease commitments by the GDB Operating Fund.

The HFA entered into a 30-year lease agreement with the Department of Housing (DH) to rent office space expiring in 2037. During the term of the lease, the HFA pays an annual rent of $1.5 million. The agreed upon rent includes parking spaces, maintenance and security services in common areas. The Department of Housing is responsible for the payment of utilities in exchange for an additional payment of $350 thousand payable in a lump sum on or before August 31st of each year. In January 2020, the HFA moved part of its operations to a building owned by EDB. EDB has not charged rent to the HFA. The lease agreement with the DH was verbally modified in January 2020, and the HFA is paying a monthly rent of approximately $27 thousand.

Rent charged to operations in fiscal year 2020 amounted to approximately $1.2 million. As of June 30, 2020, the minimum annual future rentals under noncancelable leases, all by HFA, are approximately as follows:

	Amount
Year ending June 30:	
2021	$ 324,000
2022	324,000
2023	324,000
2024	324,000
2025	324,000
Thereafter	3,942,000
Total	$ 5,562,000

(b) *Cooperative Development Investment Fund*

On August 18, 2002, the Legislature approved Act No. 198, which created the Cooperative Development Investment Fund (the Cooperative Fund). The purpose of the Cooperative Fund was to promote the development of cooperative entities. The Cooperative Fund was to be capitalized through contributions to be provided by the Bank up to $25 million, to be matched by cooperative entities. As of June 30, 2019, the Bank had contributed $24.8 million, including interest to the Cooperative Fund (none during the year ended June 30, 2020). Pursuant to the Qualifying Modification, the Cooperative Fund was dissolved.

(c) ***Other Risks Related to Mortgage Loans Servicing and Insurance Activities***

Certain loan portfolios of the HFA are administered by private servicers who are required to maintain an error and omissions insurance policy. The HFA has a program to manage the risk of loss on its mortgage loan lending and insurance activities.

(d) ***Mortgage Loan Servicing Activities***

The HFA acts as servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2020, the principal balance of the mortgage loans serviced for others is approximately as follows:

	Amount
Puerto Rico Community Development Fund I	$ 16,390,000
CRUV or its successor without guaranteed mortgage loan payments	6,546
Total	$ 16,396,546

(e) ***Litigation***

The Bank and certain of its component units are defendants in several lawsuits arising out of the normal course of business. Management, based on advice of legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings will not have a material adverse effect on the financial position and results of operations of the Bank or its component units.

Cooperativa de Ahorro y Credito Abraham Rosa v. Commonwealth of Puerto Rico, Case No. 18-00028-LTS - This complaint was filed on March 22, 2018 by several state-chartered credit unions against GDB, the Public Corporation for the Supervision and Insurance of Cooperatives (COSSEC), FAFAA, the Oversight Board, the Commonwealth, the public corporations that are in Title III proceedings, and other defendants. The plaintiffs allege that the defendants maliciously and under false pretenses offered and sold to the plaintiff's unsound bonds issued by the Commonwealth and its instrumentalities, including GDB. They allege that this sale resulted in an undue concentration of bonds in the cooperative's portfolios and created a systemic risk for the plaintiffs. Additionally, they allege that GDB, as fiscal agent to the Commonwealth, exerted significant influence on COSSEC, the public corporation in charge of regulating the Commonwealth's credit unions, which resulted in the bonds being offered and sold to the plaintiffs in violation of statutory, fiduciary and regulatory duties, causing them material losses. The plaintiffs request a determination that the plaintiffs' claims against all debtors in Title III proceedings are exempted from discharge in such proceedings, and 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. On October 1, 2018, GDB filed a motion to dismiss this complaint. On December 27, 2021, the Court granted the motion to dismiss. The Plaintiffs filed a notice of appeal on January 12, 2022 and the matter is currently pending before the First Circuit.

(f) ***Federal Programs***

Federal programs are subject to audits which could result in claims against the resources of the HFA. No provision has been made for any liabilities that may arise from such audits since the amount, if any, cannot be determined at this date.

(g) ***Coronavirus Pandemic***

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. As a result of the health threat and to contain the virus's spread across the island, Governor Váquez-Garced issued executive order EO 2020-020 on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, wellbeing and public safety of the citizens of Puerto Rico. The executive order authorizes the Commonwealth's Secretary of the Treasury and the Executive Director of the Puerto Rico Office of Management and Budget to set up a special budget from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and the sharing of information with the municipalities. Subsequent executive orders, including the reopening of certain economic areas, curfew directives and other protective measures have been issued in response to the COVID-19 spread. In addition, economic stabilization measures have been implemented by both the Government of Puerto Rico and the U.S. Government to provide support and stimulus to frontline workers, educators and students, hospitals, municipalities and small businesses, including individuals and businesses in Puerto Rico, in response to the economic distress caused by the COVID-19 pandemic. As the Government observes and assesses the results of its measures to control the negative health and economic effects of COVID-19 on the people of Puerto Rico and Puerto Rico's economy, it will continually re-evaluate and further amend restrictions, if any, as necessary based on continued public health developments.

(20) Conduit Debt and Programs

The PFC has issued approximately $8.1 billion of Commonwealth appropriation bonds (the PFC Bonds) maturing at various dates through 2033. The proceeds of the PFC Bonds, except for approximately $4.6 billion, were used to provide the necessary funds to purchase from the Bank separate promissory notes of the Department of the Treasury and its public entities (the Promissory Notes). The $4.6 billion referred to above was used to refund a portion of certain bonds issued by the PFC between fiscal years 1995 and 2005. The outstanding balance of the PFC Bonds as of June 30, 2020 amounted to approximately $1.1 billion.

The PFC Bonds are limited obligations of the PFC and, except to the extent payable from bond proceeds and investment earnings thereon, are payable solely from a pledge and assignment of amounts due under the Promissory Notes. Principal and interest on the Promissory Notes are payable solely from legislative appropriations to be made pursuant to acts approved by the Legislature. The Promissory Notes represent debt of the issuing instrumentalities (all part of the Commonwealth or its component units), and, for purposes of the PFC, the PFC Bonds are considered conduit debt. Neither the PFC Bonds nor the Notes purchased with the proceeds therefrom are presented in the accompanying basic financial statements. Please refer to Note 23 for description of several subsequent events on the PFC Bonds referred to above. Refer to the Subsequent Events in Notes 23 regarding the elimination of the Commonwealth appropriations to the Promissory Notes under the Commonwealth Plan of Adjustment and an overview of the PFC Restructuring Support Agreement.

In December 2003, the HFA issued $663 million in Capital Fund Program Bonds Series 2003 to lend the proceeds thereof to the PHA, a governmental instrumentality of the Commonwealth. PHA utilized such funds for improvements to various public housing projects in the Commonwealth. The Capital Fund Program Bonds Series 2003 are limited obligations of the HFA, which will be paid solely from an annual allocation of public housing capital funds when received from HUD and other funds available under the bonds indenture. Accordingly, these bonds are considered conduit debt and are not presented in the accompanying basic financial statements. The outstanding balance of these bonds amounted to $64.5 million as of June 30, 2020.

On August 1, 2008, the HFA issued the Capital Fund Modernization Program Subordinate Bonds totaling $384.5 million. The proceeds from the issuance were used primarily to finance a loan to a limited liability company (and pay the costs of issuance. The $384.5 million bonds are limited obligations of the HFA, payable primarily by a pledge and assignment of federal housing assistance payments made available by HUD, with an outstanding balance of approximately $221.7 million as of June 30, 2020.

On October 2020, the HFA issued $249,155,000 of Capital Fund Modernization Program Refunding Bonds Series 2020 (Series 2020). The proceeds from the issuance will be lent to PHA, which will use it to redeem Series 2003 and Series 2008, described above, and pay certain costs of the Series 2020 issuance. The Series 2020 are limited obligations of the HFA, payable primarily by a pledge and assignment of federal housing assistance payments made available by HUD to PHA.

(21) Interfund (Internal) Balances and Transfers

Pursuant to the Qualifying Modification, the Bank completed the restructuring of most of its indebtedness, including certain deposit claims, which included the settlement or offset of all internal balances between the GDB Operating Fund and HFA. Only the internal balances between the HFA government and proprietary funds remain, as well as certain interfund balances that remain among the proprietary funds

The following table is a summary of the interfund balances as of June 30, 2020, between governmental funds and proprietary funds:

Receivable by	Payable by	Purpose	Amount
Proprietary fund:	Governmental fund:		
Housing Finance Authority	HUD Programs	Advance of funds	$ 893,396
Housing Finance Authority	HOME Programs	Advance of funds	749,432
Housing Finance Authority	CDBG Program	Advance of funds	3,415
Housing Finance Authority	AHS Programs	Advance of funds	9,898,344
		Total internal balances – net	$ 11,544,587

The summary of interfund balances as of June 30, 2020, among proprietary funds, is as follows:

Receivable by	Payable by	Purpose	Amount
Proprietary funds:	Proprietary funds:		
GDB Operating Fund	Tourism Development Fund	Accrued allocation of management services	$ 579,225
GDB Operating Fund	Devlopment Fund	Accrued allocation of management services	138,011
GDB Operating Fund	Public Finance Corporation	Accrued allocation of management services	40,512
GDB Operating Fund	Public Entity Trust	Overtransfer of loan proceeds	375,000
Puerto Rico Telephone Authority	GDB Operating Fund	Contribution for payment of audit services	(242)
Total balance among proprietary funds eliminated			$ 1,132,506

The following table is a summary of interfund transfers for the year ended June 30, 2020:

Transfer out	Transfer in	Transfer for	Amount
Program	Finance Authority	Operations	$ 18,002,035

(22) Funds Deficit

As of June 30, 2020, the Home Program fund, the GDB Operating Fund and the TDF reflect deficits of approximately $4.4 million, $117.1 million, and $31.7 million, respectively. The Home Program fund deficit reflects the deferral of intergovernmental revenue inflow in fund financial statements for being unavailable for current disposition, while the GDB Operating Fund and the TDF deficits are the result of significant provisions for loans and guarantee losses provided over the past years, as a result of such funds' continuing financial and repayment capacity deterioration.

(23) Subsequent Events

Subsequent events were evaluated through May 18, 2022 to determine if any such events should either be recognized or disclosed in the 2020 basic financial statements. The subsequent events disclosed below are principally those related to debt activities, including credit rating downgrade events, fiscal plan related matters and other revenue and/or budget related matters that management believes are intrinsically related to the financial statements of the Bank. These might have been disclosed elsewhere in these financial statements, but management believes they require specific mentioning based on their relevance and materiality as a whole.

(a) *Budgetary Events and Related Legislation*

(1) *Fiscal Year 2021*
The Oversight Board certified a budget in the amount of $10.045 billion, which did not include appropriations to repay any of the Bank's outstanding loans.

(2) *Fiscal Year 2022*
The Oversight Board certified a budget in the amount of $10.112 billion, which did not include appropriations to repay any of the Bank's outstanding loans.

As discussed below, the Commonwealth provides that claims against the Commonwealth arising from or related to indebtedness only payable from appropriations of the Commonwealth Legislature under existing loans or legislative resolution shall not receive any recovery under the Commonwealth Plan and all claims against the Commonwealth related to such appropriation are discharged. Accordingly, it is not expected that any appropriation will be made to the Bank to repay the Bank's outstanding loans.

(b) *Puerto Rico Infrastructure Financing Authority World Plaza Building Line of Credit*

On September 16, 2020, pursuant to Section 207 of PROMESA, the Oversight Board approved a settlement agreement whereby the Puerto Rico Infrastructure Financing Authority transferred the World Plaza Building to GDB in full satisfaction of the line of credit which at such date approximated $50 million.

(c) *Commonwealth Plan of Adjustment*

Prior to March 15, 2022, the Commonwealth and many of its component units suffered a fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, an economic recession that persisted since 2006, prior liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations. As the Commonwealth's tax base shrunk and its revenues were affected by prevailing economic conditions, an increasing portion of the Commonwealth's general fund budget consisted of health care and pension-related costs and debt service requirements, resulting in reduced funding for other essential services. The Commonwealth's historical liquidity constraints, among other factors, adversely affected its credit ratings and its ability to obtain financing at reasonable interests rates.

On June 30, 2016, the United States Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) to address these problems, which included the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), an in-court restructuring process under Title III of PROMESA, and an out-of-court restructuring process under Title VI of PROMESA. Thereafter, the Commonwealth and other governmental entities, including the Puerto Rico Sales Tax Financing Corporation (COFINA), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the Puerto Rico Highways and Transportation Authority (HTA), the Puerto Rico Electric Power Authority (PREPA), and the Public Building Authority (PBA) initiated proceedings under Title III, and the GDB, the Puerto Rico Infrastructure Financing Authority (PRIFA), and CCDA initiated proceedings under Title VI, each at the request of the Governor to restructure or adjust their existing debt.

On July 30, 2021, the Oversight Board—as representative to the Commonwealth, ERS, and PBA in their respective Title III cases—filed its Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 17629] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628], which was approved by the United States District Court for the District of Puerto Rico (the Title III Court).

On October 26, 2021, the Governor signed into law Act No. 53 of 2021 (Act 53), known as the "Law to End the Bankruptcy of Puerto Rico," which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of its monthly pension cut provisions in an amended version of that plan.

On November 3, 2021, the Oversight Board filed its Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 19053] (the Eighth Amended Plan), which further revised the Seventh Amended Plan to eliminate its monthly pension cut provisions consistent with Act 53, among other things. The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021 and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1] (as confirmed, the Commonwealth Plan of Adjustment).

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Eighth Amended Plan [ECF No. 19812] (the Findings of Fact) and an order confirming the Eighth Amended Plan [ECF No. 19813] (the Commonwealth Confirmation Order). In both the Commonwealth Confirmation Order and Findings of Fact, the Title III Court found that Act 53 properly authorized the issuance of new bonds and provided adequate means for implementation of the Commonwealth Plan of Adjustment.

Between January 28, 2022 and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. By March 11, 2022, the First Circuit denied all parties' motions for a stay pending appeal, which allowed the Commonwealth Plan of Adjustment to become effective despite the appeals. On April 26, 2022 the First Circuit affirmed the Commonwealth Plan of Adjustment with respect to the appeal filed by the teacher's association. Oral argument on the merits of the remaining four appeals was held on April 28, 2022 but a final determination on these appeals remains pending.

On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

As of the Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth's total funded debt obligations from approximately $34.3 billion of prepetition debt to only approximately $7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the Commonwealth's maximum annual debt service (inclusive of COFINA debt service) from approximately $4.2 billion to $1.15 billion, representing a total debt service reduction of 73%. Also as of the Effective Date, all of the legacy Commonwealth general obligation bonds, ERS bonds, and PBA bonds were discharged, and all of the Commonwealth, ERS, and PBA obligations and guarantees related thereto were discharged.

All Commonwealth laws that required the transfer of funds from the Commonwealth to other entities, including laws providing appropriations to the Bank, are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. In addition, the Commonwealth Plan discharges any claim related to budgetary appropriations, including appropriations for the repayment of the PFC Bonds and certain loans held by the PET.

A critical component of the Commonwealth Plan of Adjustment is the post-Effective Date issuance of new general obligation bonds (the New GO Bonds) and contingent value instruments (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.

Municipal governments typically issue amortizing debt—i.e., debt with principal maturities due on a regularly scheduled basis over a duration that varies generally between 20 and 40 years. The Commonwealth's New GO Bonds will mature over 25 years and will include both Capital Appreciation Bonds (CABs) and Current Interest Bonds (CIBs). All of the CABs and CIBs will have term bonds with mandatory sinking fund payments. This is intended to optimize cash available to pay debt service since the municipal market has a yield curve, and bonds are not priced to the average life as is the case in other markets, because specific investors may purchase bonds in differing parts of the maturity curve, including individual investors, corporations and mutual funds.

The New GO Bonds were issued with an aggregate original principal amount of approximately \$7.4 billion, consisting of approximately (i) \$6.6 billion of New GO CIBs, (ii) \$442.5 million of New GO CABs with a 5.375% interest rate, and (iii) \$288.2 million of New GO CABs with a 5.0% interest rate. They have 11 different maturity dates and will be secured by (a) a statutory first lien, (b) a pledge of the amounts on deposit in the 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 New GO Bonds are dated as of, and will accrue or accrete interest from, July 1, 2021.

The Commonwealth Plan of Adjustment also provides for the issuance of CVIs, an instrument that gives a holder the right to receive payments in the event that certain triggers are met. The Commonwealth Plan of Adjustment 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 Commonwealth Plan of Adjustment 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 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 will be 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 as established in the Board-certified fiscal plan for the Commonwealth, dated May 27, 2020. As with the 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 will be deemed issued on July 1, 2021.

The CVIs are also divided into two categories: (i) general obligation debt CVIs (GO CVIs), which will be allocated to various holders of GO bondholder claims; and (ii) clawback debt CVIs (the Clawback CVIs), which will be allocated to claims related to HTA, PRCCDA, PRIFA, and MBA bonds. The GO CVIs have a 22-year term. The Clawback CVIs have a 30-year term. The GO CVIs are subject to a lifetime cap of \$3.5 billion, with maximum annual payments of \$200 million plus any unused amounts from previous years subject to cumulative annual payments not exceeding \$400 million. Similarly, the Clawback CVIs are subject to a \$5.2 billion aggregate lifetime cap, allocated across the different types of bond claims, with maximum annual payments of (i) \$175 million plus any unused amounts from previous years, not to exceed cumulative annual payments of \$350 million, for fiscal years 1-22 of the 30-year term; and (ii) \$375 million plus any unused amounts from previous years, not to exceed cumulative annual payments of \$750 million, for fiscal years 23-30 of the 30-year term. The CVIs also apply an annual payment waterfall in which the first \$100 million will be paid to GO CVIs and the next \$11,111,111 will be paid to Clawback CVIs.

The Commonwealth Plan of Adjustment classifies claims into 69 classes, with each receiving the following aggregate recoveries:

- Various categories of Commonwealth bond claims (Classes 15-50): 73% recovery consisting of cash, New GO Bonds, and GO CVIs.
- Various categories of PBA bond claims (Classes 1-12, 14): 79% recovery in cash in addition to the New GO Bonds and GO CVIs that PBA bondholders receive on account of their guarantee claims against the Commonwealth.
- Various categories of clawback creditor claims (Classes 59-63): 23% recovery consisting of the Clawback CVIs.

- ERS bond claims (Class 65): 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio (as defined in and established under the Commonwealth Plan of Adjustment).
- Various categories of general unsecured claims (Classes 13, 58, and 66): 21% recovery in cash.
- Other miscellaneous claims (Classes 52-57, 64, 67-69): 26% recovery in cash.

For general unsecured claims, the Commonwealth Plan of Adjustment provides for separate levels of creditor cash recoveries at each debtor, as applicable. All general unsecured claims against the Commonwealth, ERS, and PBA are discharged, except certain Eminent Domain/Inverse Condemnation Claims (as defined in the Commonwealth Plan of Adjustment) that are not discharged until they receive payment in full, subject to an appeal of the Title III Court's ruling on such claims. If that ruling is reversed, then the Eminent Domain/Inverse Condemnation Claims will be dischargeable and impaired. All other general unsecured creditors at the Commonwealth will receive up a pro rata share of the general unsecured creditor reserve fund (the GUC Reserve), plus amounts received by the Avoidance Actions Trust (as defined in and established under the Commonwealth Plan of Adjustment) up to 40% of the value of their claim. The GUC Reserve was funded with $200 million on the Effective Date and will be replenished with an additional aggregate total amount of $375 million funded in incremental amounts annually through December 31, 2025. Depending on the outcome of the appeal regarding Eminent Domain/Inverse Condemnation Claims, the GUC Reserve amount could be reduced by up to $30 million. ERS's general unsecured creditors will receive pro rata cash distributions from a fund established for ERS general unsecured creditors, which consists of $500,000 plus any net recoveries by the Avoidance Actions Trust allocable to ERS. PBA's general unsecured creditors will be entitled to a cash payment equal to 10% of their claim upon allowance.
Importantly, the Commonwealth Plan of Adjustment preserves all accrued pension benefits for active and retired public employees under Class 51. However, participants of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) and Teachers Retirement System of Puerto Rico (TRS) will be subject to a benefits freeze and the elimination of any cost of living adjustments previously authorized under the JRS and TRS pension plans.

During the pendency of the PROMESA cases, a variety of legal issues were raised related to creditor claims. As a result of the recoveries provided under the Commonwealth Plan of Adjustment, the COFINA plan of adjustment, and the Title VI qualified modifications for GDB, PRIFA, and PRCCDA, substantially all of those litigation proceedings have been resolved and dismissed. Certain claims, however, were not discharged under the Commonwealth Plan of Adjustment, including: (i) the Eminent Domain/Inverse Condemnation Claims (Class 54); (ii) the Tax Credit Claims (Class 57); (iii) the resolution of certain claims subject to the ACR process (see Commonwealth Plan of Adjustment § 82.7); and (iv) certain Underwriter Actions related to indebtedness issued by the Commonwealth or any of its agencies or instrumentalities against any non-debtors (see Commonwealth Plan of Adjustment § 92.2(f)). Additional litigation proceedings also will be dismissed upon the effective date of the HTA plan of adjustment, which is currently expected to be proposed in April 2022.

For further information, refer to the final versions of the Commonwealth Plan of Adjustment, Findings of Fact, and Confirmation Order, which are available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

(d) ***PFC Restructuring Support Agreement***

On January 20, 2022, FAFAA, on behalf of PFC, entered into a Restructuring Support Agreement (the PFC RSA) with holders of a majority of those certain Series 2011A, Series 2011B, and Series 2012A Commonwealth Appropriation Bonds (the PFC Bonds). The PFC RSA contemplates a restructuring and discharge of the PFC Bonds under Title VI of PROMESA. The PFC RSA further contemplates that those promissory notes that were issued to the order of PFC by certain Commonwealth instrumentalities, including by the HFA, for the repayment of the PFC Bonds will be cancelled and extinguished and the HFA will be discharged from any liability arising from or related to such promissory notes. The restructuring contemplated by the PFC RSA remains subject to the occurrence of various conditions, including obtaining the requisite votes required by Title VI of PROMESA in favor of the restructuring and court approval of the restructuring.

Upon the effective date of the PFC RSA, the outstanding debt of the HFA described in Note 14(a) and of those other Commonwealth's instrumentalities and public corporations, where applicable, will be cancelled and considered extinguished.

(e) ***Subsequent Distributions to the PET***

As discussed in Note 5, on December 10, 2021, the Bank declared an Excess Reserved Cash in the amount of approximately $4 million and distributed such funds immediately to the PET pursuant to the provisions of the PET Deed and such cash will be distributed on the time and in the manner described in the PET Deed.

(f) ***Puerto Rico HFA***

On July 2, 2020, the HFA entered into a subrecipient agreement with the Puerto Rico Department of Housing (PRDOH) to administer Community Development Block Grant – Disaster Recovery (CDBG-DR) funds. Under this agreement, the PRDOH allocated $156 million to the HFA to undertake the Homebuyer Assistance Program. This program will provide financial assistance to qualified homebuyers to cover closing costs and down payment assistance. The HFA will be reimbursed from these allocations certain costs incurred in the management of these programs.

On July 19, 2020, Act No. 69 was enacted authorizing the HFA to transfer the ownership of properties acquired via foreclosure or deed in lieu of foreclosures (among others) to Municipalities in Puerto Rico, without cost.

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GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
OTHER NONMAJOR FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2020

	Public Entity Trust	Puerto Rico Development Fund	Public Finance Corporation	Puerto Rico Telephone Authority	Total Other Nonmajor
ASSETS					
Current assets:					
Cash and due from banks	$ 1,771,638	$ 2,109,056	$ 10,035	$ —	$ 3,890,729
Restricted:					
Cash and due from banks	2,377,521	—	—	—	2,377,521
Investments and investment contracts	—	3,039,378	—	—	3,039,378
Total assets	$ 4,149,159	$ 5,148,434	$ 10,035	$ —	$ 9,307,628
LIABILITIES					
Current liabilities:					
Accounts payable and accrued liabilities	$ —	$ —	$ 7,450	$ 9,997	$ 17,447
Due to other funds	375,000	138,011	40,512	(242)	553,281
Total current liabilities payable from unrestricted assets	375,000	138,011	47,962	9,755	570,728
Current liabilities payable from restricted assets:					
Accounts payable and accrued liabilities	2,000,000	—			2,000,000
Total current liabilities	2,375,000	138,011	47,962	9,755	2,570,728
Noncurrent liabilities:					
Liability under guaranteed obligations	—	2,430	—	—	2,430
Total noncurrent liabilities	—	2,430	—	—	2,430
Total liabilities	2,375,000	140,441	47,962	9,755	2,573,158
NET POSITION:					
Restricted for:					
Qualifying modification distributions	377,521	—	—	—	377,521
Unrestricted	1,396,638	5,007,993	(37,927)	(9,755)	6,356,949
Total net position (deficit)	1,774,159	5,007,993	(37,927)	(9,755)	6,734,470
Total liabilities and net position	$ 4,149,159	$ 5,148,434	$ 10,035	$ —	$ 9,307,628

See accompanying notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

OTHER NONMAJOR FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2020

	Public Entity Trust	Puerto Rico Development Fund	Public Finance Corporation	Puerto Rico Telephone Authority	Total Other Nonmajor
OPERATING REVENUES:					
Investment income:					
Interest income on deposits placed with banks	$ 6,397	$ —	$ 47	$ —	$ 6,444
Interest and dividend income on investments and investment contracts	—	370,099	—	—	370,099
Net increase (decrease) in fair value of investments	—	(663,102)	—	—	(663,102)
Total investment income and interest income on loans	6,397	(293,003)	47	—	(286,559)
Noninterest income:					
Other income	1,637,238	266,111	—	—	1,903,349
Total noninterest income	1,637,238	266,111	—	—	1,903,349
Total operating revenues	1,643,635	(26,892)	47	—	1,616,790
OPERATING EXPENSES:					
Noninterest expenses:					
Legal and professional fees	—	23,204	7,086	5,000	35,290
Office and administrative	24,476	661	—	—	25,137
Recovery for losses on guarantees and letters of credit	—	(698,913)	—	—	(698,913)
Distribution expense	1,625,000	—	—	—	1,625,000
Other	—	266,111	—	—	266,111
Total operating expenses	1,649,476	(408,937)	7,086	5,000	1,252,625
OPERATING INCOME (LOSS)	(5,841)	382,045	(7,039)	(5,000)	364,165
NON-OPERATING INCOME (EXPENSES)					
Contributions to others	—	(4,303,889)	—	—	(4,303,889)
OTHER FINANCING SOURCES - net transfer-in (out)	—	—	—	5,000	5,000
CHANGES IN NET POSITION (DEFICIT)	(5,841)	(3,921,844)	(7,039)	—	(3,934,724)
NET POSITION (DEFICIT) — Beginning of year (as restated, see Note 4)	1,780,000	8,929,837	(30,888)	(9,755)	10,669,194
NET POSITION (DEFICIT) — End of year	$ 1,774,159	$ 5,007,993	$ (37,927)	$ (9,755)	$ 6,734,470

See accompanying notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
OTHER NONMAJOR FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2020

	Public Entity Trust	Puerto Rico Development Fund	Public Finance Corporation	Puerto Rico Telephone Authority	Total
Cash flows from operating activities:					
Cash received from other operating noninterest revenues	$ 1,637,238	$ 188,867	$ —	$ —	$ 1,826,105
Cash payment for other operating noninterest expenses	(24,476)	(189,528)	—	(5,000)	(219,004)
Cash received (paid) from/to other funds	375,000	—	—	—	375,000
Net cash used in operating activities	1,987,762	(661)	—	(5,000)	1,982,101
Cash flows from noncapital financing activities:					
Transfers-in	—	—	—	5,000	5,000
Net cash provided by noncapital financing activities	—	—	—	5,000	5,000
Cash flows from investing activities:					
Proceeds from sales and redemptions of investments	—	346,922	—	—	346,922
Interest and dividends received on deposits and investments	6,397	—	47	—	6,444
Proceeds from sale of real estate held for sale	—	500,000	—	—	500,000
Net cash provided by investing activities	6,397	846,922	47	—	853,366
Net change in cash and due from banks	1,994,159	846,261	47	-	2,840,467
Cash and due from banks – beginning of year, as restated	2,155,000	1,262,795	9,988	—	3,427,783
Cash and due from banks – end of year	$ 4,149,159	$ 2,109,056	$ 10,035	$ —	$ 6,268,250
Reconciliation to proprietary funds:					
Statement of Net Position					
Cash and due from banks – unrestricted	$ 1,771,638	$ 2,109,056	$ 10,035	$ —	$ 3,890,729
Cash and due from banks – restricted	2,377,521	—	—	—	2,377,521
Total cash and due from banks at year end	$ 4,149,159	$ 2,109,056	$ 10,035	$ —	$ 6,268,250

(Continues)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

OTHER NONMAJOR FUNDS

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020

	Public Entity Trust	Puerto Rico Development Fund	Public Finance Corporation	Puerto Rico Telephone Authority	Total
(Continued)					
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	$ (5,841)	$ 382,045	$ (7,039)	$ (5,000)	$ 364,165
Adjustments to reconcile operating income/(loss) to net cash provided by (used in) operating activities:					
Investment income	—	(370,099)	(47)	—	(370,146)
Interest income on other than housing program loans	(6,397)	—	—	—	(6,397)
Release for loan losses	—	—	—	—	—
Provision for losses on guarantees and letters of credit	—	(698,913)	—	—	(698,913)
Net (increase) decrease in fair value of investments	—	663,102	—	—	663,102
Net increase (decrease) in operating liabilities:					
Accounts payable and accrued liabilities	1,625,000	—	—	(5,258)	1,619,742
Due to other funds	375,000	23,204	7,086	5,258	410,548
Net cash used in operating activities	$ 1,987,762	$ (661)	$ —	$ (5,000)	$ 1,982,101

See accompanying notes to basic financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE COLLECTIVE
TOTAL OTHER POST EMPLOYMENT BENEFIT
LIABILITY AND RELATED RATIOS (UNAUDITED)
June 30, 2020

	2020*	2019*	2018*
Proportion of the Collective Total Pension Liability	0.76375%	0.76553%	0.72359%
Proportionate Share of the Collective Total Pension Liability	$ 189,795,220	$ 187,476,717	$ 204,086,785
Covered - Employee Payroll	n/a	n/a	n/a
Proportionate Share of Collective Total Pension Liability as Percentage of Covered-Employee Payroll	n/a	n/a	n/a

* The amounts presented have a measurement date of the previous year end.
* Covered payroll is no longer applicable since contributions are not longer based on payroll and were eliminated pursuant to Act No. 106-2017

Note: Fiscal year 2019 was the first year that the Bank transitioned from GASB Statement No. 68 to GASB Statement No. 73 as a result of the PayGo implementation. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See accompanying independent auditors' report

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE COLLECTIVE
TOTAL PENSION LIABILITY AND RELATED RATIOS (UNAUDITED)
June 30, 2020

	2020*	2019*	2018*	2017*
Proportion of Total Other Post Employment Benefit Liability	0.35566%	0.33228%	0.30712%	0.28981%
Proportionate Share of Total Other Post Employment Benefit Liability	$ 2,959,921	$ 2,797,940	$ 2,827,135	$ 3,091,124
Covered - Employee Payroll	n/a	n/a	n/a	n/a
Proportionate Share of Total Other Post Employment Benefit Liability as Percentage of Covered-Employee Payroll	n/a	n/a	n/a	n/a

* The amounts presented have a measurement date of the previous year end.

* Covered payroll is not applicable since contributions and/or benefit payments are not based on payroll

Note: Fiscal year 2017 was the first year that the new requirements of GASB Statement No. 75 were implemented by the Bank. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See accompanying independent auditors' report