

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Basic Financial Statements and  
Required Supplementary Information  
June 30, 2021  
(With Independent Auditors' Report Thereon)

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

**Table of Contents**

	<b>Page(s)</b>
Independent Auditors' Report	1-3
Management's Discussion and Analysis (Unaudited)	4-22
Basic Financial Statements as of and for the year ending June 30, 2021:	
Government-wide Financial Statements:	
Statement of Net Position	23
Statement of Activities	24
Fund Financial Statements:	
Balance Sheet - Governmental Funds	25
Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Position	26
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) - Governmental Funds	27
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)-Governmental Funds to the Statement of Activities	28
Statement of Net Position (Deficit) - Proprietary Funds	29-30
Statement of Revenues, Expenses and Changes in Net Position (Deficit) - Proprietary Funds	31-32
Statement of Cash Flows - Proprietary Funds	33-36
Notes to Basic Financial Statements	37-111
Combining Schedules-Other Nonmajor Funds	112-115
Required Supplementary Information (Unaudited):	
Schedule of Proportionate Share of the Collective Total Pension Liability and Related Ratios (Unaudited)	116
Schedule of Proportionate Share of the Collective Total Other Postemployment Benefit Liability and Related Ratios (Unaudited)	117



**RSM Puerto Rico**  
PO Box 10528  
San Juan, PR 00922-0528

T 787-751-6164  
F 787-759-7479  
[www.rsm.pr](http://www.rsm.pr)

## **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, 2021, 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, CDBG Programs Fund and the Affordable Housing Mortgage Subsidy Program Fund, the Housing Finance Authority Fund; and 88.27% and 81.49% 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 they relate 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.

**THE POWER OF BEING UNDERSTOOD**  
AUDIT | TAX | CONSULTING

RSM Puerto Rico is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any Jurisdiction.

## **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, as of June 30, 2021, 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 Matters**

### *Government Development Bank's Ability to Continue as a Going Concern (the Bank)*

As described in Notes 3 and 4, 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 as well.

### *Puerto Rico Housing Finance Authority (HFA)*

The financial statements of HFA as of June 30, 2021, and for the year then ended were audited by other auditor, whose report dated October 4, 2022, included an emphasis of a matter paragraph related to HFA's ability to continue as a going concern. As stated in HFA's independent auditors' report, the financial statements of HFA were prepared assuming that it will continue as a going concern. It also, states that the winding down of GDB's operations and the financial difficulties being experienced by the Economic Development Bank (EDB) and the Commonwealth had a spillover effect on the operations of HFA since these entities have accessed HFA's assets to alleviate their liquidity problems. It further states that it is HFA's intent and ability to use its funds deposited with EDB, which have been significantly restricted since the fiscal year 2016, and that HFA's management has the intention of putting in place a series of plans and initiatives that, when executed, are expected to result in further alleviation of any substantial doubt regarding the Authority's ability to continue as a going concern.

## **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 112 through 115 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 22, the schedule of proportionate share of the collective total pension liability and related ratios on page 116, and the schedule of proportionate share of the collective total other postemployment benefit liability and related ratios on page 117, 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  
January 10, 2023.

Stamp No. E57184 was affixed to  
the original of this report



**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2021

### 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 ending June 30, 2021. 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 its operations.

Following the Qualifying Modification, the principal operations of the Bank relate to the Puerto Rico Housing Finance Authority (HFA), with the GDB Operating Fund's sole activities consisting of (i) continuing the wind down of its operations, (ii) servicing its other nonmajor funds, (iii) holding and servicing certain public corporation loans (known as the GDB Retained Loans, as discussed herein) for the benefit of the GDB Debt Recovery Authority (DRA), and (iv) 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, 2021, amounted to approximately \$519 million, an increase of approximately \$10 million, or 1.96%, from approximately \$509 million as of June 30, 2020. Total liabilities increased by approximately \$27 million, or 6%, to approximately \$477 million as of June 30, 2021, from approximately \$450 million as of June 30, 2020. Total deferred outflows of resources amounted to approximately \$49.2 million, an increase of approximately \$21.8 million or 80%, from approximately \$27.4 million as of June 30, 2020, which relates 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, 2021 amounted to approximately \$80 million, a change in net position during fiscal year 2021 of approximately \$7 million from net assets as of June 30, 2020 of approximately \$73 million. The increase in net position of approximately \$7 million during fiscal year 2021 is composed of a positive change in net position of approximately \$11 million from Business-Type Activities, and a negative change in net position of approximately \$4 million from Governmental Activities. The ratio of net position to total assets improved to 15.46% as of June 30, 2021 from 14.30% as of June 30, 2020.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2021

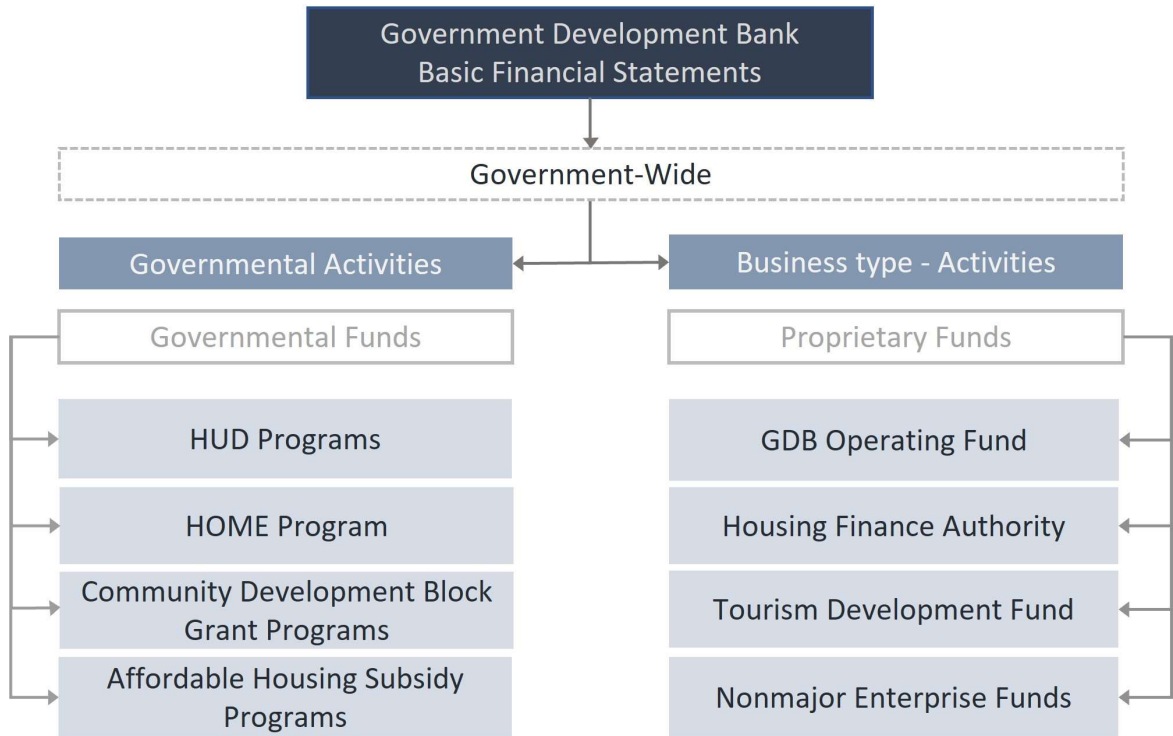
- The operating results of the GDB Operating Fund changed from a loss of \$8 million in fiscal year 2020 to a loss of \$11 million in fiscal year 2021 or an increase in operating loss of approximately \$3 million in fiscal year 2021, which was due primarily to an increase in pension expense of approximately \$3.6 million triggered by a lower discount rate used in the underlying actuarial calculations as of its measurement date.
- On August 31, 2019, HFA became the sole owner of PRHFA RLF Investment Fund (RLF) by issuing a payment of \$587,000 to Citi Community Capital as part of an agreement entered into when the New Markets Tax Credit Structure was created. From September 1, 2019 to June 30, 2020, HFA recognized a \$1.6 million income in equity pick-up from its investment in RLF; while during fiscal year 2021, the equity pick-up recognition was a \$5.2 million loss on the results of RLF. This explains the operating loss results of HFA during fiscal year 2021 of approximately a similar amount.
- During the fiscal year 2021, \$132.6 million, \$5.2 million, \$42.6 million and \$4.9 million were granted in subsidies through the Housing Urban Development Program (HUD or HUD Program), the HOME Investment Partnerships Federal Program (Home Program), the Community Development Block Grant Disaster Recovery Program (CDBG Program) and the Affordable Housing Mortgage Subsidy Program, respectively.

*This space left blank intentionally*

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
 (A Component Unit of the Commonwealth of Puerto Rico)  
 Management's Discussion and Analysis (Unaudited)  
 June 30, 2021

**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.



**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2021

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.

*This space left blank intentionally*

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2021

**Government-Wide Financial Analysis**

Total assets, deferred outflow of resources, total liabilities, and deferred inflow of resources of the Bank, as of June 30, 2021, amounted to approximately \$519 million, \$49 million, \$477 million and \$11 million, respectively, for a net position of approximately \$80 million or 15.46% of total assets. Total assets increased during fiscal year 2021 by approximately \$10 million principally due to a combined effect of investing activities, collections of loans by HFA, and operating transfers from governmental activities, which in the aggregate provided an increase in cash of approximately \$39 million and a corresponding decrease in HFA's investments and loans of approximately \$8 million and \$15 million, respectively, in addition to the current year equity pick-up by HFA in the losses of its investment in RLF Investment Fund in the amount of approximately \$5.2 million. Total liabilities increased by approximately \$27 million, responding principally to increases in total pension liability of almost the same amount, as a result of a lower discount rate used in the underlying actuarial calculation of the retirement benefit obligation (from 3.50% as of June 30, 2019, the measurement date for 2020 reporting, to 2.21% as of June 30, 2020, the measurement date for 2021 reporting). Total deferred outflows increased during fiscal year 2021 by approximately \$22 million, attributed chiefly to an increase by the same amount in the pension-related item, which was primarily as a result of a lower discount rate, as mentioned above, used in the retirement benefits obligation actuarial calculation. Total deferred inflow of resources remained relatively stable with a minor decrease of approximately \$2 million.

Loans as a percentage of total assets decreased 3.51% from 34.57% at the end of fiscal year 2020 to 31.06% as of June 30, 2021, consisting only of the HFA loans. Such loans and related accrued interest decreased during fiscal year 2021 by approximately \$15 million from \$178.1 million as of June 30, 2020 to \$163.2 million as of June 30, 2021. This decrease is due principally to a higher collection of HFA loans (approximately \$27.3 million) over new loans originations (approximately \$14.3 million).

The Bank's most liquid assets, such as cash, increased by approximately \$39 million, largely credited to the HFA's increase in cash of approximately \$40 million, as already described in the first paragraph of this section. The remainder of the liquid assets of the Bank are held primarily by HFA as of June 30, 2021 in the form of investments and investment contracts and deposits placed with banks, which remained, in the aggregate, relatively stable, except for a decrease of approximately \$8 million during fiscal year 2021 in the investment and investment contracts, mostly redeemed to invest in its housing program needs.

As highlighted previously, on August 31, 2019, 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 (a housing development tax credit program) was created. From September 1, 2019 to June 30, 2020, HFA recognized a \$1.6 million in equity pick-up 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. During fiscal year 2021, the equity pick-up recognition was a \$5.2 million loss on the results of RLF. This explains the operating loss results of HFA and the decrease in this investment during fiscal year 2021 of approximately the same amount.

The other significant asset reduction consists of real estate available for sale, in the amount of approximately \$4.9 million, mostly tied to real estate available for sale activities within the GDB Operating Fund. The GDB Operating Fund's real estate available for sale balance of \$5.4 million as of June 30, 2020 consisted of real estate sold to third parties where total control over such properties did not transfer until certain conditions were 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

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2021

payable and accrued expenses. During fiscal year 2021, the conditions tied to the transfer of these remaining properties at GDB Operating Fund were either met or released, prompting the derecognition of such amounts from the asset and liability side.

Total liabilities increased by approximately \$27 million, attributable substantially to increases in total pension liability for almost the same amount, as previously discussed in the first paragraph in this section; the combination of other decreases (approximately \$7 million) and increases (approximately \$11 million) related to notes payable and due to the Commonwealth, respectively.

Total notes and mortgage-backed certificates payable as of June 30, 2021 decreased by approximately \$7 million, almost all of which was attributed to the scheduled repayments made on such obligations, net of its underlying discount accretion for the year. Due to the Commonwealth increased by approximately \$11 million during fiscal year 2021 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 Tourism Development Fund (TDF).

The net position government-wide of approximately \$73 million as of June 30, 2020 changed to a net position of approximately \$80 million as of June 30, 2021. The increase in net position of \$7 million during fiscal year 2021 is comprised of a positive change in net position of approximately \$11 million from Business-Type Activities, impacted mostly by transfers of approximately \$26 million from the HFA's governmental activities into the HFA's business-type activities for repayment of debt and operating income results of approximately \$2 million from the Development Fund; partially offset by the operating losses of the GDB Operating Fund and the HFA's business-type activities of approximately \$11 million and \$5 million, respectively; and a negative change of \$4 million in the net position of the Governmental Activities, impacted principally by the same aforementioned transfers of \$26 million to the Business-Type Activities. The ratio of net position to total assets improved to 15.41% as of June 30, 2021 from 14.30% as of June 30, 2020.

**(d) Governmental Activities**

Total assets of Governmental Activities amounted to approximately \$85.7 million as of June 30, 2021. Total liabilities amounted to approximately \$55.7 million, for a net position of approximately \$30 million. The net position has been broken down into a net investment in capital assets of approximately \$18,000 and a net position of approximately \$30 million restricted for affordable housing programs.

*This space left blank intentionally*

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2021

Condensed financial information on assets, liabilities and net position (deficit) of Governmental Activities as of June 30, 2021, and 2020, is shown below (in thousands):

	June 30,		Change	
	2021	2020	Amount	Percent
<b>Assets:</b>				
Cash and due from banks and deposits placed with banks	\$ 36,416	\$ 40,208	\$ (3,792)	-9%
Investments and investment contracts	34,784	37,393	(2,609)	-7%
Capital assets	18	18	-	0%
Other assets	14,529	5,535	8,994	162%
Total assets	<u>85,747</u>	<u>83,154</u>	<u>2,593</u>	<u>3%</u>
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	15,834	7,778	8,056	104%
Due to related party	-	6,456	(6,456)	-100%
Notes payable	23,256	23,253	3	0%
Total liabilities before internal balances	<u>39,090</u>	<u>37,487</u>	<u>1,603</u>	<u>4%</u>
Internal balances	16,573	11,545	5,028	44%
Total liabilities	<u>55,663</u>	<u>49,032</u>	<u>6,631</u>	<u>14%</u>
<b>Net position:</b>				
Net investment in capital assets	18	18	-	0%
Restricted for affordable housing programs	30,066	34,104	(4,038)	-12%
Total net position	<u>\$ 30,084</u>	<u>\$ 34,122</u>	<u>\$ (4,038)</u>	<u>-12%</u>

Investments and investment contracts amounted to approximately \$34.8 million and, together with cash and due from banks and deposits placed with banks of approximately \$36.4 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, 2021 had a net decrease of approximately \$6.4 million over the prior year. Such decrease primarily reflects the decrease in the due to related party of \$6.5 million and a decrease in the accounts payable of the Home and Affordable Housing Subsidy Programs amounting to approximately \$1.4 million. The increase in accounts payable and accrued expenses of approximately \$8.1 million is attributed mostly to an increase of approximately 9.3 million in the accounts payable of the CDBG Program, which ran for the full year in fiscal year 2021 for the first time.

Other assets are mainly restricted and are composed mostly of amounts due from the U.S. Department of Housing and Urban Development (HUD) for its different HUD, Home, and CDBG federal programs. The increase in other assets of approximately \$9 million is principally attributed to the increased volume of activity within the CDBG program, which had minimal operations in the previous fiscal year; this explains the increases of \$10.5 million in the amounts receivable from HUD and a proportional increase of approximately \$9.3 million in the accounts payable under such program. The increase of approximately \$5 million in internal balances owed to the proprietary fund, is also principally attributed to the increased volume of operations in the CDBG program, which saw its due to the proprietary fund increased by a similar amount.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2021

The increase of approximately \$3,000 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 on the HFA's PFC notes and the notes to the DRA, with an outstanding balance as of June 30, 2021 of approximately \$3.3 million and \$19.9 million, respectively. Refer to Note 21 regarding the elimination of the Commonwealth appropriations under the Commonwealth Plan of Adjustment and an overview of the PFC Title VI Qualifying Modification.

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, 2021 and June 30, 2020, is shown below (in thousands):

	Year ended June 30, 2021		
	General	Housing	Total
	government	assistance programs	
Expenses	\$ 3,775	\$ 181,668	\$ 185,443
Program revenues:			
Charges for services - financing and investment	-	1,826	1,826
Operating grants and contributions	-	205,814	205,814
Net revenues (expenses)	<u>\$ (3,775)</u>	<u>\$ 25,972</u>	<u>22,197</u>
Transfers-out, net			(26,235)
Change in net position (deficit)			(4,038)
Net position - beginning of year			34,122
Net position - end of year			<u>\$ 30,084</u>

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

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2021

**Governmental Activities Results**

Total revenues of the governmental activities increased by approximately \$44.3 million in 2021 from 2020. The increase was due primarily to increases of \$40.6 million and \$14.1 million in the revenues of the CDBG Program and the Affordable Housing Subsidy Program, respectively, offset by a decrease of \$9.2 million in the HUD Program. The CDBG Program started providing grants at the end of the fiscal year 2020 which contributed to its increase in revenues. An increase in the revenues of the Affordable Housing Subsidy Program is due to an increase in the receipts of Commonwealth Appropriations related to Act No. 122 of August 6, 2010, which assigns the HFA the unclaimed funds in local financial institutions which can be used in the future for subsidies or be transferred to the Operating Fund as payment for debts paid on behalf of the Subsidy Fund. The decrease in the revenues of the HUD Program is mainly due to the transfer, effective January 1, 2020, of the Housing Choice Voucher Program to the Puerto Rico Public Housing Administration. The increase in expenses of the governmental activities of \$30.8 million is mainly due to the increase of \$40.6 million in the CDBG Program offset by the decrease in expenses of \$9.2 million in the HUD Program as explained above. An increase in transfers to the Operating and Administrative fund is related to the increase in the revenues of the Affordable Housing Subsidy Program explained above. The current year net transfers-out of approximately \$26 million represented transfers to the HFA's proprietary fund for operational and repayment of debt's purposes, which typically occurs each year.

**(e) HUD Programs**

This fund accounts for the U.S. Housing Act Section 8 programs administered by the HFA under the authorization of HUD. Presently, HFA operates three programs whereby low-income families receive subsidies directly or indirectly for rent payments. 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 \$9.2 million from approximately \$141.8 million in the fiscal year 2020 to approximately \$132.6 million in the fiscal year 2021. This decrease is mainly the result of the transfer, effective January 1, 2020, of the Housing Choice Voucher Program to the Puerto Rico Public Housing Administration.

**(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 suitable and affordable housing for low and very low-income families. Revenues increased from approximately \$6.4 million in the fiscal year 2020 to approximately \$8.4 million in the fiscal year 2021 mainly due to the recognition of \$2.8 million in revenues that were unearned revenues in the fiscal year 2020. Expenditures decreased from \$7.7 million in the fiscal year 2020 to approximately \$5.2 million in the fiscal year 2021 due to the decrease in projects as a direct result of the COVID-19 Pandemic.

Total liabilities of the HOME programs decreased by approximately \$2.3 million from approximately \$5.3 million as of June 30, 2020 to approximately \$3 million as of June 30, 2021, for the same reasons as the expenditures' decreases. 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 the collection of funds from HUD.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2021

**(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 \$34.8 million and, together with cash and due from banks and deposits placed with banks of approximately \$32.6 million, account for the majority of the assets held by the Affordable Housing Mortgage Subsidy Programs as of June 30, 2021. 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, 2021 had a net decrease of approximately \$9.9 million over the prior year. Such decrease responds mostly to the need for funding a larger net transfer-out amount to the operating fund, which saw an increase of approximately \$8.2 million from \$18 million in 2020 to \$26.2 million in 2021.

During the fiscal year ending June 30, 2021, the fund balance decreased by \$4.6 million as compared to a decrease of \$10.1 million in the fiscal year ending June 30, 2020. Such decrease in fund balance for the fiscal year 2020 was caused by the net transfers-out referred to in the previous paragraph amounting to \$26.2 million, offset with \$15.6 million in Commonwealth Appropriations related to Act No. 122 of August 6, 2010, which assigns the HFA the unclaimed funds in local financial institutions which can be used in the future for subsidies or be transferred to the Operating Fund as payment for debts paid on behalf of the Subsidy Fund. Another transfer, amounting to \$11.9 million, related to Commonwealth Appropriations was also made during the fiscal year 2021.

**(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 HFA 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, but with minimal operations as the new program had barely started. Now with a full year of operations in fiscal year 2021, the CDBG Program fund has received funding of approximately \$42.6 million, also expended in the same year, explaining the increase over the previous year.

*This space left blank intentionally*

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2021

**Business - Type Activities**

Condensed financial information on assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position as of June 30, 2021, and June 30, 2020, is presented below (in thousands):

	June 30,		Change	
	2021	2020	Amount	Percent
<b>Assets:</b>				
Cash and due from banks	\$ 99,538	\$ 57,211	\$ 42,327	74.0%
Federal funds sold	-	2,280	(2,280)	-100.0%
Deposits placed with banks	57,422	56,975	447	0.8%
Investments and investment contracts	65,007	72,154	(7,147)	-9.9%
Investment in PRHFA RLF Investment Fund, LLC	34,488	39,707	(5,219)	100.0%
Loans receivable - net	161,266	175,834	(14,568)	-8.3%
Accrued interest receivable	1,777	2,116	(339)	-16.0%
Real estate available for sale	2,051	6,954	(4,903)	-70.5%
Other receivable, net	2,674	2,714	(40)	-1.5%
Other assets	794	991	(197)	-19.9%
Internal balances	16,573	11,544	5,029	43.6%
Capital assets	8,384	8,606	(222)	-2.6%
Total assets	<u>449,974</u>	<u>437,086</u>	<u>12,888</u>	<u>2.9%</u>
<b>Deferred outflows of resources:</b>				
Loss on bond refundings	1,261	1,507	(246)	-16.3%
Goodwill	532	839	(307)	-36.6%
Pension related	47,165	24,829	22,336	90.0%
Other postemployment benefits related	241	254	(13)	-5.1%
Total deferred outflows of resources	<u>49,199</u>	<u>27,429</u>	<u>21,770</u>	<u>79.4%</u>
<b>Liabilities:</b>				
Accounts payable, accrued expenses, and other liabilities	76,110	81,778	(5,668)	-6.9%
Unearned revenues	3,031	3,263	(232)	-7.1%
Due to Commonwealth of Puerto Rico	41,554	30,306	11,248	37.1%
Bonds, notes, and mortgage-backed certificates payable:				
Due in one year	11,875	8,132	3,743	46.0%
Due in more than one year	85,930	96,441	(10,511)	-10.9%
Total pension liability and postemployment benefits				
Due in one year	10,346	9,554	792	8.3%
Due in more than one year	209,107	183,201	25,906	14.1%
Total liabilities	<u>437,953</u>	<u>412,675</u>	<u>25,278</u>	<u>6.1%</u>
<b>Deferred inflows of resources: pension related</b>	<u>11,048</u>	<u>13,193</u>	<u>(2,145)</u>	<u>-16.3%</u>
<b>Net position:</b>				
Net investment in capital assets	8,384	8,606	(222)	-2.6%
Restricted for:				
Affordable housing programs	17,455	19,572	(2,117)	-10.8%
Qualifying Modification distributions	256	378	(122)	100.0%
Unrestricted net position	24,077	10,091	13,986	138.6%
Total net position	<u>\$ 50,172</u>	<u>\$ 38,647</u>	<u>\$ 11,525</u>	<u>29.8%</u>



**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2021

**(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 increased by approximately \$33.3 million, of which approximately \$31.9 million represented increases in the HFA's cash, deposits and investment instruments. This aggregate net increase during fiscal year 2021 of HFA's cash, deposits, and investments combined is attributed to a combination of cash provided by its investing activities (approximately \$19 million, mostly triggered by net proceeds in investment redemptions of approximately \$17 million and approximately \$2.7 million interest received on its investments), cash provided by operating activities (approximately \$8.2 million, primarily caused by net loan and related interest collections) and cash provided by noncapital financing activities in the amount of approximately \$13 million (consisting of the transfers from HFA's governmental activities of approximately \$26 million, offset by the repayment of debt and related interest in the amount of approximately \$13 million), in addition to the current year equity pick-up by HFA in the losses of its investment in RLF Investment Fund in the amount of approximately \$5.2 million.

Investments and investment contracts held in Business-Type Activities in the amount of approximately \$65 million as of June 30, 2021, mostly pertaining to the HFA, consisted primarily of highly liquid instruments such as the U.S. Treasury Obligations, 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 14% of the total assets of the Bank's Business-Type Activities as of June 30, 2021, down 3% as compared to 17% at the close of fiscal year 2020. All of the Bank's investments in mortgage-backed securities amounting to \$49.2 million and \$58.4 million as of June 30, 2021 and June 30, 2020, 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, on August 31, 2019, HFA became the sole owner of RLF and acquired 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, which amounted to \$39.7 million as of June 30, 2020. During fiscal year 2021, the equity pick-up recognition was of a \$5.2 million loss on the results of RLF, which explains the decrease in this investment during fiscal year 2021 for the same amount.

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

The approximately \$161.3 million in loans receivable (net of an allowance for loan losses of approximately \$37.4 million) as of June 30, 2021, represents an approximately \$14.6 million or 8% decrease from fiscal year 2020 to fiscal year 2021. Loans as a percentage of total assets decreased 4% from 40% at the end of fiscal year 2020 to 36% as of June 30, 2021, consisting principally of the GDB Retained Loans held by the GDB Operating Fund (under the Qualifying Modification provisions) and the HFA loans. The GDB Retained Loans as of June 30, 2021, consisting of public corporations and central government agencies loans, had an unpaid principal balance totaling approximately \$864 million (all fully reserved).

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2021

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 entire 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 the 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 sources of repayment, (iii) loans with an 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 sources of repayment, (v) loans with an unreliable source of repayment that were performing as to principal and interest, but did not have any additional sources 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 allowances 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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2021

As of June 30, 2021, the changes in the allowance for loan losses in the Proprietary Funds were as follows (in thousands):

	Proprietary Funds				Total
	GDB	Tourism	Housing	Other	
	Operating Fund	Development Fund	Finance Authority		
Balance - beginning of year	\$ 889,768	\$ 26,488	\$ 39,095	\$ 18,300	\$ 973,651
Release of loan losses	-	-	(753)	-	(753)
Collection transferred to DRA	(26,000)	-	-	-	(26,000)
Write-offs	-	-	(984)	-	(984)
Balance - end of year	\$ 863,768	\$ 26,488	\$ 37,358	\$ 18,300	\$ 945,914

Allowance for loan losses collective loans

The allowance for loan losses at the business-type activities level was impacted principally by net reduction in allowance of \$26 million, as a result of the recovery of a portion of a fully reserved loan, which proceeds were transferred to the DRA pursuant to the terms of 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 and agency 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, 2021 and June 30, 2020 amounted to approximately \$161.3 million and \$175.8 million, respectively, net of an allowance for loan losses of approximately \$82 million at 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 (\$37.4 million) and the Development Fund (\$18.3 million). Refer to Note 8 to the basic financial statements for further information on loans receivable and allowance for loan losses.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2021

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

Real estate available for sale decreased in the amount of approximately \$4.9 million, primarily tied to real estate available for sale activities within the GDB Operating Fund. The GDB Operating Fund's real estate available for sale balance of \$5.4 million as of June 30, 2020 consisted of real estate sold to third parties where total control over such properties did not transfer until certain conditions were 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 2021, the conditions tied to the transfer of these remaining properties at GDB Operating Fund were either met or released, prompting the derecognition of such amounts from the asset and the liability side.

**(m) Capital Assets**

Capital assets, net of accumulated depreciation, amortization and impairment, amounted to \$8.4 million as of June 30, 2021, a decrease of just \$222,000 from the prior year, all attributed to the HFA's capital asset activities and its excess depreciation over net additions during the year.

**(n) Internal Balance**

Internal balances, consisting of a receivable from HFA's governmental activities, amounted to approximately \$16.6 million as of June 30, 2021, representing an increase of approximately \$5 million over the previous year. This increase is principally attributed to the increased volume of operations in HFA's CDBG program activities, requiring interfund advances from HFA's operating fund in order to meet the increased volume of activities within the program.

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

Within total liabilities, there are accounts payable, accrued expenses and other liabilities totaling approximately \$76.1 million and approximately \$81.8 million as of June 30, 2021, and June 30, 2020, respectively, a decrease of approximately \$5.7 million. Approximately \$4.9 million of this amount relates to real estate available for sale collateralized borrowing derecognized during 2021 as conditions tied to the related transfers of the underlying properties were either met or released (as referred to in section (l) above).

Another component of these balances is attributed to the liabilities under guaranteed obligations of \$47 million and \$48.1 million as of June 30, 2021, and June 30, 2020, respectively. As of June 30, 2021, 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	2,430	-	(2,430)	-	-
Housing Finance Authority	6,122,250	-	(1,157,296)	4,964,954	4,964,954
Total	<u>\$ 48,135,044</u>	<u>\$ -</u>	<u>\$ (1,159,726)</u>	<u>\$ 46,975,318</u>	<u>\$ 4,964,954</u>

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, 2021.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2021

The liability of the Development Fund related to the Key for Your Business Program, which as a result of the sale of most of the underlying loans and the expiration of certain other guarantees, was all reversed during the year.

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, 2021, the mortgage loan insurance program covered loans aggregating approximately \$473 million, for which a liability of approximately \$5 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 13 to the basic financial statements.

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

During fiscal year 2021, the Commonwealth made PayGo pension benefits payments on behalf of the Bank amounting to approximately \$10.1 million (approximately \$6.5 million for the GDB Operating Fund, approximately \$3.6 million for the HFA, and approximately \$7,400 for TDF) and OPEB benefits payments amounting to approximately \$242,000 (approximately \$128,000 for the GDB Operating Fund, approximately \$113,000 for the HFA, and \$600 for the TDF). Combined with the prior years' PayGo payments in the amount of \$30.3 million (also made on behalf of the Bank), and several adjustments made during the year, an accumulated Due to Commonwealth has been recorded on the basic financial statements as of June 30, 2021 amounting to approximately \$41.6 million.

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

The notes payable as of June 30, 2021 pertain all to the HFA. The HFA redeemed several notes and bonds payable during fiscal year 2021 in the amount of approximately \$6.8 million (net of the related discount accretion for the year of \$3.7 million). There were no gross debt originations during the fiscal year ending June 30, 2021.

*This space left blank intentionally*

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2021

Condensed financial information on expenses, program revenues and changes in net position for Business-Type Activities for the years ended June 30, 2021, and June 30, 2020, is presented below (in thousands):

Activity	Year ended June 30, 2021				Net revenues/ (expenses)
	Expenses	Program revenues			
		Charges for services			
		Fees, commissions, and others	Financing and investment		
GDB Operating Fund	\$ 10,923	\$ -	\$ 4		\$ (10,919)
Housing Finance Authority	22,151	6,240	10,409		(5,502)
Tourism Development Fund	18	-	-		(18)
Other non-major funds	1,944	1,875	1,798		1,729
<b>Total</b>	<b>\$ 35,036</b>	<b>\$ 8,115</b>	<b>\$ 12,211</b>		<b>(14,710)</b>
Transfers from governmental activities, net					26,235
Change in net position					11,525
Net position - beginning of year, as restated					38,647
Net position - end of year					<b>\$ 50,172</b>

Activity	Year ended June 30, 2020				Net revenues/ (expenses)
	Expenses	Program revenues			
		Charges for services			
		Fees, commissions, and others	Financing and investment		
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)
<b>Total</b>	<b>\$ 37,456</b>	<b>\$ 13,171</b>	<b>\$ 13,576</b>		<b>(10,709)</b>
Transfers from governmental activities, net					18,002
Change in net position					7,293
Net position - beginning of year					31,354
Net position - end of year					<b>\$ 38,647</b>

**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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2021

**GDB Operating Fund**

The deficit increased from \$117.1 million as of June 30, 2020 to a deficit of \$128 million as of June 30, 2021. The increase in net deficit of approximately \$10.9 million in fiscal year 2021 is attributable to the operating losses sustained for the same amount.

Following the Qualifying Modification, the remaining operation of the Bank primarily resides at HFA, with the GDB Operating Fund's sole activities consisting of (i) continuing the winding down of its operations, (ii) servicing its other nonmajor funds, (iii) holding and servicing certain public corporation loans (known as the GDB Retained Loans) for the benefit of the DRA, and (iv) 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. Pension and OPEB expense for the year amounting to approximately \$9.3 million accounts for most of the operating expenses incurred by the GDB Operating Fund.

**Housing Finance Authority**

The net position of the HFA increased from approximately \$180.7 million as of June 30, 2020, to approximately \$201.5 million as of June 30, 2021, or an increase of approximately \$21 million, responding to the combination of the operating loss for the year of approximately \$5.9 million and the transfers-in from HFA's governmental activities amounting to \$26.2 million.

**Currently Known Facts and Events**

**Going Concern**

As described in Note 4, 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 going concerns as well.

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.

***Commonwealth Plan of Adjustment***

As described in Note 21, 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). 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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Management's Discussion and Analysis (Unaudited)  
June 30, 2021

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 21 and the Commonwealth Plan of Adjustment, Findings of Fact, and Confirmation Order, which are available at <https://cases.primeclerk.com/puertorico/Home-DocketInfo>.

***Puerto Rico Finance Corporation's Qualifying Modification***

On January 20, 2022, the Fiscal Agency and Financial Advisory Authority (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 a Title VI Qualifying Modification (the PFC Qualifying Modification). The PFC Qualifying Modification further contemplates that those promissory notes that were issued to the order of PFC by certain Commonwealth instrumentalities for the repayment of the PFC Bonds will be cancelled and extinguished and such entities will be discharged from any liability arising from or related to such promissory notes.

On October 25, 2022, AAFAF, on behalf of PFC, and the Oversight Board launched solicitation of the PFC Qualifying Modification. On October 28, 2022, the Oversight Board, as the Title VI Administrative Supervisor, commenced a Title VI proceeding in the U.S. District Court for the District of Puerto Rico. The District Court held a hearing to consider approval of the PFC Qualifying Modification on December 14, 2022. On December 30, 2022, the District Court entered an order approving the PFC Qualifying Modification. The PFC Qualifying Modification is expected to go effective in mid-January 2023. Upon the effective date of the PFC Qualifying Modification, the PFC Bonds and Notes will be discharged.

***Economic Development Bank Settlement Agreement***

On September 21, 2022, the Oversight Board approved a settlement of claims held by the GDB against the Economic Development Bank (EDB) related to its \$35 million overnight deposit with EDB (see Note 5). The settlement was approved under Section 206 of PROMESA. Pursuant to the Settlement Agreement, EDB shall make a one-time cash payment of \$3.1 million in full settlement of the outstanding balance of the aforementioned overnight deposit. This settlement agreement was eventually executed on September 28, 2022.

***Transfer of Excess Escrow Balances***

Upon the full repayment in fiscal year 2020 of the PFC 2003 Series B Refunding Bonds and the PFC Series 2004 Qualified Zone Academy Bonds (both conduit debt under PFC) by the ultimate debtor, certain excess funds remained on its corresponding related escrow accounts in the amounts of approximately \$1.9 million and \$111,000, respectively, under such bonds. These funds remained on the accounting records of the central government until May 29, 2022 when FAFAA authorized and approved the transfer of such funds from such central agencies to the bank accounts pertaining to PFC.

**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, 2021

	Governmental Activities	Business- type Activities	Total
<b>ASSETS:</b>			
Cash and due from banks	\$ 27,007,079	\$ 99,537,843	\$ 126,544,922
Deposits placed with banks	9,408,562	57,421,807	66,830,369
Due from federal government, net	14,413,087	—	14,413,087
Investments and investment contracts	34,784,565	65,007,681	99,792,246
Investments in PRHFA RLF Investment Fund, LLC	—	34,488,234	34,488,234
Loans receivable, net	—	161,265,566	161,265,566
Accrued interest receivable	116,069	1,776,935	1,893,004
Other receivables, net	—	2,674,364	2,674,364
Real estate available for sale	—	2,050,752	2,050,752
Capital assets:			
Land and other nondepreciable assets	—	7,752,711	7,752,711
Depreciable assets	18,362	631,053	649,415
Other assets	—	793,728	793,728
Total assets	<u>85,747,724</u>	<u>433,400,674</u>	<u>519,148,398</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Loss on bond refundings	—	1,261,145	1,261,145
Goodwill	—	531,659	531,659
Pension related	—	47,164,750	47,164,750
Other postemployment benefits related	—	241,500	241,500
Total deferred outflows of resources	<u>—</u>	<u>49,199,054</u>	<u>49,199,054</u>
<b>LIABILITIES:</b>			
Accrued interest payable	69,002	—	69,002
Matured interest payable	905,471	—	905,471
Accounts payable and accrued liabilities:			
Due within one year	14,859,453	16,334,530	31,193,983
Due in more than one year	—	12,800,000	12,800,000
Internal balances	16,573,318	(16,573,318)	—
Due to Commonwealth of Puerto Rico	—	41,553,890	41,553,890
Mortgage loan insurance and liabilities under guaranteed obligations:			
Due within one year	—	4,964,954	4,964,954
Due in more than one year	—	42,010,364	42,010,364
Unearned revenues	—	3,031,428	3,031,428
Participation agreement payable:			
Bonds, notes and mortgage-backed certificates payable:			
Due within one year	20,461,281	11,875,027	32,336,308
Due in more than one year	2,794,937	85,929,996	88,724,933
Total pension liability:			
Due within one year	—	10,105,687	10,105,687
Due in more than one year	—	206,147,847	206,147,847
Total other postemployment benefit liability:			
Due within one year	—	241,500	241,500
Due in more than one year	—	2,957,858	2,957,858
Total liabilities	<u>55,663,462</u>	<u>421,379,763</u>	<u>477,043,225</u>
<b>DEFERRED INFLOWS OF RESOURCES: Pension related</b>	<u>—</u>	<u>11,048,045</u>	<u>11,048,045</u>
<b>NET POSITION:</b>			
Net investment in capital assets	18,362	8,383,764	8,402,126
Restricted for:			
Qualifying modification distributions	—	255,546	255,546
Affordable housing programs	30,065,900	17,455,123	47,521,023
Unrestricted net position	—	24,077,487	24,077,487
TOTAL NET POSITION	<u>\$ 30,084,262</u>	<u>\$ 50,171,920</u>	<u>\$ 80,256,182</u>

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 Ending June 30, 2021

	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	\$ 3,774,747	\$ —	\$ —	\$ —	\$ (3,774,747)	\$ —	\$ (3,774,747)
Housing assistance programs	181,668,319	—	1,825,428	205,814,235	25,971,344	—	25,971,344
Total governmental activities	<u>185,443,066</u>	<u>—</u>	<u>1,825,428</u>	<u>205,814,235</u>	<u>22,196,597</u>	<u>—</u>	<u>22,196,597</u>
Business-type activities:							
GDB Operating Fund	10,923,119	—	3,554	—	—	(10,919,565)	(10,919,565)
Housing Finance Authority	22,150,689	6,240,030	10,409,123	—	—	(5,501,536)	(5,501,536)
Tourism Development Fund	17,748	—	—	—	—	(17,748)	(17,748)
Other non-major	1,944,251	1,875,000	1,798,198	—	—	1,728,947	1,728,947
Total business-type activities	<u>35,035,807</u>	<u>8,115,030</u>	<u>12,210,875</u>	<u>—</u>	<u>—</u>	<u>(14,709,902)</u>	<u>(14,709,902)</u>
Total	<u>\$ 220,478,873</u>	<u>\$ 8,115,030</u>	<u>\$ 14,036,303</u>	<u>\$ 205,814,235</u>	<u>22,196,597</u>	<u>(14,709,902)</u>	<u>7,486,695</u>
Transfers in (out) – Net					(26,234,691)	26,234,691	—
CHANGES IN NET POSITION					(4,038,094)	11,524,789	7,486,695
NET POSITION – Beginning of year					34,122,356	38,647,131	72,769,487
NET POSITION – End of year					<u>\$ 30,084,262</u>	<u>\$ 50,171,920</u>	<u>\$ 80,256,182</u>

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, 2021

	HUD Programs	Home Program	CDBG Program	Affordable Housing Mortgage Subsidy Program	Total Governmental Funds
<b>ASSETS:</b>					
Restricted:					
Cash and due from banks	\$ 6,390	\$ 30,640	\$ 3,813,792	\$ 23,156,257	\$ 27,007,079
Deposits placed with banks	—	—	—	9,408,562	9,408,562
Due from federal government	923,654	2,996,800	10,492,633	—	14,413,087
Investments and investment contracts	—	—	—	34,784,565	34,784,565
Interest and other receivables	—	—	—	116,069	116,069
Total assets	<u>\$ 930,044</u>	<u>\$ 3,027,440</u>	<u>\$ 14,306,425</u>	<u>\$ 67,465,453</u>	<u>\$ 85,729,362</u>
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS:</b>					
Due to other funds	\$ 923,654	\$ 709,610	\$ 5,032,298	\$ 9,907,756	\$ 16,573,318
Accounts payable and accrued liabilities	6,390	2,317,830	9,274,127	3,261,106	14,859,453
Matured note payable	—	—	—	19,909,611	19,909,611
Matured principal on appropriation note	—	—	—	450,268	450,268
Matured interest payable	—	—	—	905,471	905,471
Total liabilities	<u>930,044</u>	<u>3,027,440</u>	<u>14,306,425</u>	<u>34,434,212</u>	<u>52,698,121</u>
Deferred inflows of resources - Intergovernmental grants	—	1,106,523	—	—	1,106,523
<b>FUND BALANCES (DEFICIT):</b>					
Restricted for affordable housing programs	—	—	—	33,031,241	33,031,241
Unassigned	—	(1,106,523)	—	—	(1,106,523)
Total fund balances (deficit)	<u>—</u>	<u>(1,106,523)</u>	<u>—</u>	<u>33,031,241</u>	<u>31,924,718</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 930,044</u>	<u>\$ 3,027,440</u>	<u>\$ 14,306,425</u>	<u>\$ 67,465,453</u>	<u>\$ 85,729,362</u>

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, 2021

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

Total fund balances	\$ 31,924,718
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	18,362
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	(2,896,339)
Accrued interest payable is not due and payable in the current period; therefore, is not reported in the funds.	(69,002)
Deferred inflow of resources reported in the governmental funds are recognized as revenue in the governmental activities.	<u>1,106,523</u>
Net position of governmental activities	<u>\$ 30,084,262</u>

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 ending June 30, 2021

	HUD Programs	Home Program	CDBG Program	Affordable Housing Mortgage Subsidy Program	Total Governmental Funds
<b>REVENUES:</b>					
Commonwealth appropriation for operations and housing assistance programs	\$ —	\$ —	\$ —	\$ 23,801,115	\$ 23,801,115
Intergovernmental - federal government	132,554,967	8,341,298	42,640,152	—	183,536,417
Interest income on deposits placed with banks	—	—	—	18,675	18,675
Interest income on investments and investment contracts	—	—	—	1,896,324	1,896,324
Net decrease in fair value of investments	—	—	—	(70,896)	(70,896)
Other income	—	96,855	—	1,196,859	1,293,714
Total revenues	<u>132,554,967</u>	<u>8,438,153</u>	<u>42,640,152</u>	<u>26,842,077</u>	<u>210,475,349</u>
<b>EXPENDITURES:</b>					
General government and other	2,988,353	492,573	205,146	88,549	3,774,621
Housing assistance programs	129,566,764	4,688,812	42,435,006	4,800,195	181,490,777
Debt service					
Principal	—	—	—	97,171	97,171
Interest	—	—	—	174,904	174,904
Total expenditures	<u>132,555,117</u>	<u>5,181,385</u>	<u>42,640,152</u>	<u>5,160,819</u>	<u>185,537,473</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(150)	3,256,768	—	21,681,258	24,937,876
<b>OTHER FINANCING SOURCES (USES):</b>					
Net transfers-out	—	—	—	(26,234,691)	(26,234,691)
<b>NET CHANGES IN FUND BALANCES (DEFICIT)</b>	(150)	3,256,768	—	(4,553,433)	(1,296,815)
<b>FUND BALANCES (DEFICIT) – Beginning of year</b>	150	(4,363,291)	—	37,584,674	33,221,533
<b>FUND BALANCES (DEFICIT) – End of year</b>	<u>\$ —</u>	<u>\$ (1,106,523)</u>	<u>\$ —</u>	<u>\$ 33,031,241</u>	<u>\$ 31,924,718</u>

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 ending June 30, 2021

Amounts reported for governmental activities in the statement of net position are different because:	
Net change in fund balances (deficit) - total governmental funds.	\$ (1,296,815)
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.	(2,990)
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 effect of these differences in the treatment of long-term debt and related items as follows:	
Principal on appropriation note - matured	97,171
Net decrease in long-term accrued interest payable	352
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.	(2,835,686)
Governmental funds report capital outlays as expenditures; 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.	<u>(126)</u>
Change in net position of governmental activities	<u>\$ (4,038,094)</u>

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, 2021

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Other Non-major	Eliminations	Total
<b>ASSETS</b>						
Current assets:						
Cash and due from banks	\$ 20,777,104	\$ 45,212,469	11,050,744	\$ 4,260,191	\$ —	\$ 81,300,508
Deposits placed with banks	—	56,921,575	—	—	—	56,921,575
Accrued interest receivable	129	1,449,921	—	—	—	1,450,050
Other current receivables	51,414	2,192,865	—	—	—	2,244,279
Due from other funds	1,007,748	16,573,318	—	—	(1,007,748)	16,573,318
Other current assets	767,773	25,955	—	—	—	793,728
Restricted:						
Cash and due from banks	7,363,192	6,743,597	—	4,130,546	—	18,237,335
Deposits placed with banks	—	500,232	—	—	—	500,232
Accrued interest receivable	—	326,885	—	—	—	326,885
Other current receivables	—	430,085	—	—	—	430,085
Total current assets	<u>29,967,360</u>	<u>130,376,902</u>	<u>11,050,744</u>	<u>8,390,737</u>	<u>(1,007,748)</u>	<u>178,777,995</u>
Non-current assets:						
Restricted:						
Investments and investment contracts	—	50,206,046	—	—	—	50,206,046
Loans receivable – net	—	68,213,272	—	—	—	68,213,272
Real estate available for sale	—	103,708	—	—	—	103,708
Investments and investment contracts	—	10,405,627	—	4,396,008	—	14,801,635
Investments in PRHFA RLF Investment Fund, LLC	—	34,488,234	—	—	—	34,488,234
Loans receivable – net	—	93,052,294	—	—	—	93,052,294
Real estate available for sale	—	1,947,044	—	—	—	1,947,044
Capital assets:						
Land and other non-depreciable assets	—	7,752,711	—	—	—	7,752,711
Depreciable assets	—	631,053	—	—	—	631,053
Total non-current assets	<u>—</u>	<u>266,799,989</u>	<u>—</u>	<u>4,396,008</u>	<u>—</u>	<u>271,195,997</u>
Total assets	<u>\$ 29,967,360</u>	<u>\$ 397,176,891</u>	<u>\$ 11,050,744</u>	<u>\$ 12,786,745</u>	<u>\$ (1,007,748)</u>	<u>\$ 449,973,992</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>						
Loss on bond refundings	—	1,261,145	—	—	—	1,261,145
Goodwill	—	531,659	—	—	—	531,659
Pension related	32,435,680	14,693,043	36,027	—	—	47,164,750
Other postemployment benefits related	127,700	113,200	600	—	—	241,500
Total deferred outflow of resources	<u>\$ 32,563,380</u>	<u>\$ 16,599,047</u>	<u>\$ 36,627</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 49,199,054</u>

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, 2021

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Other Non-major	Eliminations	Total
<b>LIABILITIES</b>						
Current liabilities payable from unrestricted assets:						
Accounts payable and accrued liabilities	\$ 993,703	\$ 7,508,716	\$ 507	\$ 15,050	\$ —	\$ 8,517,976
Due to other funds	—	—	579,225	428,523	(1,007,748)	—
Due to Commonwealth of Puerto Rico	26,415,092	15,112,465	26,333	—	—	41,553,890
Total pension liability	6,494,753	3,603,523	7,411	—	—	10,105,687
Total other postemployment pension benefits liability	127,700	113,200	600	—	—	241,500
Total current liabilities payable from unrestricted assets	<u>34,031,248</u>	<u>26,337,904</u>	<u>614,076</u>	<u>443,573</u>	<u>(1,007,748)</u>	<u>60,419,053</u>
Current liabilities payable from restricted assets:						
Accounts payable and accrued liabilities	3,323,917	617,637	—	3,875,000	—	7,816,554
Unearned revenue	—	3,031,428	—	—	—	3,031,428
Liability for losses on mortgage loan insurance	—	4,964,954	—	—	—	4,964,954
Bonds and mortgage-backed certificates payable	—	11,875,027	—	—	—	11,875,027
Total current liabilities	<u>37,355,165</u>	<u>46,826,950</u>	<u>614,076</u>	<u>4,318,573</u>	<u>(1,007,748)</u>	<u>88,107,016</u>
Non-current liabilities:						
Liability under guaranteed obligations	—	—	42,010,364	—	—	42,010,364
Accounts payable and accrued liabilities	12,800,000	—	—	—	—	12,800,000
Total pension liability	132,018,421	73,979,779	149,647	—	—	206,147,847
Total other postemployment pension benefits liability	1,516,828	1,426,236	14,794	—	—	2,957,858
Non-current liabilities payable from restricted assets:						
Bonds and mortgage-backed certificates payable	—	85,929,996	—	—	—	85,929,996
Total non-current liabilities	<u>146,335,249</u>	<u>161,336,011</u>	<u>42,174,805</u>	<u>—</u>	<u>—</u>	<u>349,846,065</u>
Total liabilities	<u>183,690,414</u>	<u>208,162,961</u>	<u>42,788,881</u>	<u>4,318,573</u>	<u>(1,007,748)</u>	<u>437,953,081</u>
<b>DEFERRED INFLOWS OF RESOURCES - Pension related</b>	<u>6,884,334</u>	<u>4,157,479</u>	<u>6,232</u>	<u>—</u>	<u>—</u>	<u>11,048,045</u>
<b>NET POSITION (DEFICIT):</b>						
Net investment in capital assets	—	8,383,764	—	—	—	8,383,764
Restricted for:						
Qualifying modification distributions	—	—	—	255,546	—	255,546
Affordable housing programs	—	17,455,123	—	—	—	17,455,123
Unrestricted net position (deficit)	(128,044,008)	175,616,611	(31,707,742)	8,212,626	—	24,077,487
Total net position (deficit)	<u>\$ (128,044,008)</u>	<u>\$ 201,455,498</u>	<u>\$ (31,707,742)</u>	<u>\$ 8,468,172</u>	<u>\$ —</u>	<u>\$ 50,171,920</u>

(Continued)

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, Expenses and Changes in Net Position (Deficit) - Proprietary Funds  
Year ending June 30, 2021

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Other Non-major	Eliminations	Total
<b>OPERATING REVENUES:</b>						
Investment income:						
Interest income on federal funds sold	\$ 911	\$ —	\$ —	\$ —	\$ —	\$ 911
Interest income on deposits placed with banks	2,643	79,562	—	4,907	—	87,112
Interest and dividend income on investments and investment contracts	—	2,543,002	—	372,228	—	2,915,230
Net increase (decrease) in fair value of investments	—	(742,000)	—	1,421,063	—	679,063
Total investment income	3,554	1,880,564	—	1,798,198	—	3,682,316
Interest Income on loans receivable:						
Private sector	—	8,061,819	—	—	—	8,061,819
Total interest income on loans receivable	—	8,061,819	—	—	—	8,061,819
Total investment and interest income on loans receivable	3,554	9,942,383	—	1,798,198	—	11,744,135
Non-interest income:						
Commitment, guarantee and other service fees	—	5,558,308	—	—	—	5,558,308
Mortgage loan insurance premiums	—	2,395,220	—	—	—	2,395,220
Other income	—	1,593,765	—	1,875,000	—	3,468,765
Recovery for loan losses	—	753,728	—	—	—	753,728
Recovery for mortgage loan insurance	—	1,157,296	—	—	—	1,157,296
Equity pickup on losses of PRHFA RLF Investment Fund, LLC	—	(5,218,287)	—	—	—	(5,218,287)
Total non-interest income	—	6,240,030	—	1,875,000	—	8,115,030
Total operating revenues	3,554	16,182,413	—	3,673,198	—	19,859,165
<b>OPERATING EXPENSES:</b>						
Interest expense:						
Bonds, notes and mortgage-backed certificates	—	6,556,168	—	—	—	6,556,168
Total interest expense	—	6,556,168	—	—	—	6,556,168
Non-interest expenses:						
Salaries and fringe benefits	374,005	7,593,962	—	—	—	7,967,967
Pension and OPEB expense	9,291,981	4,171,770	12,793	—	—	13,476,544
Depreciation and amortization	—	796,233	—	—	—	796,233
Occupancy and equipment costs	260,428	399,809	—	—	—	660,237
Legal and professional fees	650,741	1,634,033	—	2,600	—	2,287,374
Office and administrative	55,186	518,424	4,955	69,081	—	647,646
Subsidy and trustee fees	12,180	152,216	—	—	—	164,396
Recovery for losses on guarantees and letters of credit	—	—	—	(2,430)	—	(2,430)
Provision for losses on other assets	97,946	—	—	—	—	97,946
Provision for losses on other real estate owned	—	110,768	—	—	—	110,768
Distribution expense	—	—	—	1,875,000	—	1,875,000
Other	180,652	217,306	—	—	—	397,958
Total non-interest expenses	10,923,119	15,594,521	17,748	1,944,251	—	28,479,639
Total operating expenses	10,923,119	22,150,689	17,748	1,944,251	—	35,035,807
<b>OPERATING INCOME (LOSS)</b>	<b>(10,919,565)</b>	<b>(5,968,276)</b>	<b>(17,748)</b>	<b>1,728,947</b>	<b>—</b>	<b>(15,176,642)</b>

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, Expenses and Changes in Net Position (Deficit) - Proprietary Funds  
Year ending June 30, 2021

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Other Non-major	Eliminations	Total
NON-OPERATING INCOME (EXPENSES)						
Contribution from Commonwealth	-	442,795	-	-	-	442,795
Net gain on sale of loans	-	23,945	-	-	-	23,945
TOTAL NON-OPERATING INCOME (LOSS)	-	466,740	-	-	-	466,740
OTHER FINANCING SOURCES - net transfer-in (out)	(4,755)	26,234,691	-	4,755	-	26,234,691
CHANGES IN NET POSITION (DEFICIT)	(10,924,320)	20,733,155	(17,748)	1,733,702	-	11,524,789
NET POSITION (DEFICIT) – Beginning of year	(117,119,688)	180,722,343	(31,689,994)	6,734,470	-	38,647,131
NET POSITION (DEFICIT) – End of year	<u>\$ (128,044,008)</u>	<u>\$ 201,455,498</u>	<u>\$ (31,707,742)</u>	<u>\$ 8,468,172</u>	<u>\$ -</u>	<u>\$ 50,171,920</u>

(Continued)

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 ending June 30, 2021

	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	\$ —	\$ 5,711,814	\$ —	\$ —	\$ —	\$ 5,711,814
Cash paid for mortgage and construction loans	—	(14,292,964)	—	—	—	(14,292,964)
Principal collected on mortgage and construction loans	—	27,256,155	—	—	—	27,256,155
Cash received from other operating noninterest revenues	100,162	3,211,151	—	1,875,000	—	5,186,313
Cash payments for other operating noninterest expenses	(1,855,226)	(3,508,166)	(4,954)	(74,078)	—	(5,442,424)
Cash received from mortgage loans insurance premiums	—	2,297,665	—	—	—	2,297,665
Cash payments for salaries and fringe benefits	(385,119)	(7,475,703)	—	—	—	(7,860,822)
Cash received (paid) from/to other funds	124,758	—	—	(124,758)	—	—
Cash payments for operating expenses	—	(5,028,729)	—	—	—	(5,028,729)
Net cash provided by (used in) operating activities	<u>(2,015,425)</u>	<u>8,171,223</u>	<u>(4,954)</u>	<u>1,676,164</u>	<u>—</u>	<u>7,827,008</u>
Cash flows from noncapital financing activities:						
Cash payment to DRA	(26,000,000)	—	—	—	—	(26,000,000)
Transfers-in	—	27,687,203	—	4,755	(4,755)	27,687,203
Transfers-out	(4,755)	(1,452,512)	—	—	4,755	(1,452,512)
Net increase (decrease) in:						
Repayments of bonds, notes and mortgage-backed securities	—	(10,535,406)	—	—	—	(10,535,406)
Interest paid	—	(2,544,115)	—	—	—	(2,544,115)
Net cash provided by (used in) noncapital financing activities	<u>(26,004,755)</u>	<u>13,155,170</u>	<u>—</u>	<u>4,755</u>	<u>—</u>	<u>(12,844,830)</u>

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 ending June 30, 2021

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Other Non-major	Eliminations	Total
Cash flows from capital and related financing activities						
Acquisition of capital assets	\$ —	\$ (266,408)	\$ —	\$ —	\$ —	\$ (266,408)
Net cash used in capital and related financing activities	—	(266,408)	—	—	—	(266,408)
Cash flows from investing activities:						
Net decrease (increase) in:						
Federal funds sold	2,281,110	—	—	—	—	2,281,110
Deposits placed with banks	—	(446,759)	—	—	—	(446,759)
Purchase of investments	—	(126,245,661)	—	—	—	(126,245,661)
Proceeds from sales and redemptions of investments	—	143,442,954	—	64,433	—	143,507,387
Interest and dividends received on deposits and investments	2,641	2,662,578	—	377,135	—	3,042,354
Principal collected on other than housing program loans	26,000,000	—	—	—	—	26,000,000
Proceeds from sale of real estate held for sale	—	683,300	—	—	—	683,300
Acquisition of real estate available for sale	—	(1,211,034)	—	—	—	(1,211,034)
Net cash provided by investing activities	28,283,751	18,885,378	—	441,568	—	47,610,697
Net change in cash and due from banks	263,571	39,945,363	(4,954)	2,122,487	—	42,326,467
Cash and due from banks - beginning of year	27,876,725	12,010,703	11,055,698	6,268,250	—	57,211,376
Cash and due from banks - end of year	28,140,296	51,956,066	11,050,744	8,390,737	-	99,537,843
Reconciliation to proprietary funds:						
Statement of Net Position (Deficit)						
Cash and due from banks - unrestricted	20,777,104	45,212,469	11,050,744	4,260,191	—	81,300,508
Cash and due from banks - restricted	7,363,192	6,743,597	—	4,130,546	—	18,237,335
Total cash and due from banks at year end	\$ 28,140,296	\$ 51,956,066	\$ 11,050,744	\$ 8,390,737	\$ —	\$ 99,537,843

(Continued)

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 ending June 30, 2021

	<u>GDB Operating Fund</u>	<u>Housing Finance Authority</u>	<u>Tourism Development Fund</u>	<u>Other Non-major</u>	<u>Eliminations</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	\$ (10,919,565)	\$ (5,968,276)	\$ (17,748)	\$ 1,728,947	\$ —	\$ (15,176,642)
Adjustments to reconcile operating income/(loss) to net cash provided by (used in) operating activities:						
Investment income	(3,554)	—	—	(372,233)	—	(375,787)
Interest income on other than housing program loans	—	(2,543,002)	—	(4,902)	—	(2,547,904)
Other income	—	(1,593,765)	—	—	—	(1,593,765)
Capitalized interest	—	(1,858,169)	—	—	—	(1,858,169)
Interest expense	—	6,556,168	—	—	—	6,556,168
Recovery for loan losses	—	(753,728)	—	—	—	(753,728)
Provision for losses on other assets	97,946	—	—	—	—	97,946
Recovery for losses on guarantees and letters of credit	—	—	—	(2,430)	—	(2,430)
Net (increase) decrease in fair value of investments	—	742,000	—	(1,421,063)	—	(679,063)
Provision for losses on real estate available for sale	—	110,768	—	—	—	110,768
Recovery for losses on mortgage loan insurance	—	(1,157,296)	—	—	—	(1,157,296)
Depreciation and amortization	—	796,233	—	—	—	796,233
Net (increase) decrease in operating assets:						
Mortgage and construction loans	—	16,426,356	—	—	—	16,426,356
Accrued interest on mortgage and construction loans	—	304,114	—	—	—	304,114
Accounts receivable and other assets	599,413	(403,008)	—	—	—	196,405
Deferred outflow-pension related	(14,879,273)	(3,841,853)	(11,308)	—	—	(18,732,434)
Other postemployment pension benefits	6,992	—	500	—	—	7,492
Due from/to other funds	124,758	(5,028,731)	—	(124,758)	—	(5,028,731)
Net increase (decrease) in operating liabilities:						
Accounts payable and accrued liabilities	(1,166,404)	151,286	1	1,872,603	—	857,486
Unearned revenues	—	(231,732)	—	—	—	(231,732)
Liability for losses on mortgage loan insurance	—	(1,157,296)	—	—	—	(1,157,296)
Total other postemployment pension liability	176,954	61,562	921	—	—	239,437
Net pension liability	18,855,274	7,584,909	18,131	—	—	26,458,314
Deferred inflow-pension related	(2,117,361)	(25,317)	(2,070)	—	—	(2,144,748)
Due to Commonwealth	7,249,395	—	6,619	—	—	7,256,014
Net cash provided by (used in) operating activities	<u>\$ (1,975,425)</u>	<u>\$ 8,171,223</u>	<u>\$ (4,954)</u>	<u>\$ 1,676,164</u>	<u>\$ —</u>	<u>\$ 7,867,008</u>

(Continued)

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 ending June 30, 2021

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Other Non-major	Eliminations	Total
Noncash investing and noncapital financing activities:						
Capitalized interest and deferred amortization on loans	\$ —	\$ 1,858,169	\$ —	\$ —	\$ —	\$ 1,858,169
Elimination of contingency against real estate available for sale	\$ (5,366,125)	\$ —	\$ —	\$ —	\$ —	\$ (5,366,125)
Change in fair value of investments	\$ —	\$ (742,000)	\$ —	\$ 1,421,063	\$ —	\$ 679,063
Amortization of deferred loss (included in interest expense)	\$ —	\$ 176,925	\$ —	\$ —	\$ —	\$ 176,925

(continued)

See accompanying notes to basic financial statements.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**(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 promulgated 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 PROMESA in order to mitigate the impact on its stakeholders (municipalities, depositors, and other creditors, etc.). Refer to Note 2 for more details regarding the enactment of PROMESA and Note 4 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 (HFA), Puerto Rico Tourism Development Fund (TDF), Puerto Rico Development Fund (the Development Fund), Puerto Rico Public Finance Corporation (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. In the case of PRTA, the Bank has been also sustaining PRTA’s minimal operating expenses through contributions, thus, meeting the criterial for blending as discussed above. Pursuant to the Qualifying Modification, further described in Note 4, the Public Entity Trust (PET) was 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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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 Investment Partnership Home (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 21 for description of several subsequent events on the bonds issued by PFC.



**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

- 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 4.
- 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, 2021.

## **(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.

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 4, 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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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 were 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 postemployment 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(t) and (u), and 15.
- 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 were reported as an extraordinary item.
- Professional fees and similar types of transactions costs related to the Qualifying Modification proceedings were 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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**(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, 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. The 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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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, 2021.
- 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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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 suitable and safe dwellings under the U.S. Housing Act Section 8 programs.
- **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 the 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 the allocation of 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, 2021.
  - ***My New Home Program*** - This program has revenues provided by Act. No. 122 of August 6, 2010, as amended, in an amount totaling 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. The revenues are assigned to the HFA in perpetuity. This program provides subsidies to eligible families for 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 for the purchase of a principal residence through reimbursement of origination and closing costs.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**(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, 2021, there were no 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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**(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 or 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 as of June 30, 2021 consist entirely of those held by HFA and the Development Fund.

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

HFA accounts for its investment in the 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 4, 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). 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 (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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

*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 circumstances contributed to 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.

*This space left blank intentionally*



**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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 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.

*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, 2021, 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 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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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 4 and 14, certain guarantees from the GDB Operating Fund were discharged in the Qualifying Modification, but others were retained by the GDB Operating Fund, the Tourism Development Fund, and the Development Fund.

The Bank's management periodically evaluates the credit risk inherent in the guarantees and letters of the 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, the timing 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 obligations 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 loans recognized. Any deficiency in the liability under guaranteed obligations 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 (a small number of large guarantees, geographical concentration in Puerto Rico, and industry concentration in hotel and tourism), as well as other economic factors, compounds the uncertainty in management's estimate of the liability under guaranteed obligations 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 obligations and letters of credit as reflected in the accompanying basic financial statements, and such differences may be material.

*This space left blank intentionally*

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

Pursuant to the legislation under which the TDF was created, each year the Executive Director of the TDF is required to certify 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 types 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, 2021, 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 is comprised of, 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 then carrying value.

*This space left blank intentionally*

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**(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.

All the capital assets of the GDB Operating Fund were either disposed or transferred to another government entity following the Qualifying Modification.

*This space left blank intentionally*

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**(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 or 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 ending June 30, 2021, 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 earn vacation and sick leave every year based on a prescribed formula of 30 days for vacation and 18 days for sick leave. 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. Accrued unused sick days do not result in compensation to employees.

**(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. The 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.

*This space left blank intentionally*

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**(o) *Deferred Outflow and 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 future period(s). Consequently, it will not be recognized as an outflow of resources (expense/expenditure) until the future period(s). 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: (a) the unamortized balance of losses on bond refunding, (b) pension related items, (c) other postemployment benefit related items and (d) 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 15), 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 2020 (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 15), the 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 future period(s). Consequently, it will not be recognized as an inflow of resources (revenue) until the future period(s). 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 15), 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 becomes available, the deferred inflow of resources is removed from the balance sheet and the revenue is recognized.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**(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 HFA 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 the HFA maintains effective control over the assets transferred as collateral.

From time to time, the PFC 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 2021. Refer to note 21 for the 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 of 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 other 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 4).

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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 15, 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.

Upon the implementation of the PayGo system, the Bank started 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 amendment 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. Further details on the accounting for pension costs are disclosed in Note 15.

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, 2020 actuarial measurement data was used for the pension benefits financial reporting recognition as of and for the fiscal year ending June 30, 2021.



**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

The Bank's pension activity for the year ending June 30, 2021 amounted to a pension expense of approximately \$13 million and the Total Pension Liability as of June 30, 2021 amounted to approximately \$216.3 million. Disclosures required can be found in Note 15.

**(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 15.

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 \$408,000 (approximately \$128,000 for the GDB Operating Fund, approximately \$113,000 for HFA, and approximately \$600 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, 2020 actuarial measurement data was used for the OPEB financial reporting recognition as of and for the fiscal year ending June 30, 2021.

The Bank's annual OPEB expense for the year ending June 30, 2021 amounted to approximately \$489,000 and the OPEB liability as of June 30, 2021 amounted to approximately \$3.2 million. Disclosures required under GASB Statement No. 75 can be found in Note 15.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**(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, 2021:

- 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 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 costs incurred before the end of a construction period. Such interest costs include 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 costs 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 costs 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 costs 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 permitted to the extent specified in each pronouncement as originally issued.

*This space left blank intentionally*

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

- 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 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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

- 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 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 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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

- 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 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 which 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*.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

- 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

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

- 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.
- GASB Statement No. 100, *Accounting Changes and Error Corrections* - The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change.

That preferability should be based on the qualitative characteristics of financial reporting understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 101, *Compensated Absences* - The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences.

That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement also establishes guidance for measuring a liability for leave that has not been used, *i.e.*, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave should also be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023 (FY 2024-2025), and all reporting periods thereafter. Earlier application is encouraged.



**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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

**(3) Going Concern**

As described in Note 4, 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 going concerns as well.

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) 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 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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

The GDB Retained Loans, although not transferred to the DRA on the Closing Date, were also reduced on 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 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. As of May 2020, the then carrying amount of the 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 the Public Entity Trust (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 PET's 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 totaling 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's Assets. As of June 30, 2021, the PET has been able to collect \$3.9 million from such assets (\$1.875 million during fiscal year 2021), which has simultaneously 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 as of June 30, 2021, leaving an obligation amount outstanding of \$3.875 million (see Note 12).

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 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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

The UCC stipulation, as defined in the PET Deed, also included the following provisions and contingent events, which remain unsettled and/or without occurrence as of June 30, 2021:

- 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, 2021.
- 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, 2021.
- 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 ending June 30, 2021.

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 \$1,760,855 remain unexpended as of June 30, 2021.

Certain assets of the Bank were not required to be transferred to the DRA or the PET pursuant to the Qualifying Modification (these assets are 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, (iii) Act 188 approved for fiscal year 2007, (iv) the voluntary pre-retirement program established with Act 211 approved on fiscal year 2015, and (v) the implemented voluntary separation program included in the Fiscal Plan. These assets and related obligations were transferred to FAFAA on August 6, 2019.

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 \$17.3 million remain as of June 30, 2021, 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, 2021, approximately \$4.9 million of the vendor claims reserve remained in the bank account for such purpose, which may potentially turn into 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, 2021, 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 12 and 21).

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

The UCC Stipulation allowed the UCC to preserve any rights it may have to object to the PET Claim. The Title III 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.

**(5) 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 2022.

The table presented below discloses the level of custodial credit risk assumed by the Bank as of June 30, 2021. As of June 30, 2021, \$105,488,752 of the depository bank balance of \$298,695,959 was uninsured and uncollateralized as follows:

	Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Cash and due from banks	\$ 126,544,922	\$ 91,265,305	\$ -
Deposits placed with banks	66,830,369	172,319,121	105,488,752
Total	<u>\$ 193,375,291</u>	<u>\$ 263,584,426</u>	<u>\$ 105,488,752</u>

*This space left blank intentionally*

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

*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 4), 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 in 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 with its corresponding impairment amount, 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:

Entity	Deposit Claims Receivable from PET at June 30, 2021		
	Deposit Claim	Impairment	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)	-
PRTA	632,545	(632,545)	-
<b>Total</b>	<b>\$ 95,877,559</b>	<b>\$ (95,877,559)</b>	<b>\$ -</b>

The HFA, a blended component unit of the Bank, was audited by another auditor which issued its opinion on the 2021 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, 2021.

*This space left blank intentionally*

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

*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 has 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:

Entity	Bank's Deposits held with EDB at June 30, 2021		
	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)	-
<b>Total</b>	<b>\$ 103,155,805</b>	<b>\$ (103,155,805)</b>	<b>\$ -</b>

The GDB Operating Fund has an overnight deposit with EDB in the amount of \$35.1 million. The depository bank balance amounted to \$35,075,895 as of June 30, 2021. Refer to Note 21 for subsequent settlement agreement with EDB regarding this overnight deposit.

The GDB Operating Fund has another time deposit with EDB, for which it has recognized custodial credit losses as of June 30, 2021 in the amount of approximately \$1.2 million (none were recognized during fiscal year 2021). Interest income that had been recognized on this time deposit during fiscal year 2021 in the amount of approximately \$19,000 was reversed. The depository bank balance as of June 30, 2021 amounted to \$1,251,983.

The HFA, a blended component unit of the Bank, was audited by another auditor and issued its 2021 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, 2021 (none were recognized during fiscal year 2021). The depository bank balance as of June 30, 2021 amounted to \$67,476,080.

The TDF has recognized custodial credit losses on its cash and deposits with EDB as of June 30, 2021 in the amount of \$1,609,472 (none were recognized during fiscal year 2021). Interest income that had been recognized and capitalized on these cash and deposits during fiscal year 2021 in the amount of approximately \$29,000 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, 2021 amounted to \$1,665,930.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**(6) 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, 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, 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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**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, 2021. 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	\$ 9,770,902	\$ -	\$ -	\$ -	\$ 9,770,902
Mortgage and asset-backed securities:					
Government National Mortgage Association ("GNMA")	-	14,215,212	25,245,778	7,931,320	47,392,310
Federal National Mortgage Association ("FNMA")	-	890,808	841,111	-	1,731,919
Other	-	-	-	96,869	96,869
External investment pools -Federated					
Government Obligations	-	-	12,821,978	-	12,821,978
GDB Debt Recovery Authority bonds	-	-	-	4,396,008	4,396,008
Nonparticipating investment contracts:					
Trinity Funding Co	-	-	-	13,419,547	13,419,547
Popular Bank of Puerto Rico	-	-	-	5,096,429	5,096,429
Santander Bank Puerto Rico	-	-	-	5,061,784	5,061,784
Total investments	<u>\$ 9,770,902</u>	<u>\$ 15,106,020</u>	<u>\$ 38,908,867</u>	<u>\$ 36,001,957</u>	<u>99,787,746</u>
Preferred securities /interest:					
Other					4,500
Total					<u>\$ 99,792,246</u>

Total investments in fixed-income external investment pools were approximately \$12.8 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 \$800,000 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. TDF's management understands 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 ending June 30, 2021.

As of June 30, 2021, 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 \$34.2 million as of June 30, 2021), the terms of which generally provide for early redemption of the bonds if the securities are repaid early.



**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

During the year ending June 30, 2021, proceeds from redemptions of investments from all the proprietary funds amounted to approximately \$143 million. There were no gains or losses on the sale and redemption of investments during fiscal year 2021. Purchases of investments during the year ending June 30, 2021 amounted to approximately \$126 million.

All of 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:

Securities type	Credit Risk Rating <sup>(1)</sup>				Total
	AAA	AA	A	B	
Mortgage and asset-backed securities					
FNMA	\$ -	\$ 1,731,919	\$ -	\$ -	\$ 1,731,919
Other	-	96,869	-	-	96,869
External investment pools-Federated					
Government Obligations	9,770,902	-	-	-	9,770,902
Non-participating investment contracts	-	-	18,481,331	5,096,429	23,577,760
<b>Total</b>	<b>\$ 9,770,902</b>	<b>\$ 1,828,788</b>	<b>\$ 18,481,331</b>	<b>\$ 5,096,429</b>	<b>\$ 35,177,450</b>

<sup>(1)</sup> 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, 2021, 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, 2021, 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	\$ 9,770,902	\$ -	\$ -	\$ 9,770,902
Mortgage and asset-backed securities:				
Government National Mortgage Association ("GNMA")	-	47,392,310	-	47,392,310
FNMA	-	1,731,919	-	1,731,919
Other	-	96,869	-	96,869
External investment pools-Federated				
Government Obligations	-	12,821,978	-	12,821,978
GDB Debt Recovery Authority bonds	-	4,396,008	-	4,396,008
Preferred securities/interest	-	-	4,500	4,500
Total investments measured at fair value	<b>\$ 9,770,902</b>	<b>\$ 66,439,084</b>	<b>\$ 4,500</b>	<b>76,214,486</b>
Investments not measured at fair value:				
Nonparticipating investment contracts (at amortized cost)				23,577,760
<b>Total investments</b>				<b>\$ 99,792,246</b>

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**(7) 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 (QALICBs) whose principal activities involve the development or rehabilitation of real estate. In October 2011 and 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 \$4,000 and \$45 million, respectively. The capital contributions have been used to establish a loan revolving fund for loans to QALICBs.

At the creation of PRCDF, Citi and 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 \$587,000 and (2) Citi granted 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 HFA for a purchase price equal to the fair market value of the fund interest. In August 2019, Citi informed HFA of its intention to exercise its option for HFA to purchase its fund interest. Accordingly, in September 2019, the HFA issued a payment to Citi for \$587,000 and thus became the sole owner of RLF and accordingly the investor member of PRCDF I, represented by an investment totaling \$39,706,521. Activity in the investment in RLF during the fiscal year ending June 30, 2021 consisted as follows:

Description	Amount
Investment in RLF as of June 30, 2020	\$ 39,706,521
Equity pick up on losses of PRHFA RLF Investment Fund, LLC	(5,218,287)
Investment in RLF as of June 30, 2021	\$ 34,488,234

The equity pickup related to the net loss of RLF during the fiscal year ending June 30, 2021 amounting to \$5,218,287 is recorded separately in the Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds.

*This space left blank intentionally*

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**(8) Loans Receivable and Allowance for Loan Losses**

As of June 30, 2021, the outstanding balance (in thousands) of loans is as follows:

	GDB Operating Fund <sup>(1)</sup>	Tourism Development Fund	Housing Finance Authority	Development Fund	Total
Public corporations and agencies	\$ 863,768	\$ -	\$ -	\$ -	\$ 863,768
Allowance for loan losses	(863,768)	-	-	-	(863,768)
Net loans to public sector	-	-	-	-	-
Private sector	-	26,488	198,624	18,300	243,412
Allowance for loan losses	-	(26,488)	(37,358)	(18,300)	(82,146)
Net loans to private sector	-	-	161,266	-	161,266
Total loans receivable, net	\$ -	\$ -	\$ 161,266	\$ -	\$ 161,266

<sup>(1)</sup> Excluding loans to component units.

As described in detail in Note 4, 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.

As of June 30, 2021, GDB Retained Loans, totaling \$863.8 million, are repayable from the following sources (in thousands):

Repayment Source	Amount
General fund and/or legislative appropriations	\$ 857,609
Operating revenues	6,159
	<u>\$ 863,768</u>

For the year ending June 30, 2021, there were no further disbursements or collections on the GDB Retained Loans, other than the collection of principal amounting to \$26 million in relation to the World Plaza Building loan to the Puerto Rico Infrastructure Financing Authority (PRIFA). During fiscal year 2021, the World Plaza Building (collateral) was transferred from PRIFA to GDB as part of a settlement agreement approved by the Oversight Board. The transfer constituted full payment from PRIFA to GDB of a loan with an aggregate balance of principal and interest totaling approximately \$50 million which PRIFA took from GDB to purchase the building. Subsequently, GDB sold the property to the Puerto Rico Courts Administration, an agency of the Commonwealth, for \$26 million in cash and the sale proceeds were transferred to the GDB Debt Recovery Authority (DRA) as required by the Master Transfer Agreement and Qualifying Modification.

As further disclosed in Note 21, 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 remaining GDB Retained Loans.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

The following is a summary of the GDB Retained Loans considered to be impaired as of June 30, 2021, and the related interest income for the year then ended (in thousands):

	<b>GDB Retained Loans (in thousands)</b>
Recorded investment in impaired loans:	
Not requiring an allowance for loan losses	\$ -
Requiring an allowance for loan losses	863,768
Total recorded investment in impaired loans	\$ 863,768
Related allowance for loan losses	\$ 863,768
Average recorded investment in impaired loans	\$ 876,768
Interest income recognized on impaired loans	\$ -

As of June 30, 2021, all the GDB Retained Loans have been classified in nonaccrual status. The amount that would have been earned and transferred to the DRA, if such nonaccrual loans had been accruing in accordance with their original terms, is approximately \$49 million in fiscal year 2021.

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 \$443,000, fully impaired at the Closing Date) were transferred to the DRA pursuant the Qualifying Modification, and therefore written off upon transfer. As a result, there 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 \$161 million as of June 30, 2021, 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 the 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 of the collection of the remaining balance, such amount was not recognized as a receivable; instead, income is recognized in the year it is collected. Through June 30, 2021, the TDF had collected \$4.5 million on such contingency, none of which was collected during the year ending June 30, 2021.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

Private sector loans classified as nonaccrual amounted to approximately \$79.2 million as of June 30, 2021. Interest income that would have been recorded if these loans had been performing in accordance with their original terms was approximately \$4.9 million in 2021.

The following is a summary of private sector loans considered to be impaired as of June 30, 2021, 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	\$ -	\$ 10,852	\$ -	\$ 10,852
Requiring an allowance for loan losses	26,488	23,562	18,300	68,350
Total recorded investment in impaired loans	<u>\$ 26,488</u>	<u>\$ 34,414</u>	<u>\$ 18,300</u>	<u>\$ 79,202</u>
Related allowance for loan losses	<u>\$ 26,488</u>	<u>\$ 24,963</u>	<u>\$ 18,300</u>	<u>\$ 69,751</u>
Average recorded investment in impaired loans	<u>\$ 26,488</u>	<u>\$ 37,293</u>	<u>\$ 18,300</u>	<u>\$ 82,081</u>
Interest income recognized on impaired loans	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest income that would have been recognized had these loans not been impaired	<u>\$ 1,589</u>	<u>\$ 2,237</u>	<u>\$ 1,120</u>	<u>\$ 4,946</u>

In the case of the HFA, an additional general reserve of approximately \$12 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 ending June 30, 2021 (in thousands):

	Proprietary Funds				Total
	GDB Operating Fund	Tourism Development Fund	Housing Finance Authority	Development Fund	
Balance - beginning of year, as restated	\$ 889,768	\$ 26,488	\$ 39,095	\$ 18,300	\$ 973,651
Provision (release) of loan losses	-	-	(753)	-	(753)
Collection transferred to DRA	(26,000)	-	-	-	(26,000)
Write-offs	-	-	(984)	-	(984)
Balance - end of year	<u>\$ 863,768</u>	<u>\$ 26,488</u>	<u>\$ 37,358</u>	<u>\$ 18,300</u>	<u>\$ 945,914</u>

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**(9) Due from Federal Government**

The HFA, as a public housing agency, is authorized to administer 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 \$132.6 million during the year ending June 30, 2021. This amount includes approximately \$3 million of administrative fees for services performed as contract administrator, which are reimbursed by HUD. As of June 30, 2021, the amounts due from the federal government under the HUD Programs fund amounted to approximately \$924,000.

During the year ending June 30, 2021, the HFA expended approximately \$5.2 million of HOME Program funds. The HFA has approximately \$3 million due from the federal government as of June 30, 2021 related to the HOME Program.

During the year ending June 30, 2021, the HFA expended approximately \$42.6 million of CDBG Program funds. The HFA has approximately \$10.5 million due from the federal government as of June 30, 2021 related to the HOME Program.

**(10) Real Estate Available for Sale**

Real estate available for sale as of June 30, 2021, at fair value, consisted of approximately \$2 million, all pertaining to HFA.

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, 2021, 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 as of the previous year consisted of real estate sold to third parties where total control over such properties did not transfer until certain conditions were 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 2021, the conditions tied to the transfer of the remaining properties represented by the aforementioned balance were either met or released, prompting the derecognition of such amounts from the asset and liability side.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**(11) Capital Assets**

Capital assets activity for the year ending June 30, 2021, was as follows:

	Governmental activities			
	Beginning balance	Additions	Reductions/ reclassifications	Ending balance
Capital assets:				
Information systems	\$ 66,329	\$ 8,800	\$ -	\$ 75,129
Office furniture and equipment	37,633	-	-	37,633
Vehicles	97,286	-	-	97,286
Total capital assets	201,248	8,800	-	210,048
Less accumulated depreciation and amortization for:				
Information systems	(66,307)	(2,443)	-	(68,750)
Office furniture and equipment	(37,549)	(254)	-	(37,803)
Vehicles	(78,904)	(6,229)	-	(85,133)
Total accumulated depreciation	(182,760)	(8,926)	-	(191,686)
Capital assets governmental activities - net	\$ 18,488	\$ (126)	\$ -	\$ 18,362

	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	4,276,478	3,000	-	4,279,478
Information systems	5,522,054	249,908	-	5,771,962
Office furniture and equipment	2,311,919	13,500	-	2,325,419
Vehicles	251,807	-	-	251,807
Total capital assets being depreciated	12,362,258	266,408	-	12,628,666
Less accumulated depreciation and amortization for:				
Leasehold improvements	(4,119,022)	(27,823)	-	(4,146,845)
Information systems	(4,914,062)	(414,321)	-	(5,328,383)
Office furniture and equipment	(2,253,650)	(34,077)	-	(2,287,727)
Vehicles	(222,448)	(12,210)	-	(234,658)
Total accumulated depreciation and amortization	(11,509,182)	(488,431)	-	(11,997,613)
Total capital assets being depreciated - net	853,076	(222,023)	-	631,053
Capital assets business type activities - net	\$ 8,605,787	\$ (222,023)	\$ -	8,383,764
Total capital assets - net				\$ 8,402,126

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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

The activity of bonds payable and other borrowed funds for the year ending June 30, 2021, 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	\$ 551,670
Less unaccreted discount	(54,069)	2,990	-	(51,079)	-
Total appropriation bonds	3,343,617	2,990	-	3,346,607	551,670
Note payable to the DRA	19,909,611	-	-	19,909,611	19,909,611
Total governmental activities	\$ 23,253,228	\$ 2,990	\$ -	\$ 23,256,218	\$ 20,461,281
	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Business-type activities:					
Housing Finance Authority:					
Revenue bonds-					
Mortgage-Backed Certificates 2006 Series A	\$ 44,215,898	\$ -	\$ (7,213,512)	\$ 37,002,386	\$ 10,923,509
Subtotal	44,215,898	-	(7,213,512)	37,002,386	10,923,509
Notes payable:					
Special obligation notes (Home Purchase Stimulus Program)	69,013,580	-	(3,321,870)	65,691,710	951,518
Plus unamortized premium	160,783	-	(28,615)	132,168	-
Less unaccreted discount	(8,816,961)	-	3,795,720	(5,021,241)	-
Total Housing Finance Authority	104,573,300	-	(6,768,277)	97,805,023	11,875,027
Total business-type activities	\$ 104,573,300	\$ -	\$ (6,768,277)	\$ 97,805,023	\$ 11,875,027

The GDB Operating Fund had issued the GDB Notes Series 2010B and 2010D, which were issued as Build America Bonds under which the GDB Operating Fund received a subsidy payment from the federal government equal to 35% of the amount of each interest payment. The GDB Operating Fund continued receiving such subsidies until June 30, 2018 at which time such subsidies ceased. As of June 30, 2021, 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, of which \$12.8 million accounted for several exposures including 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 in section (c)).



**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

The annual debt service requirements to maturity, including principal and interest on HFA's long-term debt, as of June 30, 2021 are as follows:

	<b>Housing Finance Authority</b>			
	<b>Governmental activities</b>		<b>Business-type activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
Years ending June 30:				
2022	\$ 20,461,281	\$ 1,153,920	\$ 11,875,027	\$ 2,532,247
2023	106,017	165,800	6,874,348	4,019,741
2024	31,541	163,621	6,446,548	3,711,761
2025	130,875	159,426	6,693,214	3,408,289
2026	130,875	151,574	6,152,181	3,110,803
2027-2031	2,446,708	358,683	20,083,869	12,326,950
2032-2036	-	-	18,043,165	8,560,026
2037-2041	-	-	23,755,339	3,927,242
2042-2046	-	-	2,770,406	96,833
Total	<u>\$ 23,307,297</u>	<u>\$ 2,153,024</u>	<u>\$ 102,694,097</u>	<u>\$ 41,693,892</u>

**(a) Governmental Activities**

Bonds and notes payable related to governmental activities as of June 30, 2021 consist of the following:

<b>Description and maturity date</b>	<b>Interest rate</b>	<b>Amount outstanding</b>
Note payable AHMSP Act No. 124 due on August 1, 2016 and each August 1, thereafter to August 1, 2031	6%	\$ 3,346,607
Note payable to the DRA	3%	19,909,611
Total governmental activities		<u>\$ 23,256,218</u>

*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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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, 2020 and 2021 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, 2021 was \$3,346,607 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, 2021. Please refer to Note 21 for description of several subsequent events on the PFC Bonds referred to above.

Immediately before the Closing Date, HFA owed the GDB Operating Fund \$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, 2021, remains unpaid. On November 2021, the DRA filed a lawsuit against the HFA alleging breach of contract and seeking immediate repayment of the debt. Legal counsel for 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 as of June 30, 2021, consist of the following:

<u>Description and maturity date</u>	<u>Interest rate</u>	<u>Carrying amount</u>
Mortgage-Backed Certificates, 2006 Series A - Principal and interest payable monthly from September 29, 2006 to August 29, 2030	2.95-6.56	\$ 34,187,544
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	23,362,459
Special Obligation Notes, 2011 Series A - Principal and interest payable monthly from September 1, 2021 to September 1, 2041	7.00	14,922,631
Special Obligation Notes, 2012 Series A - Principal and interest payable monthly from June 18, 2012 to September 1, 2041	7.00	25,332,389
Total		<u>\$ 97,805,023</u>

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**(c) Accounts Payable and Accrued Liabilities**

A substantial portion of the Bank's accounts payable and accrued liabilities reside at the GDB Operating Fund and HFA. Some of its accounts are related to the remaining balances outstanding from the Qualifying Modification, compensated absences, certain fees retention payable, and other liabilities. Within the non-major funds, the most significant liability resides at the PET which carries, as of June 30, 2021, a \$3.9 million distribution payable to the Designated Depositors. A summary of the composition of these liabilities follows:

Description	Amounts
Contingency commitments as part of the Bank's operating reserve	\$ 12,800,000 (See Note 4)
Escrow accounts payable from restricted cash, mostly to CRIM	3,323,917
Obligations to Designated Depositors under the PET	3,875,000 (See Note 4)
Compensated absences	692,948
Remaining accounts payable and accrued liabilities, mostly at HFA	8,442,665
	<u>\$ 29,134,530</u>

The activity for compensated absences included within accounts payable and accrued liabilities during the year ending June 30, 2021 are as follows:

	Beginning balance	Provision	Reductions	Ending balance	Due within one year
Vacation	\$ 313,764	\$ 464,125	\$ (84,942)	\$ 692,947	\$ 692,947

No significant changes have been made during fiscal year 2021 to the Bank's compensated absences policies for its employees.

**(13) 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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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, 2021, the mortgage loan insurance program covered loans aggregating approximately \$473 million. A liability of approximately \$5 million was recorded as of June 30, 2021 and 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 \$2,395,220 for the year ending on June 30, 2021.

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, 2021, the HFA had an unrestricted deficit for such purposes of approximately \$183,000.

**(14) 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 most 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.

*This space left blank intentionally*

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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 of 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 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) outstanding, 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, 2021, the off-balance-sheet risks consisted of the following, all belonging to the Bank's blended component units (in thousands):

	<b>Amount</b>
Financial instruments whose credit risk is represented by contractual amounts:	
Financial guarantees - Private sector	\$ 44,835
Commitments to extend credit (Housing Finance Authority) - Private sector	\$ 18,300

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 ending June 30, 2021:

	<b>Beginning balance</b>	<b>Provision/ Increases</b>	<b>Payments/ Credits/Reductions</b>	<b>Ending balance</b>	<b>Due within one year</b>
Tourism Development Fund	\$ 42,010,364	\$ -	\$ -	\$ 42,010,364	\$ -
Development Fund	2,430	-	(2,430)	-	-
<b>Total</b>	<b>\$ 42,012,794</b>	<b>\$ -</b>	<b>\$ (2,430)</b>	<b>\$ 42,010,364</b>	<b>\$ -</b>

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

***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 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."

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

In connection with the Bank Guarantee, on February 27, 2013, the GDB Operating Fund and the Ports Authority entered into a 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 HTA Reimbursement Agreement) whereby HTA agreed to reimburse the Bank any amounts paid under the Guarantee. Under the HTA 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. In addition, 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.

*This space left blank intentionally*

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

***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, 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 Guarantee Program had a term of one year which 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 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, 2021.

The Development Fund has entered into an agreement with EDB whereby the Development Fund would guarantee a portion of the 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, 2021, the outstanding balance of these loans guaranteed by the Development Fund decreased to a zero balance from approximately \$20,000 as of the previous year, as most of the underlying loans had been sold and the guarantee terms had expired. Therefore, there are no outstanding guarantees as of June 30, 2021.

***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, 2021, 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 8. 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 could potentially be restructured under a PROMESA-related restructuring proceeding.



**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

***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, 2021, 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 monies 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 PFC 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 2021, no amounts were included in the Commonwealth General Fund budget for the payment of any debt, including the PFC Bonds. As a result, the introduction of a resolution authorizing a payment to the PFC bondholders was neither made nor necessary. Please refer to Note 21 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 on account of the Bank Letter of Credit. However, the Indenture governing the DRA Bonds provides for the potential of additional DRA Bonds to be issued to the Trustee for the PFC Bonds, for the benefit of the PFC Bondholders, on account of the Bank Letter of Credit. Therefore, upon the execution of the Qualifying Modification, any potential exposure under the Bank Letter of Credit was discharged and the recovery to the PFC Bondholders was limited to the potential issuance of additional DRA bonds in accordance with the terms of the Trust Indenture covering the DRA Bonds. Please refer to Note 21 for a description of the Qualifying Modification for the PFC Bonds that is currently pending.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**(15) 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).

*This space left blank intentionally*

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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 froze all future benefits accrued under the defined contribution formula used for the System 2000 program participants. Importantly, the Commonwealth Plan of Adjustment (as discussed in Note 21 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. However, JRS and TRS participants 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.

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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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.

<u>Date of birth</u>	<u>Attained age as of June 30, 2013</u>	<u>Retirement eligibility age</u>
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 attainment of 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.*

***This space left blank intentionally***

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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 authority as applicable.

**(c) Service Retirement Annuity Benefits**

An annuity is 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 of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

*This space left blank intentionally*

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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 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 excess of \$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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

- (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. 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, ActNo. 35 of 2007, and Act No. 3 of 2013).

The minimum monthly lifetime income for members who retired or became 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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

*(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 since 1992, 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 ending June 30, 2021 were approximately \$541,000.

***Total Pension Liability of the ERS***

The total pension liability as of June 30, 2020 (the measurement date used for financial reporting for fiscal year 2021) was determined by an actuarial valuation as of July 1, 2019 that was rolled forward to June 30, 2020 and assuming no gains or losses.

***This space left blank intentionally***



**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

(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, PubG-2010 Employee Mortality Rates were adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For general employees covered under Act No. 127, the PubS-2010 Employee Mortality Rates were assumed for males and females, projected to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2020 on generational basis. As generation tables, they reflect mortality improvements both before and after the measurement date. All deaths while in active service were assumed to be occupational only 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 the plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates were adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. Prior to the retiree's death, beneficiary mortality is assumed to be the same as the post-retirement health retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2020 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 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates were adjusted by 80% for males and 100% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

(2) *Discount Rate*

The discount rate used to measure the total pension liability was 2.21% as of June 30, 2020 (the measurement 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 as of June 30, 2020 (the measurement date), and the proportion percentage of the aggregate net pension liability of the ERS allocated to the Bank:

	<u>GDB Operating Fund</u>	<u>Housing Finance Authority</u>	<u>Tourism Development Fund</u>	<u>Total for the Bank</u>
Corresponding entity's proportion of the total pension liability	0.49346%	0.27639%	0.00056%	0.77041%
Corresponding entity's proportionate share of the total pension liability	\$ 138,513,174	\$ 77,583,302	\$ 157,058	\$ 216,253,534

The Bank's proportion of ERS's total pension liability was based on the ratio of (a) the Bank's actual benefit payments for allocation to (b) 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 2.21%, 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 (1.21%) or one percentage-point higher (3.21%) than the current rate:

	<u>1% decrease or 1.21%</u>	<u>Current Discount rate of 2.21%</u>	<u>1% increase or 3.21%</u>
GDB Operating Fund's proportionate share of the net pension liability	\$ 158,886,157	\$ 138,513,174	\$ 122,084,385
Housing Finance Authority's proportionate share of the net pension liability	88,994,483	77,583,302	63,381,267
Tourism Development Fund's proportionate share of the net pension liability	180,311	157,058	138,547
Total Bank	<u>\$ 248,060,951</u>	<u>\$ 216,253,534</u>	<u>\$ 185,604,199</u>

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

The pension expense recognized by the Bank for the fiscal year ending June 30, 2021 related to ERS amounted to a net amount of approximately \$13 million.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

Deferred outflows and deferred inflows of resources from pension activities by source reported by the Bank in the statement of net position (deficit) as of June 30, 2021 are as follows:

Source	GDB Operating Fund	
	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 285,704	\$ 3,118,058
Changes in assumptions	17,388,965	2,377,676
Changes in proportion	8,266,258	1,388,600
Employer pension payments made subsequent to the measurement date	6,494,753	-
Total	\$ 32,435,680	\$ 6,884,334

Source	Housing Finance Authority	
	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 160,027	\$ 1,746,471
Changes in assumptions	9,739,820	1,331,772
Changes in proportion	1,189,673	1,079,236
Employer pension payments made subsequent to the measurement date	3,603,523	-
Total	\$ 14,693,043	\$ 4,157,479

Source	Tourism Development Fund	
	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 324	\$ 3,536
Changes in assumptions	19,717	2,696
Changes in proportion	8,575	-
Employer pension payments made subsequent to the measurement date	7,411	-
Total	\$ 36,027	\$ 6,232

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

Source	Total Business-Type Activities	
	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 446,055	\$ 4,868,065
Changes in assumptions	27,148,502	3,712,144
Changes in proportion	9,464,506	2,467,836
Employer pension payments made subsequent to the measurement date	10,105,687	-
Total	<u>\$ 47,164,750</u>	<u>\$ 11,048,045</u>

Amounts reported as deferred outflows and inflows of resources from pension activities as of June 30, 2021 will be recognized in the pension expense as follows:

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Total Bank
Year ending June 30:				
2022	\$ 2,835,632	\$ 1,588,255	\$ 3,218	\$ 4,427,105
2023	2,835,632	1,588,255	3,218	4,427,105
2024	2,835,632	1,588,255	3,218	4,427,105
2025	3,672,039	2,056,839	4,155	5,733,033
Total	<u>\$ 12,178,935</u>	<u>\$ 6,821,604</u>	<u>\$ 13,809</u>	<u>\$ 19,014,348</u>

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 \$9,464,506 and \$2,467,836, 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 \$10,105,687 as of June 30, 2021 (\$6,494,753 from the GDB Operating Fund, \$3,603,523 from the HFA and \$7,411 from the TDF) will be recognized as a reduction of the total pension liability in the fiscal year ending June 30, 2022. 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 \$10.1 million of such pension benefit payments was recognized accordingly during fiscal year 2021.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**B. 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, who do not have their own postemployment 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, 2021 was determined by the actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020 (the measurement date), and assumed no liability gains or losses.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

The following are the most significant actuarial methods and assumptions used to estimate the total OPEB liability as of June 30, 2021 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	<p>Pre-retirement Mortality:</p> <p>For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For general employees covered under Act No. 127, the PubS-2010 Employee Mortality Rates were assumed for males and females projected to reflect Mortality Improvement Scale MP-2020 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.</p> <p>Post-retirement Healthy Mortality:</p> <p>Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. Prior to the retiree's death, beneficiary mortality is assumed to be the same as the post-retirement health retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2020 on a generational basis. As a generational table, it reflected mortality improvements both before and after the measurement date.</p> <p>Post-retirement Disabled Mortality:</p> <p>Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.</p>

The discount rate for June 30, 2020 and June 30, 2019 was 2.21% and 3.50%, 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 occurrence of events far into the future; including, for example, assumptions about future employment 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

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

***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, 2020 (the measurement date) and the proportion percentage of the aggregate total OPEB liability of the ERS MIPC allocated to the Bank:

	<u>GDB Operating Fund</u>	<u>Housing Finance Authority</u>	<u>Tourism Development Fund</u>	<u>Total for the Bank</u>
The corresponding entity's proportion of the total OPEB liability	0.18803%	0.17601%	0.00176%	0.36580%
The corresponding entity's proportionate share of the total OPEB liability	\$ 1,644,528	\$ 1,539,436	\$ 15,394	\$ 3,199,358

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 participating 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 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.

The following table presents the Bank's proportionate share of the total OPEB liability for ERS MIPC calculated using the discount rate of 2.21%, 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 (1.21%) or one percentage-point higher (3.21%) than the current rate:

	<u>1% decrease or 1.21%</u>	<u>Discount Rate or 2.21%</u>	<u>1% increase or 3.21%</u>
GDB Operating Fund's proportionate share of total OPEB liability	\$ 1,813,115	\$ 1,644,528	\$ 1,502,143
Housing Finance Authority's proportionate share of the total OPEB liability	1,697,210	1,539,436	1,406,117
Tourism Development Fund's proportionate share of the total OPEB liability	16,971	15,394	14,060
Total Bank	<u>\$ 3,527,296</u>	<u>\$ 3,199,358</u>	<u>\$ 2,922,320</u>

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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

OPEB expense recognized by the Bank for the year ending June 30, 2021 related to ERS MIPC amounted to approximately \$489,000.

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 \$241,500 during fiscal year 2021 (\$127,700 for the GDB Operating Fund, \$113,200 for the HFA, and \$600 for the TDF), which will be recognized as a reduction of the total OPEB liability in the year ending June 30, 2022. These amounts were paid on behalf of the Bank; therefore, a due to Commonwealth for \$241,500 of such pension benefit payments was recognized during fiscal year 2021.

Additional information on ERS is provided in its standalone financial statements for the year ending 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.

**(16) 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.

**(17) Commitments and Contingencies**

**(a) Lease Commitments**

The GDB Operating Fund previously operated from leased office space in what is known as "Minillas" in 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 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 \$350,000 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 Department of Housing was verbally modified in January 2020 to require a monthly rent payment of approximately \$27,000.



**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

Rent charged to operations in fiscal year 2021 amounted to approximately \$296,000. As of June 30, 2021, the minimum annual future rentals under non cancelable leases, all by HFA, are approximately as follows:

	<b>Amount</b>
Year ending June 30:	
2022	\$ 324,000
2023	324,000
2024	324,000
2025	324,000
2026	324,000
Thereafter	3,618,000
Total	\$ 5,238,000

**(b) 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.

**(c) 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, 2021, the principal balance of the mortgage loans serviced for others is approximately as follows:

	<b>Amount</b>
Puerto Rico Community Development Fund I	\$ 29,500,000
CRUV or its successor without guaranteed mortgage loan payments	6,546
Total	\$ 29,506,546

**(d) 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,

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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. The matter has been fully briefed and oral argument was held on November 7, 2022. The matter is currently pending before the United States Court of Appeals for the First Circuit.

**(e) 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.

**(18) 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, 2021 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. Refer to the Subsequent Events in Notes 21 regarding the potential elimination of the PFC Bonds pursuant to a pending Title VI Qualifying Modification.

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 were lent to PHA, which were used to redeem previous bond issuances, 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. The Series 2020 has an outstanding balance of approximately \$220,315,000 as of June 30, 2021.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**(19) 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, 2021, between governmental funds and proprietary funds:

Receivable by	Payable by	Purpose	Amount
Proprietary fund:	Governmental fund:		
Housing Finance Authority	HUD Programs	Advance of funds	\$ 923,654
Housing Finance Authority	HOME Programs	Advance of funds	709,610
Housing Finance Authority	CDBG Program	Advance of funds	5,032,298
Housing Finance Authority	AHS Programs	Advance of funds	9,907,756
Total internal balances - net			<u>\$ 16,573,318</u>

The summary of interfund balances as of June 30, 2021 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	Development 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	250,000
proprietary funds eliminated			<u>\$ 1,007,748</u>

The following table is a summary of interfund transfers for the year ending June 30, 2021:

Transfer out	Transfer in	Transfer for	Amount
Governmental funds:	Proprietary funds:		
AHS Program	Operating and Administrative	Operations	<u>\$ 26,234,691</u>

**(20) Funds Deficit**

As of June 30, 2021, the Home Program fund, the GDB Operating Fund, and the TDF reflect deficits of approximately \$1.1 million, \$128 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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

**(21) Subsequent Events**

Subsequent events were evaluated through January 10, 2023 to determine if any such events should either be recognized or disclosed in the 2021 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 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.

**(2) Fiscal Year 2023**

The Oversight Board certified a budget in the amount of \$12.4 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 of Adjustment 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) 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 interest 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 Convention Center District Authority (CCDA) initiated proceedings under Title VI, each at the request of the Governor to restructure or adjust their existing debt.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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. On March 8, 2022, the First Circuit entered an order dismissing the appeal by the Judge’s Association [Case No. 22-1098] following a motion to voluntarily dismiss. 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 teachers’ associations. See Case No. 22-1080. That decision is currently pending a writ of certiorari to the United States Supreme Court under Case No. 22-142. On July 18, 2022, the First Circuit affirmed the Title III Court’s finding that the Commonwealth Plan of Adjustment could not discharge otherwise valid Fifth Amendment takings claims without payment of just compensation. See Case No. 22-1119. That decision is currently pending a writ of certiorari to the United States Supreme Court under Case No. 22-367. On October 27, 2022, the First Circuit denied another retiree group’s appeal of the Confirmation Order’s preemption of Acts 80, 81, and 82 for lack of appellate jurisdiction. See Case No. 22-1120. Oral argument on the merits of the remaining two appeals [Case Nos. 22-1079 and 22-1092] was held on April 28, 2022, but a final determination on those 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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

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.

In their respective appeals, the teachers' association and judges' association argued that (i) the Commonwealth Plan of Adjustment's freeze of pension accruals and the elimination of COLAs were inconsistent with Act 53 and, therefore, those provisions were unauthorized by the legislature, and (ii) the Commonwealth laws authorizing the continued accruals for the JRS and TRS pension plans were not properly preempted by the Commonwealth Plan of Adjustment. See *In re The Fin. Oversight & Mgmt. Bd. for P.R.*, Case No. 17-3283-LTS, 2022 WL 620624, at \*3-4 (D.P.R. Mar. 3, 2022). The First Circuit rejected these arguments, concluding that the operative provisions of Act 53 conditioned authority to issue securities under the Commonwealth Plan of Adjustment on the elimination of the "Monthly Benefit Modification" in the Seventh Amended Plan, which only concerned accrued pension rights of pension plan participants and retirees, not the defined benefit freeze or elimination of COLAs. See *In re The Fin. Oversight & Mgmt. Bd. for P.R.*, 32 F.4th 67, 81-82 (1st Cir. 2022). In addition, the First Circuit held that PROMESA preempts Commonwealth law—such as the JRS and TRS pension statutes—insofar as those laws purport to dictate contrary to the Commonwealth Plan of Adjustment the Commonwealth's financial obligations to participants in its pension plans. *Id.* at 78. As a result, the First Circuit affirmed the Title III Court's Confirmation Order as to the JRS and TRS pension provisions implementing a benefits freeze and the elimination of COLAs.

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 the Title III Court confirmed on October 12, 2022 and is currently expected to become effective in December 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>.

**(c) Economic Development Bank Settlement Agreement**

On September 21, 2022, the Oversight Board approved a FAFAA authorization request pursuant to Section 207 of PROMESA related to an EDB proposed Settlement Agreement with the Bank



**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Notes to Basic Financial Statements  
June 30, 2021

regarding its \$35 million overnight deposit with EDB (see Note 5). Pursuant to the proposed Settlement Agreement, EDB shall make a one-time cash payment of \$3.1 million in full settlement of the outstanding balance of the aforementioned overnight deposit. This settlement agreement was eventually executed on September 28, 2022.

**(d) *Transfer of Excess Escrow Balances***

Upon the full repayment of the PFC 2003 Series B Refunding Bonds and the PFC Series 2004 Qualified Zone Academy Bonds (both conduit debt under PFC) by the ultimate debtor in fiscal year 2020, certain excess funds remained on its corresponding related escrow accounts in the amounts of approximately \$1.9 million and \$111,000, respectively, under such bonds. These funds had remained on the accounting records of the central government. On May 29, 2022, FAFAA authorized and approved the transfer of such funds from such central agencies to the bank accounts pertaining to PFC.

**(e) *PFC Qualifying Modification***

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 a Title VI Qualifying Modification (the PFC Qualifying Modification). The PFC Qualifying Modification 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.

On October 25, 2022, FAFAA, on behalf of PFC, filed a first amendment to the PFC RSA. The amendment contemplates that upon consummation of the Qualifying Modification participating bondholders would receive the PFC distribution made up of \$13.8 million in cash and \$47.7 million in face amount of GDB Debt Recovery Authority's Bonds (DRA bonds), to the extent issued, minus the PFC bond trustee's fees. The issuance of the DRA bonds is uncertain and may or may not occur in whole, in part, or at all and is currently subject to litigation.

On October 25, 2022, AAFAF, on behalf of PFC, and the Oversight Board launched solicitation of the PFC Qualifying Modification. On October 28, 2022, the Oversight Board, as the Title VI Administrative Supervisor, commenced a Title VI proceeding in the U.S. District Court for the District of Puerto Rico. The District Court held a hearing to consider approval of the PFC Qualifying Modification on December 14, 2022. On December 30, 2022, the District Court entered an order approving the PFC Qualifying Modification. The Qualifying Modification is expected to go effective in mid-January 2023. Upon the effective date of the PFC Qualifying Modification, the PFC Bonds and Notes will be discharged.

Upon the effective date of the Qualifying Modification, the outstanding debt of the HFA described in Note 12(a) and of those other Commonwealth's instrumentalities and public corporations, where applicable, will be cancelled and considered extinguished.

**(f) *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.

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Other Non-major Funds - Combining Statement of Net Position  
June 30, 2021

	Public Entity Trust	Puerto Rico Development Fund	Public Finance Corporation	Puerto Rico Telephone Authority	Jose M. Berrocal Institute	PR Higher Education Assistance Corp.	Total Other Non-major
<b>ASSETS</b>							
Current assets:							
Cash and due from banks	\$ 1,760,855	\$ 2,489,296	\$ 10,040	\$ -	\$ -	\$ -	\$ 4,260,191
Restricted:							
Cash and due from banks	4,130,546	-	-	-	-	-	4,130,546
Investments and investment contracts	-	4,396,008	-	-	-	-	4,396,008
Total assets	<u>5,891,401</u>	<u>6,885,304</u>	<u>10,040</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,786,745</u>
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable and accrued liabilities	-	-	7,450	7,600	-	-	15,050
Due to other funds	250,000	138,011	40,512	-	-	-	428,523
Total current liabilities payable from unrestricted assets	<u>250,000</u>	<u>138,011</u>	<u>47,962</u>	<u>7,600</u>	<u>-</u>	<u>-</u>	<u>443,573</u>
Current liabilities payable from restricted assets:							
Accounts payable and accrued liabilities	3,875,000	-	-	-	-	-	3,875,000
Total current liabilities	<u>4,125,000</u>	<u>138,011</u>	<u>47,962</u>	<u>7,600</u>	<u>-</u>	<u>-</u>	<u>4,318,573</u>
<b>NET POSITION:</b>							
Restricted for:							
Qualifying modification distributions	255,546	-	-	-	-	-	255,546
Unrestricted	1,510,855	6,747,293	(37,922)	(7,600)	-	-	8,212,626
Total net position (deficit)	<u>\$ 1,766,401</u>	<u>\$ 6,747,293</u>	<u>\$ (37,922)</u>	<u>\$ (7,600)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,468,172</u>

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Other Non-major Funds - Combining Statement of Revenues, Expenditures and Changes in Net Position  
Year ending June 30, 2021

	Public Entity Trust	Puerto Rico Development Fund	Public Finance Corporation	Puerto Rico Telephone Authority	Jose M. Berrocal Institute	PR Higher Education Assistance Corp.	Total Other Non-major
<b>OPERATING REVENUES:</b>							
Investment income:							
Interest income on deposits placed with banks	\$ 4,902	\$ —	\$ 5	\$ —	\$ —	\$ —	\$ 4,907
Interest and dividend income on investments and investment contracts	—	372,228	—	—	—	—	372,228
Net increase in fair value of investments	—	1,421,063	—	—	—	—	1,421,063
Total investment income	<u>4,902</u>	<u>1,793,291</u>	<u>5</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,798,198</u>
Noninterest income:							
Other income	1,875,000	—	—	—	—	—	1,875,000
Total noninterest income	<u>1,875,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,875,000</u>
Total operating revenues	<u>1,879,902</u>	<u>1,793,291</u>	<u>5</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,673,198</u>
<b>OPERATING EXPENSES:</b>							
Noninterest expenses:							
Legal and professional fees	—	—	—	2,600	—	—	2,600
Office and administrative	12,660	56,421	—	—	—	—	69,081
Recovery for losses on guarantees and letters of credit	—	(2,430)	—	—	—	—	(2,430)
Distribution expense	1,875,000	—	—	—	—	—	1,875,000
Total operating expenses	<u>1,887,660</u>	<u>53,991</u>	<u>—</u>	<u>2,600</u>	<u>—</u>	<u>—</u>	<u>1,944,251</u>
OPERATING INCOME (LOSS)	<u>(7,758)</u>	<u>1,739,300</u>	<u>5</u>	<u>(2,600)</u>	<u>—</u>	<u>—</u>	<u>1,728,947</u>
OTHER FINANCING SOURCES - net transfer-in	—	—	—	4,755	—	—	4,755
CHANGES IN NET POSITION (DEFICIT)	<u>(7,758)</u>	<u>1,739,300</u>	<u>5</u>	<u>2,155</u>	<u>—</u>	<u>—</u>	<u>1,733,702</u>
NET POSITION (DEFICIT) – Beginning of year	1,774,159	5,007,993	(37,927)	(9,755)	—	—	6,734,470
NET POSITION (DEFICIT) – End of year	<u>\$ 1,766,401</u>	<u>\$ 6,747,293</u>	<u>\$ (37,922)</u>	<u>\$ (7,600)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,468,172</u>

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Other Non-major Funds - Combining Statement of Cash Flows  
Year Ending June 30, 2021

	Public Entity Trust	Puerto Rico Development Fund	Public Finance Corporation	Puerto Rico Telephone Authority	Jose M. Berrocal Institue	PR Higher Education Assistance Corp.	Total
Cash flows from operating activities:							
Cash received from other operating noninterest revenues	\$ 1,875,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,875,000
Cash payment for other operating noninterest expenses	(12,660)	(56,421)	—	(4,997)	—	—	(74,078)
Cash received (paid) from/to other funds	(125,000)	—	—	242	—	—	(124,758)
Net cash provided by (used in) operating activities	<u>1,737,340</u>	<u>(56,421)</u>	<u>—</u>	<u>(4,755)</u>	<u>—</u>	<u>—</u>	<u>1,676,164</u>
Cash flows from noncapital financing activities:							
Transfers-in	—	—	—	4,755	—	—	4,755
Net cash provided by noncapital financing activities	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,755</u>	<u>—</u>	<u>—</u>	<u>4,755</u>
Cash flows from investing activities:							
Proceeds from sales and redemptions of investments	—	64,433	—	—	—	—	64,433
Interest and dividends received on deposits and investments	4,902	372,228	5	—	—	—	377,135
Net cash provided by investing activities	<u>4,902</u>	<u>436,661</u>	<u>5</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>441,568</u>
Net change in cash and due from banks	1,742,242	380,240	5	—	—	—	2,122,487
Cash and due from banks - beginning of year	4,149,159	2,109,056	10,035	—	—	—	6,268,250
Cash and due from banks - end of year	<u>\$ 5,891,401</u>	<u>\$ 2,489,296</u>	<u>\$ 10,040</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,390,737</u>
Reconciliation to proprietary funds:							
Statement of Net Position							
Cash and due from banks - unrestricted	\$ 1,760,855	\$ 2,489,296	\$ 10,040	\$ —	\$ —	\$ —	\$ 4,260,191
Cash and due from banks - restricted	4,130,546	—	—	—	—	—	4,130,546
Total cash and due from banks at year end	<u>\$ 5,891,401</u>	<u>\$ 2,489,296</u>	<u>\$ 10,040</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,390,737</u>

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
(A Component Unit of the Commonwealth of Puerto Rico)  
Other Non-major Funds - Combining Statement of Cash Flows  
Year Ending June 30, 2021

	Public Entity Trust	Puerto Rico Development Fund	Public Finance Corporation	Puerto Rico Telephone Authority	Jose M. Berrocal Institue	PR Higher Education Assistance Corp.	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	\$ (7,758)	\$ 1,739,300	\$ 5	\$ (2,600)	\$ —	\$ —	\$ 1,728,947
Adjustments to reconcile operating income/(loss) to net cash provided by (used in) operating activities:							
Investment income	—	(372,228)	(5)	—	—	—	(372,233)
Interest income on other than housing program loans	(4,902)	—	—	—	—	—	(4,902)
Provision for losses on guarantees and letters of credit	—	(2,430)	—	—	—	—	(2,430)
Net increase in fair value of investments	—	(1,421,063)	—	—	—	—	(1,421,063)
Net increase (decrease) in operating liabilities:							
Accounts payable and accrued liabilities	1,875,000	—	—	(2,397)	—	—	1,872,603
Due to other funds	(125,000)	—	—	242	—	—	(124,758)
Net cash provided by (used in) operating activities	<u>\$ 1,737,340</u>	<u>\$ (56,421)</u>	<u>\$ —</u>	<u>\$ (4,755)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,676,164</u>

(continued)

**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 Pension Liability and Related Ratios (Unaudited)  
June 30, 2021

	<u>2021*</u>	<u>2020*</u>	<u>2019*</u>
Proportion of the Collective Total Pension Liability	0.77041%	0.76375%	0.76553%
Proportionate Share of the Collective Total Pension Liability	\$ 216,253,534	\$ 189,795,220	\$ 187,476,717
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 Other Postemployment Benefit  
Liability and Related Ratios (Unaudited)  
June 30, 2021

	2021*	2020*	2019*	2018*	2017*
Proportion of Total Other Postemployment Benefit Liability	0.36580%	0.35566%	0.33228%	0.30712%	0.28981%
Proportionate Share of Total Other Postemployment Benefit Liability	\$ 3,199,358	\$ 2,959,921	\$ 2,797,940	\$ 2,827,135	\$ 3,091,124
Covered - Employee Payroll	n/a	n/a	n/a	n/a	n/a
Proportionate Share of Total Other Postemployment Benefit Liability as Percentage of Covered-Employee Payroll	n/a	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