GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and

Required Supplementary Information

June 30, 2022

(With Independent Auditors' Report Thereon)

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

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INDEPENDENT AUDITORS' REPORT

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

Opinions

We have audited the 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, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Government Development Bank for Puerto Rico's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying 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, 2022, 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.

We did not audit the financial statements of the Puerto Rico Housing Finance Authority, which represent 100%, respectively, 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 88.62% and 84.52% of the total assets and revenues, respectively, of the business-type activities. as of June 30, 2022. Those statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as it relates to the amounts included for the Puerto Rico Housing Finance Authority, is based solely on the report of the other auditors.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Emphasis of Matter – GDB Operating Fund

As described in Note 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 GDB Debt Recovery Authority (DRA) or to the Public Entity Trust (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 may not continue as going concerns as well. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the collective total pension liability and related ratios, and the schedule of proportionate share of the collective total other postemployment benefit liability and related ratios, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We, 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.

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 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.

San Juan, Puerto Rico
October 13, 2023.

Stamp No. E551303 was affixed to
the original of this report.

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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, 2022. 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 government-wide assets as of June 30, 2022, amounted to approximately $589 million, an increase of approximately $70 million, or 13.78%, from approximately $519 million as of June 30, 2021. Total liabilities increased by approximately $61 million, or 12.77%, to approximately $538 million as of June 30, 2022, from approximately $477 million as of June 30, 2021. Total deferred outflows of resources amounted to approximately $42.4 million, a decrease of approximately $6.8 million or 13.78%, from approximately $49.2 million as of June 30, 2021, 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, 2022 amounted to approximately $82 million, a change in net position during fiscal year 2022 of approximately $2 million from net position as of June 30, 2021 of approximately $80 million. The increase in net position of approximately $2 million during fiscal year 2022 is composed of decrease in net position of approximately $1 million from Business-Type Activities, and an increase in net position of approximately $3 million from Governmental Activities. The ratio of net position to total assets decreased to 13.99% as of June 30, 2022, from 15.46% as of June 30, 2021.

- The operating results of the GDB Operating Fund remained practically the same as in prior year with an operating loss of approximately $11 million in fiscal year 2022, principally triggered by the pension and OPEB expense for the year of approximately $9 million. The final change in net position did show a decrease of approximately $4 million caused by transfers to the Public Entity Trust (PET) of excess reserved cash pursuant the Qualifying Modification for approximately the same amount, which did not occur in prior year.

- 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. During the prior fiscal year 2021, HFA recognized an approximately $5.2 million equity pick up loss on the results of RLF, while during the current fiscal year, HFA recognized an equity pick up gain of approximately $1 million, which represents a positive turnaround of approximately $6.3 million and explains the majority of the operating income results of HFA during fiscal year 2022 of approximately $8.7 million.

- During the fiscal year 2022, $135.3 million, $5.4 million, $107.5 million, $30 million and $4.7 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), the American Rescue Plan Act Program (ARPA Program) and the Affordable Housing Mortgage Subsidy Program, respectively.

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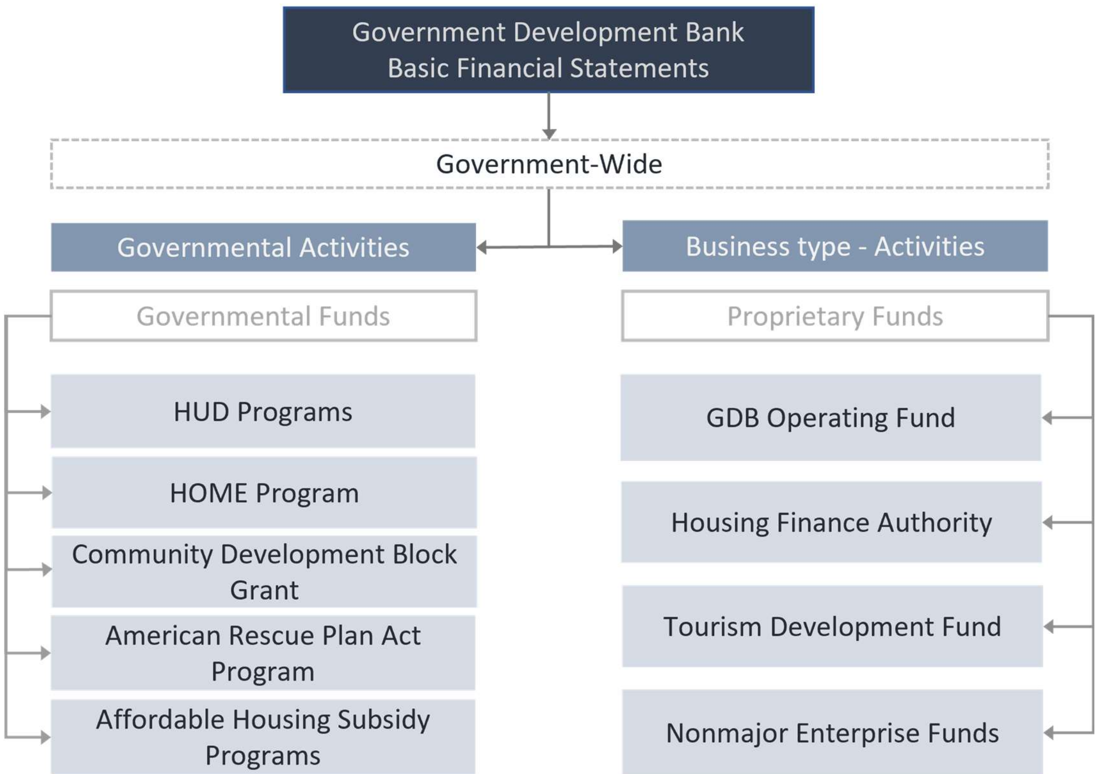
Overview of the Financial Statements

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Government-Wide Financial Analysis

Total assets, deferred outflow of resources, total liabilities, and deferred inflow of resources of the Bank, as of June 30, 2022, amounted to approximately $589 million, $42 million, $538 million and $11 million, respectively, for a net position of approximately $82 million or 13.99% of total assets. Total assets increased during fiscal year 2022 by approximately $70 million principally due to a combined effect of investing activities, collections of loans by HFA, increased funding and spending activities from the Community Development Block Grant (CDBG) and the American Rescue Plan Act (ARPA) programs and related receivables from the federal government and other government entities, which in the aggregate provided an increase in cash of approximately $76 million, an increase in receivables from the federal government and other governmental entities of approximately $6.8 million and $4 million, respectively, in addition to the current year equity pick-up from HFA in the losses of its investment in RLF Investment Fund in the amount of approximately $1.1 million; with offsetting decreases in HFA loans of approximately $4.7 million and net decreases in the combination of deposits placed with banks and investments in the amount of approximately $14 million. Total liabilities increased in the aggregate by approximately $61 million, responding principally to unspent proceeds from ARPA program funds presented as unearned revenue in the amount of approximately $46 million, increases in accounts payable and accrued expenses in the amount of approximately $14 million (mostly within the CDBG and ARPA program funds) and increases in Due to Commonwealth of approximately $10 million; with offsetting decreases in net pension liability of approximately $4.5 million and in bonds and notes payable of approximately $9.5 million.

Total deferred outflows decreased during fiscal year 2022 by approximately $6.7 million, attributed chiefly to a decrease by approximately $6.4 million in the pension-related item, which resulted from the actuarial calculation as of the 2021 measurement date. The total deferred inflow of resources remained practically unchanged with a resulting balance of approximately $11 million.

Loans as a percentage of total assets decreased 447 percentage points from 31.06% at the end of fiscal year 2021 to 26.59% as of June 30, 2022, consisting only of the HFA loans. Such loans and related accrued interest decreased during fiscal year 2022 by approximately $4.7 million from $161.3 million as of June 30, 2021, to $156.6 million as of June 30, 2022. This decrease is due principally to a higher collection of HFA loans (approximately $22.8 million) over new loans originations (approximately $18.4 million).

The Bank's most liquid assets, such as cash, increased by approximately $76 million, largely credited to increased funding from the ARPA and CDBG programs, within the HFA Governmental Activities, which remained unspent as of June 30, 2022, in the amount of approximately $57.7 million. Additional cash was also received in the proprietary non-major funds in the amount of approximately $4.4 million, attributed to: $2.1 million received by PFC from the Commonwealth attributed to certain excess funds that remained on corresponding escrow accounts related to certain PFC 2003 Series B Refunding Bonds and the PFC Series 2004 Qualified Zone Academy Bonds (both conduit debt under PFC) upon their full repayment in 2020, approximately $1.5 million of PET assets collections for the year that remained undistributed as of June 30, 2022, and principal and interest collections of approximately $800,000 by the Development Fund on account of its investment in the GDB Debt Recovery Authority Bonds. The GDB Operating Fund had its cash decreased by approximately $7.4 million, mostly as a result of the normal winding down of its operations and the transfer to the PET during 2022 of approximately $4 million of Excess Reserved Cash, which in turn was eventually transferred to the Puerto Rico Electric Power Authority (PREPA) and to the Employees' Retirement System of the Government of the Commonwealth (ERS), in accordance with certain UCC Stipulation and the PET Deed (refer to Note 4).

The remaining increase in cash of approximately $21.5 million was provided mainly by HFA Proprietary Funds' net investing activities to cover its housing program needs, consisting of net investments additions of approximately $36.6 million and interest collections of approximately $2.4 million on its investments, offset by a redemption of its deposits placed with banks by approximately $48 million.

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. As a result, a new majority equity investment was recognized. From September 1, 2019 to June 30, 2020, HFA recognized a $1.6 million in equity pick-up from its investment in RLF. During fiscal year 2021, the equity pick-up recognition was a $5.2 million loss on the results of RLF. For the current fiscal year 2022, HFA recognized an equity pick-up income of approximately $1 million, therefore, accumulating a balance through June 30, 2022, of $54.7 million.

The other significant asset fluctuation includes an approximately $4.1 million increase in other receivables. This increase is attributed to the Economic Development Bank's (EDB) proposed settlement of the Bank's $35.1 million overnight deposits with EDB, in exchange of a commitment for a one-time cash payment of $3.1 million, which the Bank accrued accordingly in both other receivables and accounts payable and accrued expenses (refer to Note 5).

Total liabilities increased by approximately $61 million. Of this increase, approximately $51 million is caused by an increase in unearned revenue, $46 million, as previously mentioned in the first paragraph above, caused from the unspent proceeds from the ARPA program funds in HFA's Governmental Activities, which did not occur in prior year, and $5 million increase in the unearned revenue within FHA's Proprietary Funds for cash received on housing program grants that had not been earned as of June 30, 2022 under the terms of such agreements. Another increase is in accounts payable and accrued expenses in the amount of approximately $14 million, mostly within the CDBG and ARPA program funds of HFA's Governmental Activities, caused by the increased funding and spending activities on these programs during the year. Due to Commonwealth also accounts for approximately $10 million of the liabilities increase, triggered by the 2022 PayGo payments for pension and postemployment benefit costs other than pensions (OPEB), which were made for the same amounts by the Commonwealth subsequent to the actuarial measurement dates on behalf of the GDB Operating Fund, HFA and Tourism Development Fund (TDF). Offsetting decreases occurred in net pension liability of approximately $4.5 million (resulting from the actuarial calculations for the applicable measurement date) and in bonds and notes payable of approximately $9.5 million, all of which attributed to the scheduled repayments made on such obligations, net of its underlying discount accretion for the year.

The net position government-wide of approximately $80 million as of June 30, 2021, changed to a net position of approximately $82 million as of June 30, 2022. The increase in net position of approximately $2 million during fiscal year 2022 is comprised of a positive change in net position of approximately $3 million from Governmental Activities, impacted mostly by significantly smaller transfers to the HFA's business type activities ($26 million in 2021 and only $2.2 million during 2022); and a negative change of approximately $1 million in the net position of the Business-Type Activities, impacted principally by the same smaller transfers received from the governmental activities referred to above, and results among the different proprietary funds which almost offset each other (Negative change in net position of approximately $15 million in the GDB Operating Fund, offset by positive changes in the net position of the HFA, TDF and other non-major funds of approximately $11 million, $383,000 and $2.3 million, respectively. The ratio of net position to total assets decreased to 13.99% as of June 30, 2022, from 15.46% as of June 30, 2021.

(d) ***Governmental Activities***

Total assets of Governmental Activities amounted to approximately $154.1 million as of June 30, 2022. Total liabilities amounted to approximately $120.5 million, for a net position of approximately $33.6 million. The net position has been broken down into a net investment in capital assets of approximately $9,000 and a net position of approximately $33.6 million restricted for affordable housing programs.

Condensed financial information on assets, liabilities and net position (deficit) of Governmental Activities as of June 30, 2022, and 2021, is shown below (in thousands):

	June 30,		Change	
	2022	2021	Amount	Percent
Assets:				
Cash and due from banks and deposits placed with banks	$ 99,686	$ 36,416	$ 63,270	174%
Investments and investment contracts	32,699	34,784	(2,085)	-6%
Capital assets	9	18	(9)	-50%
Other assets	21,681	14,529	7,152	49%
Total assets	154,075	85,747	68,328	80%
Liabilities:				
Accounts payable and accrued liabilities	29,762	15,834	13,928	88%
Unearned revenues	45,664	-	45,664	100%
Notes payable	23,259	23,256	3	0%
Total liabilities before internal balances	98,685	39,090	59,595	152%
Internal balances	21,774	16,573	5,201	31%
Total liabilities	120,459	55,663	64,796	116%
Net position:				
Net investment in capital assets	9	18	(9)	-50%
Restricted for affordable housing programs	33,608	30,066	3,542	12%
Total net position	$ 33,617	$ 30,084	$ 3,533	12%

Investments and investment contracts amounted to approximately $32.7 million and, together with cash and due from banks and deposits placed with banks of approximately $99.7 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, 2022 had a net increase of approximately $61.2 million over the prior year, which almost resembled the combined net increase in accounts payable and accrued liabilities and unearned income of approximately $59.6 million. These increases are caused by unspent proceeds from the ARPA program funds in the amount of approximately $46 million, which triggered an unearned revenue for the same amount (which did not occur in prior year) and the increases in accounts payable and accrued expenses of approximately $14 million are concentrated within the CDBG (approximately $5.4 million increase) and the ARPA program funds, which had no balance in prior year (approximately $8.1 million increase), caused by the increased funding and spending activities on these programs during the year. The ARPA program is a new program inserted during 2022 with the objective to prevent mortgage delinquencies and defaults, foreclosures, loss of utilities or home energy services, and displacement of homeowners experiencing financial hardships after January 21, 2022, as a result of the COVID-19 pandemic.

Other assets are mainly restricted and are composed primarily 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 $7 million is principally attributed to the increased volume of activity within the CDBG program; this explains the increases of $7 million in the amounts receivable from HUD and a proportional increase of approximately $5.4 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 of advances made to governmental funds for its operation.

The increase of approximately $3 thousand in notes payable is 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, 2022, of approximately $3.3 million and $19.9 million, respectively. Refer to Note 21 regarding the elimination of the PFC Commonwealth Appropriation Bonds.

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, 2022, and June 30, 2021, is shown below (in thousands):

	Year ended June 30, 2022		
	General government	Housing assistance programs	Total
Expenses	$ 7,103	$ 275,618	$ 282,721
Program revenues:			
Charges for services – financing and investment	-	1,225	1,225
Operating grants and contributions	-	287,192	287,192
Net revenues (expenses)	$ (7,103)	$ 12,799	5,696
Transfers-out, net			(2,163)
Change in net position			3,533
Net position – beginning of year			30,084
Net position – end of year			$ 33,617

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	Year ended June 30, 2021		
	General government	Housing assistance programs	Total
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)	$ (3,775)	$ 25,972	22,197
Transfers-out, net			(26,235)
Change in deficit			(4,038)
Net position – beginning of year			34,122
Net position – end of year			$ 30,084

Governmental Activities Results

Total revenues of governmental activities increased by approximately $80.8 million in 2022 from 2021. The increase was mainly due to increases of $64.8 million and $30 million in the revenues of the CDBG Program and the ARPA Program, respectively, offset by a decrease of $16.4 million in the revenues of the Affordable Housing Subsidy Program. The CDBG Program started providing grants at the end of the fiscal year 2020 and has continued increasing the number of participants that receive benefits, accordingly its revenues increased to cover those participants. As previously explained, the ARPA Program started providing benefits during fiscal year 2022, accordingly its assets also increased. A decrease in the revenues of the Affordable Housing Subsidy Program is due to a decrease in the receipts of Commonwealth Appropriations related to Act No. 22, which assigns the HFA the unclaimed funds in local financial institutions that can be used in the future for subsidies or be transferred to the HFA proprietary fund for operational and repayment of debt's purposes, which typically occurs each year. The increase in expenses of the governmental activities of $97.3 million is primarily due to the increased activities and participants in the CDBG and ARPA programs, as explained above, and as shown in the following fluctuations:

- $64.6 million increase in the expenses of the CDBG Program ($107.2 million in fiscal year 2022 versus $42.6 million in fiscal year 2021).

- $30 million increase in expenses of ARPA. The program started in the fiscal year 2022 as mentioned above.

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Governmental Funds Results

(e) *HUD Programs*

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 increased by approximately $2.7 million from approximately $132.6 million in the fiscal year 2021 to approximately $135.3 million in the fiscal year 2022. This increase is mainly the result of an increase in rents by HUD.

Total liabilities of the HUD programs as of June 30, 2022, remained similar to the balance as of the prior year, at approximately $1 million. 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.

(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 decreased from approximately $8.4 million in the fiscal year 2021 to approximately $5.4 million in the fiscal year 2022 mainly due to the recognition in fiscal year 2021 of $2.8 million in revenues that were unearned revenues in the fiscal year 2020, while the amount of unearned revenues in fiscal year 2021 recognized during fiscal year 2022 was only approximately $198,000. Expenditures in fiscal year 2022 and fiscal year 2021 remained comparable at $5.2 million, each fiscal year.

Total liabilities of the HOME programs as of June 30, 2022, remained similar to the balance as of the prior year, at approximately $3 million. 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.

(g) *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 Puerto Rico Department of Housing (PRDOH) to administer Community Development Block Grant – Disaster Recovery (CDBG-DR) funds. These funds were received for the first time late 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 recently started. However, the program has continued increasing the number of participants that receive benefits, accordingly its revenues and expenditures have increased to cover those participants. During fiscal year 2021, the CDBG Program fund received funding of approximately $42.6 million, also expended in the same year, and now during fiscal year 2022 revenues and expenditures amounted to approximately $107.5 million and $107.2 million, respectively.

Assets and liabilities of the CDBG program have also increased because of the increased volume of participants.

(h) ***ARPA Program***

This special revenue fund accounts for revenue sources of ARPA that is intended to prevent mortgage delinquencies and defaults, foreclosures, loss of utilities or home energy services, and displacement of homeowners experiencing financial hardship after January 21, 2020, as a result of the COVID 19 pandemic. This is a new program inserted during fiscal year 2022, which sustained revenues of approximately $30 million, all of which were expended.

Cash as of June 30, 2022 of approximately $54.2 million, is related to funds received from the inception of the ARPA program during fiscal year 2022, of which approximately $46 million remained unspent, thus presented as unearned revenue as of June 30, 2022.

(i) ***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 $32.7 million and, together with cash and due from banks and deposits placed with banks of approximately $38.1 million, account for the majority of the assets held by the Affordable Housing Mortgage Subsidy Programs as of June 30, 2022. These assets are restricted to providing 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, 2022, had a slight net increase of approximately $3.5 million over the prior year, remaining relatively stable in the funding of housing program expenditures, which also remained stable at around approximately $5 million.

During the fiscal year ended June 30, 2022, the fund balance increased by $3.2 million as compared to a decrease of $4.6 million in the fiscal year ended June 30, 2021. The decrease in fund balance for the fiscal year 2021 was caused by a transfer out amounting to $26.2 million offset with $15.6 million in Commonwealth Appropriations related to Act No. 22, which assigns the HFA the unclaimed funds in local financial institutions that can be used in the future for subsidies or be transferred to the HFA Operating and Administrative Fund for repayment of debt. In the fiscal year 2022, Commonwealth Appropriations amounted to approximately $7.9 million, a decrease of approximately $16 million from the prior fiscal year, but transfers to the HFA Operating and Administrative fund only amounted to approximately $2.2 million, compared to approximately $26.2 million in fiscal year 2021. Such lower transfers were mostly responsible for the increase in its fund balance of approximately $3.2 million in fiscal year 2022.

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Business - Type Activities

Condensed financial information on assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position as of June 30, 2022, and June 30, 2021, is presented below (in thousands):

	June 30,		Change	
	2022	2021	Amount	Percent
Assets:				
Cash and due from banks	$ 112,125	$ 99,538	$ 12,587	12.6%
Deposits placed with banks	9,443	57,422	(47,979)	-83.6%
Investments and investment contracts	100,917	65,007	35,910	55.2%
Investment in PRHFA RLF Investment Fund, LLC	35,521	34,488	1,033	3.0%
Loans receivable – net	156,599	161,266	(4,667)	-2.9%
Accrued interest receivable	1,197	1,777	(580)	-32.6%
Real estate available for sale	3,175	2,051	1,124	54.8%
Other receivable, net	6,735	2,674	4,061	151.9%
Other assets	619	794	(175)	-22.0%
Internal balances	21,774	16,573	5,201	31.4%
Capital assets	8,578	8,384	194	2.3%
Total assets	456,683	449,974	6,709	1.5%
Deferred outflows of resources:				
Loss on bond refundings	1,042	1,261	(219)	17.4%
Goodwill	364	532	(168)	-31.6%
Pension related	40,764	47,165	(6,401)	-13.6%
Other postemployment benefits related	251	241	10	4.1%
Total deferred outflows of resources	42,421	49,199	(6,778)	-13.8%
Liabilities:				
Accounts payable, accrued expenses, and other liabilities	76,352	76,110	242	0.3%
Unearned revenues	8,222	3,031	5,191	171.3%
Due to Commonwealth of Puerto Rico	51,900	41,554	10,346	24.9%
Bonds, notes, and mortgage-backed certificates payable:				
Due in one year	11,583	11,875	(292)	-2.5%
Due in more than one year	76,532	85,930	(9,398)	-10.9%
Total pension liability and postemployment benefits				
Due in one year	10,345	10,346	(1)	0.0%
Due in more than one year	204,358	209,107	(4,749)	-2.3%
Total liabilities	439,292	437,953	1,339	0.3%
Deferred inflows of resources: pension related	11,044	11,048	(4)	0.0%
Net position:				
Net investment in capital assets	8,578	8,384	194	2.3%
Restricted for:				
Affordable housing programs	13,681	17,455	(3,774)	-21.6%
Qualifying Modification distributions	261	256	5	2.0%
Unrestricted net position	26,248	24,077	2,171	9.0%
Total net position	$ 48,768	$ 50,172	$ (1,404)	-2.8%

(j) ***Cash, Deposits Placed with Banks and Investments and Investment Contracts***

The combination of cash and due from banks, deposits placed with banks and investments, representing the most liquid of the financial assets of the Bank, all collectively increased by only approximately $518,000, of which approximately $4.2 million represented increases in the HFA's cash, deposits and investment instruments, while the remaining proprietary funds almost fully offset this increase with a decrease in its liquid assets of approximately $3.7 million.

This aggregate net increase during fiscal year 2022 of HFA's cash, deposits, and investments combined is attributed to a combination of cash provided principally by its investing activities (approximately $17 million, mostly triggered by net increase in investments of approximately $36.6 million, which were funded with redemptions of approximately $48 million of deposits placed with banks, and approximately $2.4 million interest received on its investments). The cash provided by operating and non-capital financing activities almost offset each other, with the cash provided by operating activities, approximately $11.3 million, primarily caused by net loan and related interest collections) and the cash used by noncapital financing activities in the amount of approximately $12.8 million consisting primarily of the repayment of debt and related interest in the amount of approximately $12 million.

With respect to the decreases in the liquid assets of the remaining proprietary funds, most of it is attributed to the decrease in cash at the GDB Operating Fund. The GDB Operating Fund had its cash decreased by approximately $7.4 million, primarily as a result of the normal winding down of its operations and the transfer to the PET during 2022 of approximately $4 million of Excess Reserved Cash, which in turn was eventually transferred to PREPA and to the ERS approximately in the amounts of $3 million and $1 million, respectively, in accordance with certain UCC Stipulation and the PET Deed (refer to Note 4). The GDB Operating Fund cash decrease was slightly offset with additional cash received in the proprietary non-major funds in the amount of approximately $4.4 million, attributed to: approximately $2.1 million received by PFC from the Commonwealth attributed to certain excess funds that remained on corresponding escrow accounts related to certain PFC 2003 Series B Refunding Bonds and the PFC Series 2004 Qualified Zone Academy Bonds (both conduit debt under PFC) upon their full repayment in 2020, approximately $1.5 million of PET assets collections for the year that remained undistributed as of June 30, 2022, and principal and interest collections of approximately $800 thousand by the Development Fund on its investment in the GDB Debt Recovery bonds.

Investments and investment contracts held in Business-Type Activities in the amount of approximately $101 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 22% of the total assets of the Bank's Business-Type Activities as of June 30, 2022, up 8 percentage points as compared to 14% at the close of fiscal year 2021. All of the Bank's investments in mortgage-backed securities amounting to approximately $39.1 million and $49.2 million as of June 30, 2021 and June 30, 2022, 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.

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

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. As a result, a new majority equity investment was recognized. From September 1, 2019 to June 30, 2020, HFA recognized a $1.6 million in equity pick-up from its investment in RLF. During fiscal year 2021, the equity pick-up recognition was a $5.2 million of approximate loss on the results of RLF. For the current fiscal year 2022, HFA recognized an equity pick-up income of approximately $1 million, therefore, accumulating a balance through June 30, 2022, of approximately $54.7 million.

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

The approximately $156.6 million in loans receivable (net of an allowance for loan losses of approximately $940.7 million) as of June 30, 2022, represents an approximately $4.7 million or 3% decrease from fiscal year 2021 to fiscal year 2022. Loans as a percentage of total assets decreased 2 percentage points from 36% at the end of fiscal year 2021 to 34% as of June 30, 2022, 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, 2022, consisting of loans owned by other public corporations, had an unpaid principal balance totaling approximately $864 million (all fully reserved).

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 the 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.

As of June 30, 2022, the changes in the allowance for loan losses in the Proprietary Funds were as follows (in thousands):

	Proprietary Funds				
	GDB Operating Fund	Tourism Development Fund	Housing Finance Authority	Other Non-major	Total
Balance – beginning of year	$ 863,768	$ 26,488	$ 37,358	$ 18,300	$ 945,914
Release of loan losses	-	-	(3,416)	-	(3,416)
Collection transferred to DRA	-	-	-	-	-
Write-offs	-	-	(1,827)	-	(1,827)
Balance – end of year	$ 863,768	$ 26,488	$ 32,115	$ 18,300	$ 940,671

<u>Allowance for loan losses collective loans</u>

The allowance for loan losses at the business-type activities level was impacted principally by a net reduction in the allowance amounting to approximately $5.2 million (all on the HFA loan portfolio), as a result of a release in the allowance of $3.4 million plus a write-off of $1.8 million.

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.

<u>Private Sector Loans</u>

Private sector loans outstanding as of June 30, 2022 and June 30, 2021 amounted to approximately $156.6 million and $161.3 million, respectively, net of an allowance for loan losses of approximately $77 million and $82 million as of June 30, 2022 and 2021, respectively. Private sector loans made primarily through the Bank's component units include 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 ($32.1 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.

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

Real estate available for sale increased in the amount of approximately $1.1 million, all related to normal real estate available for sale activities within the HFA.

(n) ***Capital Assets***

Capital assets, net of accumulated depreciation, amortization and impairment, amounted to approximately $8.6 million as of June 30, 2022, an increase of approximately $200 thousand from the prior year, all attributed to the HFA's capital asset activities and its excess net additions over depreciation during the year.

(o) ***Internal Balance***

Internal balances, consisting of a receivable from HFA's governmental activities, amounted to approximately $21.8 million as of June 30, 2022, 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.

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

Within total liabilities, there are accounts payable, accrued expenses and other liabilities totaling approximately $76.3 million and approximately $76.1 million as of June 30, 2022 and June 30, 2021, respectively, an increase of only $200 thousand.

Another component of these balances is attributed to the liabilities under guaranteed obligations of approximately $43 million and $47 million as of June 30, 2022 and June 30, 2021, respectively. As of June 30, 2022, 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	$ -
Housing Finance Authority	4,964,954	-	(3,773,442)	1,191,512	1,191,512
Total	$ 46,975,318	$ -	$ (3,773,442)	$ 43,201,876	$ 1,191,512

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, 2022.

The changes in HFA's liabilities relate 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, 2022, the mortgage loan insurance program covered loans aggregating approximately $418 million, for which a liability of approximately $1.2 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.

(q) ***Due to Commonwealth***

During fiscal year 2022, the Commonwealth made PayGo pension benefits payments on behalf of the Bank amounting to approximately $10.3 million (approximately $6.6 million for the GDB Operating Fund, approximately $3.5 million for the HFA, and approximately $5,600 for TDF) and OPEB benefits payments amounting to approximately $251,000 (approximately $136 thousand for the GDB Operating Fund and approximately $115 thousand for the HFA; no benefits were paid for TDF). Combined with the prior years' PayGo payments in the amount of $41.6 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, 2022, amounting to approximately $51.9 million.

(r) ***Long-Term Debt***

The notes payable as of June 30, 2022, all pertain to the HFA. The HFA redeemed several notes and bonds payable during fiscal year 2022 in the amount of approximately $9.7 million (net of the related discount accretion for the year of $2.3 million). There were no gross debt originations during the fiscal year ending June 30, 2022.

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Condensed financial information on expenses, program revenues and changes in net position for Business-Type Activities for the years ended June 30, 2022, and June 30, 2021, is presented below (in thousands):

	Year ended June 30, 2022				
		Program revenues			
		Charges for services			
Activity	**Expenses**	**Fees, commissions, and others**	**Financing and investment**	**Operating grants and contributions**	**Net revenues/ (expenses)**
GDB Operating Fund	$ 14,144	$ -	$ 3,102	$ -	$ (11,042)
Housing Finance Authority	20,265	19,838	9,242	-	8,815
Tourism Development Fund	7	386	4	-	383
Other non-major funds	5,623	1,621	193	2,086	(1,723)
Total	$ 40,039	$ 21,845	$ 12,541	$ 2,086	(3,567)
Transfers from governmental activities, net					2,163
Change in net position					(1,404)
Net position – beginning of year					50,172
Net position – end of year					$ 48,768

	Year ended June 30, 2021			
		Program revenues		
		Charges for services		
Activity	**Expenses**	**Fees, commissions, and others**	**Financing and investment**	**Net revenues/ (expenses)**
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
Total	$ 35,036	$ 8,115	$ 12,211	(14,710)
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				$ 50,172

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 about the GDB Operating Fund refer to business-type activities section.

GDB Operating Fund

The deficit increased from approximately $128 million as of June 30, 2021 to a deficit of approximately $143 million as of June 30, 2022. The increase in net deficit of approximately $15 million in fiscal year 2022 is attributable to the operating losses sustained for approximately $11 million and non-operating losses for the year in the amount of approximately $4 million.

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 expenses for the year amounting to approximately $8.9 million, reflects most of the operating expenses incurred by the GDB Operating Fund.

The non-operating losses of approximately $4 million relates to the transfer to the PET during 2022 of approximately $4 million of Excess Reserved Cash, which in turn was eventually transferred to PREPA and to the ERS approximately in the amounts of $3 million and $1 million, respectively, in accordance with certain UCC Stipulation and the PET Deed (refer to Note 4).

The other noticeable transaction which had a fully offsetting effect on the operations of the GDB Operating Fund is attributed to the EDB proposed settlement of the Bank's approximate balance of $35.1 million overnight deposits with EDB, in exchange of a commitment for a one-time cash payment of approximately $3.1 million, which the Bank accrued accordingly in both other receivables and accounts payable and accrued expenses. Accordingly, such amounts were recognized as an operating income recovery of the custodial credit risk loss that had been previously recognized on these overnight deposits, and as a distribution expense to account for the GDB Operating Fund obligation to relay such funds, as the beneficial interest on the overnight deposits belonged to the DRA (refer to Note 5), which eventually was paid in September 2022.

Housing Finance Authority

The net position of the HFA increased from approximately $201 million as of June 30, 2021, to approximately $212 million as of June 30, 2022, or an increase of approximately $11 million, responding to the combination of the operating income for the year of approximately $9 million and the transfers-in from HFA's governmental activities amounting to approximately $2 million.

The operating income of approximately $9 million, is attributed for the most part on the recoveries for loan losses and mortgage loan insurance reserves recognized during 2022 for approximately $3.4 million and $3.8 million, respectively, when such recoveries were minimal in the prior year. Also, HFA recognized during 2022 an equity pick-up gain of approximately $1 million on its investment in PRHFA RLF Investment Fund, when such amount during the prior year was an equity pick-up loss of $5.2 million.

Going Concern Uncertainty

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 the Qualifying Modification, the GDB Operating Fund will not emerge as a going concern. Also, as the Bank's blended component units' activities revolved and depended on the GDB Operating Fund, there is also substantial doubt that such component units will also continue as going concerns.

However, with respect to HFA, its operational and financial activities do not revolve and depend anymore around the GDB Operating Fund. Furthermore, HFA is neither exhibiting any other indications of possible financial difficulties or internal and external matters that may create uncertainties on whether HFA has the ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited, as defined by Statement No. 56 of the GASB - *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards AU Section 341 - The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*. As a result, management believes that HFA will continue operating and there is no uncertainty related to its operations.

Currently Known Facts and Events

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 provides for a restructuring and discharge of the PFC Bonds under a Title VI Qualifying Modification (the PFC Qualifying Modification). The PFC Qualifying Modification further provides 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, 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 approximately $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.

On December 30, 2022, the District Court entered an order approving the PFC Qualifying Modification. The PFC Qualifying Modification became effective on January 12, 2023. As a result of the PFC Qualifying Modification, the PFC Bonds were discharged and extinguished for the payment of approximately $13.8 million in cash. Litigation remains ongoing as to whether the bondholders are also entitled to the approximately $47.7 million in DRA Bonds. Oral argument on that issue took place on May 10, 2022 and the decision remains pending at this time. The outcome of that litigation does not otherwise impact the effectiveness of the Qualifying Modification and the discharge of the PFC Bonds.

On January 12, 2023, the outstanding debt of the HFA described in Note 12(a) and of those other Commonwealth's instrumentalities and public corporations, where applicable, were cancelled and extinguished.

Subsequent Distributions to the PET

On February 24, 2023, an additional Excess Reserved Cash was confirmed in the amount of approximately $6 million, which the PET instead, transferred to the Puerto Rico Electric Power Authority (PREPA) and to the ERS for approximately $5 million and $1 million, respectively, as further satisfaction of the Contingent Settlement Cash in accordance with the time and in the manner described in the PET Deed and UCC Stipulation.

Settlement Agreement with the GDB Debt Recovery Authority

On September 25, 2023, the Fiscal Oversight and Management Board approved a proposed settlement agreement between the GDB Debt Recovery Authority (DRA) and the following public entities: HFA, Comprehensive Fund for Agricultural Development of Puerto Rico (FIDA for its Spanish acronym), Ports Authority of Ponce (PAP), Ports of the Americas Authority (POAA) and the EDB, altogether, the "Public Entities". The settlement agreement consists of a cash payment amounting to $29.5 million to resolve $65.4 million in outstanding principal and interest of six loans owed by the Public Entities to the DRA.

The source of funding for the $29.5 million payment to the DRA consists of unrestricted and fully available cash to be contributed by FIDA, HFA, PFC and the Puerto Rico Development Fund (DF). Of the $29.5 million, EDB already contributed $2.8 million, as this amount represents the full payoff of an EDB loan with the DRA, which was made on June 1, 2023.

On October 2, 2023, the settlement agreement was entered by the Public Entities, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) and the DRA in which $50.9 million plus accrued interest in loans owed by the Public Entities to the DRA were settled for a total discounted payment amounting to $29.5 million. On June 1, 2023, EDB paid to the DRA a total of $2.8 million and the remaining balance amounting to $26.7 million was deposited by the Public Entities into a specially designated bank account in AAFAF from which on October 13, 2023, the settlement payment to the DRA was made.

On October 3, 2023, a Memo of Understanding (MOU) was signed between AAFAF, PFC and DF in order for AAFAF to fully undertake, on behalf of PFC and DF, any and all matters as deemed necessary and appropriate to complete the winding down and dissolution of PFC and the DF.

HFA Activities and Events

(1) *Debt Transactions Approved by Financial Oversight and Management Board for Puerto Rico (the Oversight Board)*

- On August 4, 2022, the Oversight Board authorized HFA to enter into a credit agreement with Banco Popular de Puerto Rico (BPPR) to issue a Tax-Exempt Note (the "Note) in an amount up to $23,800,000 for a term of 34 months accruing interest at a fixed rate of 6.50% in order to finance an affordable elderly housing project in the Municipality of Arecibo.

  The Debt Transaction is being issued pursuant to HUD, the Puerto Rico Department of Housing, and the HFA related programs under the Qualified Allocation Plan 2020 in order to: (1) lend the net proceeds of the Note to Sagrado Corazon Affordable LLC to finance the proposed $40,848,035 affordable elderly housing project to construct 120 housing units in the Municipality of Arecibo and (2) to cover the financing and legal costs associating with issuing the Note.

  The Note is not guaranteed by HFA, or by any agency, public corporation or instrumentality of the Commonwealth of Puerto Rico. Proceeds from the Note will only be used to finance the construction of this project and is to be gradually repaid with funds from the U.S. Federal Low Income Housing Tax Credits and funds from the Community Development Block Grant – Disaster Relief during the construction phase of the project.

- On December 21, 2022, the Oversight Board authorized HFA to enter into a conduit financing transaction in an amount up to $33,000,000 to assist in the financing of an affordable rental housing project to be located in the Municipality of San Juan. The Debt Transaction is being issued to lend the proceeds to TFS Housing LLC as HFA's borrower to partially cover the total construction and development costs of 89 single story housing units.

- On March 16, 2023, the Oversight Board authorized HFA to enter into a credit agreement with BPPR in an amount up to $24,000,000 to assist in the financing of an affordable public housing project to be located in the Municipality of Cataño. The Debt Transaction is being issued to lend the proceeds to Bahía Apartments LLC as the HFA's borrower to partially cover the total construction costs of a 104-unit affordable public housing complex and to cover the financing and legal costs of the Tax-Exempt Debt.

- On June 5, 2023, the Oversight Board authorized HFA to enter into three (3) credit agreements with BPPR to assist in the financing of an affordable public housing project in the amounts of approximately $55.75 million (300 units), and $21 million (80 units) in the Municipality of San Juan, and $40.5 million (149 units) in the Municipality of Yabucoa. Also, in that same date, the Oversight Board approved the Authority to enter into a conduit financing transaction in an amount up to $12 million (25 units) to assist in the financing of an affordable public housing project to be located in the Municipality of San Juan.

The proposed transactions would be a non-recourse obligations to the HFA issued in order to access tax-exempt financing pursuant to the HUD and HFA 2020 qualified affordable housing program and will not be guaranteed by HFA, the Government of Puerto Rico or any of its agencies, public corporations, and instrumentalities. Proceeds of the transaction will be repaid through disbursements of Federal Funds, specifically Community Disaster Block Grant – Disaster Relief funds and Low-Income Housing Tax Credit funds. Repayment is not contingent on cash flows from the project and will be repaid at the end of construction. All fees of the transaction including any fees imposed by FAFAA will be funded by HFA.

(2) *Multifamily Housing Collateralized Revenue Bonds*

In February 2023, HFA issued approximately $52,939,000 Multifamily Housing Collateralized Revenue Bonds. The proceeds from the issuance will be used to provide financing to a private company for the acquisition, improvement, rehabilitation, construction, and development of a 294-unit multifamily housing facility. These bonds are limited obligations of the HFA, payable primarily from a trust established as part of the financing.

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, 2022

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and due from banks	$ 90,619,778	$ 112,125,406	$ 202,745,184
Deposits placed with banks	9,066,616	9,442,803	18,509,419
Due from federal government	21,246,418	—	21,246,418
Investments and investment contracts	32,698,531	100,917,168	133,615,699
Investments in PRHFA RLD Investment Fund, LLC	—	35,521,155	35,521,155
Loans receivable, net	—	156,598,722	156,598,722
Accrued interest receivable	434,906	1,197,304	1,632,210
Other receivables, net	—	6,734,811	6,734,811
Real estate available for sale	—	3,174,909	3,174,909
Capital assets:			
Land and other nondepreciable assets	—	7,752,711	7,752,711
Depreciable assets	9,201	825,056	834,257
Other assets	—	618,636	618,636
Total assets	154,075,450	434,908,681	588,984,131
DEFERRED OUTFLOWS OF RESOURCES:			
Loss on bond refundings	—	1,042,126	1,042,126
Goodwill	—	363,767	363,767
Pension related	—	40,764,738	40,764,738
Other post employment benefits related	—	250,807	250,807
Total deferred outflows of resources	—	42,421,438	42,421,438
LIABILITIES:			
Accrued interest payable	$ 68,617	$ —	$ 68,617
Matured interest payable	1,067,736	—	1,067,736
Accounts payable and accrued liabilities:			
Due within one year	28,625,622	19,940,643	48,566,265
Due in more than one year	—	12,800,000	12,800,000
Lease liability:			
Due within one year	—	150,871	150,871
Due in more than one year	—	258,317	258,317
Internal balances	21,774,396	(21,774,396)	—
Due to Commonwealth of Puerto Rico	—	51,900,066	51,900,066
Mortgage loan insurance and liabilities under guaranteed obligations:			
Due within one year	—	1,191,512	1,191,512
Due in more than one year	—	42,010,364	42,010,364
Unearned revenues	45,663,507	8,222,575	53,886,082
Bonds, notes and mortgage-backed certificates payable:			
Due within one year	20,562,751	11,583,114	32,145,865
Due in more than one year	2,696,171	76,531,708	79,227,879
Total pension liability:			
Due within one year	—	10,093,945	10,093,945
Due in more than one year	—	201,665,146	201,665,146
Total other post employment benefit liability:			
Due within one year	—	250,807	250,807
Due in more than one year	—	2,692,952	2,692,952
Total liabilities	120,458,800	417,517,624	537,976,424
DEFERRED INFLOWS OF RESOURCES: Pension related	—	11,044,457	11,044,457
NET POSITION:			
Net investment in capital assets	9,201	8,577,767	8,586,968
Restricted for:			
Qualifying modification distributions	—	260,929	260,929
Affordable housing programs	33,607,449	13,681,298	47,288,747
Unrestricted net position	—	26,248,044	26,248,044
TOTAL NET POSITION	$ 33,616,650	$ 48,768,038	$ 82,384,688

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, 2022

		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	$ 7,103,045	$ –	$ –	$ –	$ (7,103,045)	$ –	$ (7,103,045)
Housing assistance programs	275,618,183	–	1,225,002	287,192,074	12,798,893	–	12,798,893
Total governmental activities	282,721,228	–	1,225,002	287,192,074	5,695,848	–	5,695,848
Business-type activities:							
GDB Operating Fund	14,143,603	–	3,101,567	–	–	(11,042,036)	(11,042,036)
Housing Finance Authority	20,265,679	19,838,265	9,242,493	–	–	8,815,079	8,815,079
Tourism Development Fund	7,080	386,150	3,938	–	–	383,008	383,008
Other non-major	5,623,754	1,621,159	193,355	2,085,847	–	(1,723,393)	(1,723,393)
Total business-type activities	40,040,116	21,845,574	12,541,353	2,085,847	–	(3,567,342)	(3,567,342)
Total	$ 322,761,344	$ 21,845,574	$ 13,766,355	$ 289,277,921	5,695,848	(3,567,342)	2,128,506
Transfers in (out) — Net					(2,163,460)	2,163,460	–
CHANGES IN NET POSITION					3,532,388	(1,403,882)	2,128,506
NET POSITION — Beginning of year					30,084,262	50,171,920	80,256,182
NET POSITION — End of year					$ 33,616,650	$ 48,768,038	$ 82,384,688

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, 2022

	HUD Programs	Home Program	CDBG Program	ARPA Program	Affordable Housing Mortgage Subsidy Program	Total Governmental Funds
ASSETS:						
Restricted:						
Cash and due from banks	$ 6,389	$ 75,040	$ 7,308,939	$ 54,181,866	$ 29,047,544	$ 90,619,778
Deposits placed with banks	—	—	—	—	9,066,616	9,066,616
Due from federal government	836,212	3,015,079	17,395,127	—	—	21,246,418
Investments and investment contracts	—	—	—	—	32,698,531	32,698,531
Interest and other receivables	—	4,469	290,197	—	140,240	434,906
Total assets	$ 842,601	$ 3,094,588	$ 24,994,263	$ 54,181,866	$ 70,952,931	$ 154,066,249
LIABILITIES PAYABLE FROM RESTRICTED ASSETS:						
Due to other funds	$ 836,212	$ 527,616	$ 10,095,996	$ 402,535	$ 9,912,037	$ 21,774,396
Accounts payable and accrued liabilities	6,389	2,567,531	14,671,753	8,115,824	3,264,125	28,625,622
Unearned revenues	—	—	—	45,663,507	—	45,663,507
Matured note payable	—	—	—	—	19,909,611	19,909,611
Matured principal on appropriation note	—	—	—	—	551,670	551,670
Matured interest payable	—	—	—	—	1,067,736	1,067,736
Total liabilities	842,601	3,095,147	24,767,749	54,181,866	34,705,179	117,592,542
Deferred inflows of resources - Intergovernmental grants	—	908,613	—	—	—	908,613
FUND BALANCES (DEFICIT):						
Restricted for affordable housing programs	—	—	226,514	—	36,247,752	36,474,266
Unassigned	—	(909,172)	—	—	—	(909,172)
Total fund balances (deficit)	—	(909,172)	226,514	—	36,247,752	35,565,094
Total liabilities and fund balances	$ 842,601	$ 3,094,588	$ 24,994,263	$ 54,181,866	$ 70,952,931	$ 154,066,249

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, 2022

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

Total fund balances	$ 35,565,094
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	9,201
Long-term liabilities, including notes 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	(2,797,641)
Accrued interest payable is not due and payable in the current period; therefore, is not reported in the funds.	(68,617)
Deferred inflow of resources reported in the governmental funds are recognized as revenue in the governmental activities.	908,613
Net position of governmental activities	$ 33,616,650

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, 2022

	HUD Programs	Home Program	CDBG Program	ARPA Program	Affordable Housing Mortgage Subsidy Program	Total Governmental Funds
REVENUES:						
Commonwealth appropriation for operations and housing assistance programs	$ —	$ —	$ —	$ —	$ 7,880,000	$ 7,880,000
Intergovernmental - federal government	135,304,162	5,378,527	107,453,499	29,974,035	—	278,110,223
Interest income on deposits placed with banks	—	—	—	19,751	14,065	33,816
Interest income on investments	—	—	—	—	1,829,266	1,829,266
Net decrease in fair value of investments	—	—	—	—	(604,264)	(604,264)
Other	—	57,214	—	—	1,308,731	1,365,945
Total revenues	135,304,162	5,435,741	107,453,499	29,993,786	10,427,798	288,614,986
EXPENDITURES:						
General government and other	2,969,424	563,141	1,115,421	2,358,744	87,154	7,093,884
Housing assistance programs	132,334,738	4,675,249	106,111,564	27,635,042	4,688,505	275,445,098
Debt service						
Principal	—	—	—	—	101,402	101,402
Interest	—	—	—	—	170,766	170,766
Total expenditures	135,304,162	5,238,390	107,226,985	29,993,786	5,047,827	282,811,150
EXCESS OF REVENUES OVER EXPENDITURES	—	197,351	226,514	—	5,379,971	5,803,836
OTHER FINANCING SOURCES (USES):						
Net transfers-out	—	—	—	—	(2,163,460)	(2,163,460)
NET CHANGES IN FUND BALANCES (DEFICIT)	—	197,351	226,514	—	3,216,511	3,640,376
FUND BALANCES (DEFICIT) — Beginning of year	—	(1,106,523)	—	—	33,031,241	31,924,718
FUND BALANCES (DEFICIT) — End of year	$ —	$ (909,172)	$ 226,514	$ —	$ 36,247,752	$ 35,565,094

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, 2022

Amounts reported for governmental activities in the statement of net position are different because:	
Net change in fund balances - total governmental funds.	$ 3,640,376
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.	(2,704)
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	101,402
Net decrease in long-term accrued interest payable	385
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.	(197,910)
Governmental funds report capital outlays as expenditutres; however, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expenses. This is the amount by which depreciation exceeds capital outlays in the current period.	(9,161)
Change in net position of governmental activities	$ 3,532,388

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, 2022

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Other Non-major	Eliminations	Total
ASSETS						
Current assets:						
Cash and due from banks	$ 17,969,276	$ 43,730,201	11,045,760	$ 7,169,329	$ –	$ 79,914,566
Deposits placed with banks	–	653,505	–	–	–	653,505
Accrued interest receivable	129	927,999	3,938	–	–	932,066
Other current receivables	3,100,000	3,563,013	–	–	–	6,663,013
Due from other funds	500,439	21,774,396	–	–	(500,439)	21,774,396
Other current assets	587,121	31,515	–	–	–	618,636
Restricted:						
Cash and due from banks	2,792,039	23,782,872	–	5,635,929	–	32,210,840
Deposits placed with banks	–	8,789,298	–	–	–	8,789,298
Accrued interest receivable	–	265,238	–	–	–	265,238
Other current receivables	–	71,798	–	–	–	71,798
Total current assets	24,949,004	103,589,835	11,049,698	12,805,258	(500,439)	151,893,356
Non-current assets:						
Restricted:						
Investments and investment contracts	–	42,578,815	–	–	–	42,578,815
Loans receivable – net	–	50,142,632	–	–	–	50,142,632
Real estate available for sale	–	3,174,909	–	–	–	3,174,909
Investments and investment contracts	–	54,656,615	–	3,681,738	–	58,338,353
Investments in PRHFA RLF Investment Fund, LLC	–	35,521,155	–	–	–	35,521,155
Loans receivable – net	–	106,456,090	–	–	–	106,456,090
Capital assets:						
Land and other non-depreciable assets	–	7,752,711	–	–	–	7,752,711
Depreciable assets	–	825,056	–	–	–	825,056
Total non-current assets	–	301,107,983	–	3,681,738	–	304,789,721
Total assets	$ 24,949,004	$ 404,697,818	$ 11,049,698	$ 16,486,996	$ (500,439)	$ 456,683,077
DEFERRED OUTFLOWS OF RESOURCES:						
Loss on bond refundings	–	1,042,126	–	–	–	1,042,126
Goodwill	–	363,767	–	–	–	363,767
Pension related	28,674,096	12,062,120	28,522	–	–	40,764,738
Other post employment benefits related	135,800	115,007	–	–	–	250,807
Total deferred outflows of resources	28,809,896	13,583,020	28,522	-	-	42,421,438
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 53,758,900	$ 418,280,838	$ 11,078,220	$ 16,486,996	$ (500,439)	$ 499,104,515

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, 2022

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Other Non-major	Eliminations	Total
LIABILITIES						
Current liabilities payable from unrestricted assets:						
Accounts payable and accrued liabilities	$ 3,711,296	$ 8,688,006	$ 100	$ 18,850	$ –	$ 12,418,252
Lease liability	–	150,871	–	–	–	150,871
Due to other funds	–	–	193,075	307,364	(500,439)	–
Due to Commonwealth of Puerto Rico	33,224,805	18,643,295	31,966	–	–	51,900,066
Total pension liability	6,557,482	3,530,830	5,633	–	–	10,093,945
Total other post employment pension benefits liability	135,800	115,007	–	–	–	250,807
Total current liabilities payable from unrestricted assets	43,629,383	31,128,009	230,774	326,214	(500,439)	74,813,941
Current liabilities payable from restricted assets:						
Accounts payable and accrued liabilities	1,792,039	355,352	–	5,375,000	–	7,522,391
Lease liability	–	258,317	–	–	–	258,317
Unearned revenue	–	8,222,575	–	–	–	8,222,575
Liability for losses on mortgage loan insurance	–	1,191,512	–	–	–	1,191,512
Bonds and mortgage-backed certificates payable	–	11,583,114	–	–	–	11,583,114
Total current liabilities	45,421,422	52,738,879	230,774	5,701,214	(500,439)	103,591,850
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	130,617,387	70,899,622	148,137	–	–	201,665,146
Total other post employment pension benefits liability	1,413,738	1,271,933	7,281	–	–	2,692,952
Non-current liabilities payable from restricted assets:						
Bonds and mortgage-backed certificates payable	–	76,531,708	–	–	–	76,531,708
Total non-current liabilities	144,831,125	148,703,263	42,165,782	–	–	335,700,170
Total liabilities	190,252,547	201,442,142	42,396,556	5,701,214	(500,439)	439,292,020
DEFERRED INFLOWS OF RESOURCES - Pension related	6,633,400	4,404,659	6,398	–	–	11,044,457
NET POSITION (DEFICIT):						
Net investment in capital assets	–	8,577,767	–	–	–	8,577,767
Restricted for:						
Qualifying modification distributions	–	–	–	260,929	–	260,929
Affordable housing programs	–	13,681,298	–	–	–	13,681,298
Unrestricted net position (deficit)	(143,127,047)	190,174,972	(31,324,734)	10,524,853	–	26,248,044
Total net position (deficit)	$ (143,127,047)	$ 212,434,037	$ (31,324,734)	$ 10,785,782	$ -	$ 48,768,038
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)	$ 53,758,900	$ 418,280,838	$ 11,078,220	$ 16,486,996	$ (500,439)	$ 499,104,515

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, 2022

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Other Non-major	Eliminations	Total
OPERATING REVENUES:						
Investment income:						
Interest and dividend income on investments and investment contracts	$ —	$ 2,285,207	$ —	$ 218,193	$ —	$ 2,503,400
Interest income on deposits placed with banks	1,567	84,070	3,938	7,423	—	96,998
Net decrease in fair value of investments	—	(2,530,382)	—	(32,261)	—	(2,562,643)
Total investment income	1,567	(161,105)	3,938	193,355	—	37,755
Interest Income on loans receivable:						
Private sector	—	9,143,856	—	—	—	9,143,856
Total interest income on loans receivable	—	9,143,856	—	—	—	9,143,856
Total investment and interest income on loans receivable	1,567	8,982,751	3,938	193,355	—	9,181,611
Non-interest income:						
Commitment, guarantee and other service fees	—	4,928,382	—	—	—	4,928,382
Mortgage loan insurance premiums	—	2,529,963	—	—	—	2,529,963
Other income	—	3,369,274	386,150	1,621,159	—	5,376,583
Recovery of custodial credit risk loss on deposits	3,100,000	138,348	—	—	—	3,238,348
Recovery for loan losses	—	3,416,201	—	—	—	3,416,201
Recovery for mortgage loan insurance	—	3,773,442	—	—	—	3,773,442
Recovery for losses on other real estate owned	—	788,082	—	—	—	788,082
Equity pickup on earnings of PRHFA RLF Investment Fund, LLC	—	1,032,921	—	—	—	1,032,921
Total non-interest income	3,100,000	19,976,613	386,150	1,621,159	—	25,083,922
Total operating revenues	3,101,567	28,959,364	390,088	1,814,514	—	34,265,533
OPERATING EXPENSES:						
Interest expense:						
Bonds, notes and mortgage-backed certificates	—	5,474,987	—	—	—	5,474,987
Total interest expense	—	5,474,987	—	—	—	5,474,987
Non-interest expenses:						
Salaries and fringe benefits	346,312	7,542,469	—	—	—	7,888,781
Pension and OPEB expense	8,878,968	3,101,780	2,503	—	—	11,983,251
Depreciation and amortization	—	712,633	—	—	—	712,633
Occupancy and equipment costs	244,447	368,533	—	—	—	612,980
Legal and professional fees	685,323	2,226,237	—	5,528	—	2,917,088
Office and administrative	53,084	621,228	4,577	78,951	—	757,840
Subsidy and trustee fees	12,180	136,470	—	—	—	148,650
Provision for losses on other assets	135,329	—	—	—	—	135,329
Transfer of beneficial interest pursuant to Qualifying Modification	3,100,000	—	—	—	—	3,100,000
Distribution expense	—	—	—	5,539,275	—	5,539,275
Other	687,960	81,342	—	—	—	769,302
Total non-interest expenses	14,143,603	14,790,692	7,080	5,623,754	—	34,565,129
Total operating expenses	14,143,603	20,265,679	7,080	5,623,754	—	40,040,116
OPERATING INCOME (LOSS)	(11,042,036)	8,693,685	383,008	(3,809,240)	—	(5,774,583)

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, 2022

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Other Non-major	Eliminations	Total
NON-OPERATING INCOME (EXPENSES)						
Contributions from Commonwealth of Puerto Rico	–	$ –	$ –	$ 2,085,847	$ –	$ 2,085,847
Net gain on sale of loans	–	121,394	–	–	–	121,394
OTHER FINANCING SOURCES - net transfer-in (out)	(4,041,003)	2,163,460	–	4,041,003	–	2,163,460
CHANGES IN NET POSITION (DEFICIT)	(15,083,039)	10,978,539	383,008	2,317,610	–	(1,403,882)
NET POSITION (DEFICIT) — Beginning of year	(128,044,008)	201,455,498	(31,707,742)	8,468,172	–	50,171,920
NET POSITION (DEFICIT) — End of year	$ (143,127,047)	$ 212,434,037	$ (31,324,734)	$ 10,785,782	$ –	$ 48,768,038

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, 2022

	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	$ –	$ 8,648,357	$ –	$ –	$ –	$ 8,648,357
Cash paid for mortgage and construction loans	–	(18,386,123)	–	–	–	(18,386,123)
Principal collected on mortgage and construction loans	–	22,807,684	–	–	–	22,807,684
Cash received from nonoperating income	–	5,724,258	–	–	–	5,724,258
Cash received from other operating noninterest revenues	81,617	7,503,641	–	1,500,000	–	9,085,258
Cash payment for other operating noninterest expenses	(3,082,056)	(4,393,255)	(4,984)	(4,119,954)	–	(11,600,249)
Cash received from mortgage loans insurance premiums	–	2,129,338	–	–	–	2,129,338
Cash payments for salaries and fringe benefits	(339,106)	(7,567,710)	–	–	–	(7,906,816)
Cash payments for operating expenses	–	(5,148,757)	–	–	–	(5,148,757)
Net cash provided by (used in) operating activities	(3,339,545)	11,317,433	(4,984)	(2,619,954)	–	5,352,950
Cash flows from noncapital financing activities:						
Transfers-in	–	3,429,112	–	4,041,003	(4,041,003)	3,429,112
Transfers-out	(4,041,003)	(1,265,652)	–	–	4,041,003	(1,265,652)
Net increase (decrease) in:						
Proceeds from debt restructuring	–	–	–	2,085,847	–	2,085,847
Repayments of bonds, notes and mortgage-backed securities	–	(11,996,987)	–	–	–	(11,996,987)
Interest paid	–	(2,950,012)	–	–	–	(2,950,012)
Net cash provided by (used in) noncapital financing activities	(4,041,003)	(12,783,539)	–	6,126,850	–	(10,697,692)

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, 2022

	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	$ –	$ (186,433)	$ –	$ –	$ –	$ (186,433)
Net cash used in capital and related financing activities	–	(186,433)	–	–	–	(186,433)
Cash flows from investing activities:						
Net decrease (increase) in:						
Deposits placed with banks	$ –	$ 47,979,004	$ –	$ –	$ –	$ 47,979,004
Purchase of investments	–	(153,416,431)	–	–	–	(153,416,431)
Proceeds from sales and redemptions of investments	–	119,807,609	–	682,009	–	120,489,618
Interest and dividends received on deposits and investments	1,567	2,399,601	–	225,616	–	2,626,784
Proceeds from sale of real estate held for sale	–	3,667,912	–	–	–	3,667,912
Acquisition of real estate available for sale	–	(3,228,149)	–	–	–	(3,228,149)
Net cash provided by investing activities	1,567	17,209,546	–	907,625	–	18,118,738
Net change in cash and due from banks	(7,378,981)	15,557,007	(4,984)	4,414,521	–	12,587,563
Cash and due from banks - beginning of year	28,140,296	51,956,066	11,050,744	8,390,737	–	99,537,843
Cash and due from banks - end of year	$ 20,761,315	$ 67,513,073	$ 11,045,760	$ 12,805,258	$ –	$ 112,125,406
Reconciliation to proprietary funds:						
Statement of Net Position (Deficit)						
Cash and due from banks - unrestricted	$ 13,398,123	$ 43,730,201	$ 11,045,760	$ 8,674,712	$ –	$ 76,848,796
Cash and due from banks - restricted	7,363,192	23,782,872	–	4,130,546	–	35,276,610
Total cash and due from banks at year end	$ 20,761,315	$ 67,513,073	$ 11,045,760	$ 12,805,258	$ –	$ 112,125,406

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, 2022

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Other Non-major	Eliminations	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	$ (11,042,036)	$ 8,693,685	$ 383,008	$ (3,809,240)	$ —	$ (5,774,583)
Adjustments to reconcile operating income/(loss) to net cash provided by (used in) operating activities:						
Investment income	(1,567)	—	(3,938)	(218,477)	—	(223,982)
Interest income on other than housing program loans	—	(2,285,207)	—	(7,139)	—	(2,292,346)
Other income	—	(3,369,274)	—	—	—	(3,369,274)
Capitalized interest	—	(1,715,991)	—	—	—	(1,715,991)
Interest expense	—	5,474,987	—	—	—	5,474,987
Recovery for loan losses	—	(3,416,201)	—	—	—	(3,416,201)
Provision for losses on other assets	132,098	—	—	—	—	132,098
Recovery for losses on guarantees and letters of credit	—	—	—	—	—	—
Net (increase) decrease in fair value of investments	—	2,530,382	—	32,261	—	2,562,643
Provision for losses on real estate available for sale	—	(788,082)	—	—	—	(788,082)
Recovery for losses on mortgage loan insurance	—	(3,773,442)	—	—	—	(3,773,442)
Depreciation and amortization	—	712,633	—	—	—	712,633
Recovery of custodial credit risk loss on deposits	(3,100,000)	(138,348)	—	—	—	(3,238,348)
Net (increase) decrease in operating assets:						
Mortgage and construction loans	—	6,382,835	—	—	—	6,382,835
Accrued interest on mortgage and construction loans	—	521,922	—	—	—	521,922
Accounts receivable and other assets	99,968	(1,022,981)	—	—	—	(923,013)
Deferred outflows-pension related	3,761,584	9,435,049	7,505	—	—	13,204,138
Other post employement pension benefits	(8,100)	—	600	—	—	(7,500)
Due from/(to) other funds	507,309	(5,201,078)	(386,150)	(121,159)	—	(5,201,078)
Net increase (decrease) in operating liabilities:						
Accounts payable and accrued liabilities	1,185,715	917,005	—	1,503,800	—	3,606,520
Unearned revenues	—	5,191,147	(407)	—	—	5,190,740
Liability for losses on mortgage loan insurance	—	(3,773,442)	—	—	—	(3,773,442)
Total other post employement pension liability	(94,990)	(152,496)	(8,113)	—	—	(255,599)
Net pension liability	(1,338,305)	(3,152,850)	(3,288)	—	—	(4,494,443)
Deferred inflows-pension related	(250,934)	247,180	166	—	—	(3,588)
Due to Commonwealth	6,809,713	—	5,633	—	—	6,815,346
Net cash provided by (used in) operating activities	$ (3,339,545)	$ 11,317,433	$ (4,984)	$ (2,619,954)	$ —	$ 5,352,950

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, 2022

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Other Non-major	Eliminations	Total
Noncash investing and noncapital financing activities:						
Accretion or (amortization) of discount and capitalized interest on investments securities and deposits placed with banks	$ –	$ 2,306,787	$ –	$ –	$ –	$ 2,306,787
Capitalized interest and deferred amortization on loans	$ –	$ 1,715,991	$ –	$ –	$ –	$ 1,715,991
Recovery on custodial credit risk loss on deposits	$ 3,100,000	$ 138,348	$ –	$ –	$ –	$ 3,238,348
Change in fair value of investments	$ –	$ (2,530,382)	$ –	$ (32,261)	$ –	$ (2,562,643)
Amortization of deferred loss (included in interest expense)	$ –	$ 219,020	$ –	$ –	$ –	$ 219,020
Pension and other post employment benefit payments made after measurement date by the Commonwealth on behalf of the Authority	$ –	$ 3,645,837	$ –	$ –	$ –	$ 3,645,837
2021 deferred outflow of resources applied to reduce net pension and other post employment benefit liabilities during 2022	$ –	$ (3,734,044)	$ –	$ –	$ –	$ (3,734,044)

See accompanying notes to basic financial statements.

(1) Reporting Entity

The Government Development Bank for Puerto Rico (the Bank or GDB) is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth") created by Act No. 17 of September 23, 1948, as amended (Act 17-1948). Before April 6, 2016, the Bank's principal functions were to act as (i) fiscal agent, paying agent and financial advisor for the Commonwealth and its agencies, instrumentalities, and public corporations (collectively referred to as public entities) and municipalities, (ii) to grant interim and long-term loans to public entities and municipalities and private enterprises, which, through that date, furthered the economic development of Puerto Rico, and (iii) to act as depository or trustee of funds for the Commonwealth, its public entities and municipalities. The continued deterioration in the Bank's financial condition and inability to repay its obligations prompted, among several remediation efforts, the reduction of the Bank's role to acting as an agent in (i) collecting on its loan portfolio and (ii) disbursing funds pursuant to strict priority guidelines, pursuant to Act No. 21 of April 6, 2016, *Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (*the Moratorium Act) and a series of executive orders and subsequent laws 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 though contributions, thus, meeting the criterial for blending as discussed above. Pursuant to the Qualifying Modification, further described in Note 4, the 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.

The blended component units are described below:

- The HFA operates under Act No. 103-2001, 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.

  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. Please refer to Note 21 for a description of several subsequent events regarding the obligations issued by TDF.

- 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 a description of several subsequent events on the bonds issued by PFC.

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

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

- The PET was created on November 29, 2018, in order to service the net claims that certain depositors have against the Bank for which they were granted a pro-rata share of interest in such trust and the accompanying collateral assets received from the Bank, pursuant to the GDB Restructuring Act and Qualifying Modification. Further details about the PET are described in Note 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, 2022.

(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.

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 was bound to the new debt and payment terms, if any. The GDB Operating Fund recognized 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.

(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.

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, 2022.

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

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

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

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

- **HUD Programs** – This special revenue fund accounts for the subsidy to low and moderate-income families for the rental of 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.

- **ARPA Programs** – This special revenue fund accounts for revenue sources of the American Rescue Plan Act (ARPA) that is intended to prevent mortgage delinquencies and defaults, foreclosures, loss of utilities or home energy services, and displacement of homeowners experiencing financial hardship after January 21, 2020, as a result of the COVID 19 pandemic.

- **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, 2022.

  - ***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.

(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 lease agreements 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, 2022, 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.

(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, 2022, consists 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.

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 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, 2022, 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.

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.

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, 2022, 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) ***Issue Costs***

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

(j) ***Right to Use Lease Assets***

Right-to-use assets are representative of the Bank's right to use an asset over the life of a lease in which it is the lessee. The asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received. Right-to-use assets are amortized over the shorter of the asset's useful life or the term of the lease.

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

Real estate available for sale is comprised of 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.

(l) ***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.

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

The Bank occasionally enters 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, 2022, there were no securities sold under agreement to repurchase.

(n) ***Compensated Absences***

The liability for compensated absences reported in the government-wide and proprietary funds financial statements consist 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.

(o) ***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.

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(p) ***Deferred Outflows and Inflows 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 2021 (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 become available, the deferred inflow of resources is removed from the balance sheet and the revenue is recognized.

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(q) ***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 2022. Refer to note 21 for the PFC Restructuring Support Agreement.

(r) ***Guarantee Fees***

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

(s) ***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.

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.

(t) ***Mortgage Loans Insurance Premiums***

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

(u) ***Accounting for Pension Cost***

Pursuant to Act No. 106 of 2017 (Act 106-2017), the Commonwealth adopted a “pay-as-you-go” (PayGo) system, significantly reforming the defined benefit plan (the Plan) of the Employees’ Retirement System of the Government of the Commonwealth (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.

Under the PayGo system, the Bank applies 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, 2021 actuarial measurement data was used for the pension benefits financial reporting recognition as of and for the fiscal year ending June 30, 2022.

The Bank’s pension activity for the year ending June 30, 2022 amounted to a pension expense of approximately $12.1 million and the Total Pension Liability as of June 30, 2022 amounted to approximately $211.8 million. Disclosures required can be found in Note 15.

(v) ***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 $251,000 (approximately $136,000 for the GDB Operating Fund and approximately $115,000 for HFA). No other postemployment benefit payments were made for TDF during fiscal year 2022.

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2021 actuarial measurement data was used for the OPEB financial reporting recognition as of and for the fiscal year ending June 30, 2022.

The Bank’s annual OPEB credit for the year ending June 30, 2022 amounted to approximately $14,000 and the OPEB liability as of June 30, 2022 amounted to approximately $2.9 million. Disclosures required under GASB Statement No. 75 can be found in Note 15.

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(w) ***Future Adoption of Accounting Pronouncements***

During the fiscal year ended on June 30, 2022, certain governmental accounting pronouncements became effective, none of which had a significant impact in the results of the operations, or in the presentation of the financial statements of the Bank.

The following new accounting standards have been issued by the GASB but are not yet effective as of June 30, 2022:

- 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.

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

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

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

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

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

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

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

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

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

- Disclosures related to nonmonetary transactions

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

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

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

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

The requirements of this Statement that are effective as follows:

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

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

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

- 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.

  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.

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

(3) GDB Operating Fund 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.

However, with respect to HFA, its operational and financial activities do not revolve and depend anymore around the GDB Operating Fund. Furthermore, HFA is neither exhibiting any other indications of possible financial difficulties or internal and external matters that may create uncertainties on whether HFA has the ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited, as defined by Statement No. 56 of the GASB - *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards AU Section 341 - The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*. As a result, management believes that HFA will continue operating and there is no uncertainty related to its operations.

(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. 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.

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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 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, 2022, the PET has been able to collect approximately $5.4 million from such assets ($1.5 million during fiscal year 2022), 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, 2022, leaving an obligation amount outstanding of $5.375 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, as defined in the PET Deed, included certain provisions and contingent events, which remain unsettled and/or without occurrence as of June 30, 2022:

- 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. This cash potential is also known as Excess Reserved Cash or Contingent Settlement Cash. Approximately $4 million was confirmed as excess funds during fiscal year 2022 and was transferred to the PET on December 10, 2021 (as further described in the next paragraph below).

- 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, 2022.

- 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 fund's 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, nor have they been included in the annual budgetary appropriation process of the Commonwealth as of and during the fiscal year ending June 30, 2022.

One of the items labeled as Specified Cash Asset, consisted of a reserve account transferred to the PET to cover its estimated operating expenses after the Closing Date, with an opening balance of approximately $1,8 million, of which approximately $1,7 million remain unexpended as of June 30, 2022. 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 $16.4 million remains as of June 30, 2022, 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 approximately $15 million. As of June 30, 2022, approximately $1 million of the vendor claims reserve remains in the bank account for such purpose, which may potentially turn into surplus cash; however, the Bank already confirmed the existence of approximately $4 million of such excess cash during fiscal year 2022, as would be required pursuant to the UCC stipulations and the PET Deed, which was transferred to the PET on December 10, 2021. The PET instead, transferred to the Puerto Rico Electric Power Authority (PREPA) and to the ERS approximately $3 million and $1 million, respectively, as partial satisfaction of the Contingent Settlement Cash in accordance with the aforementioned UCC Stipulation and the PET Deed (refer to Notes 12 and 21).

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 $18.5 million mature in fiscal year 2023.

The table presented below discloses the level of custodial credit risk assumed by the Bank as of June 30, 2022. As of June 30, 2022, $70,413,499 of the depository bank balance of $282,643,253 was uninsured and uncollateralized as follows:

	Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Cash and due from banks	$ 202,745,184	$ 193,720,335	$ -
Deposits placed with banks	18,509,419	88,922,918	70,413,499
Total	$ 221,254,603	$ 282,643,253	$ 70,413,499

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.

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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 are as follows:

	Deposit Claims Receivable from PET at June 30, 2022		
Entity	**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)	-
Total	$ 95,877,559	$ (95,877,559)	$ -

The HFA, a blended component unit of the Bank, was audited by another auditor which issued its opinion on the 2022 stand-alone financial statements with a custodial credit loss recognition on its claims receivable from the PET of approximately $56.7 million as of June 30, 2022.

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Custodial Credit Loss on Deposits at EDB

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

	Bank's Deposits with EDB at June 30, 2022		
Entity	**Deposit Balance**	**Custodial Credit Loss**	**Book Balance**
GDB Operating Fund	$ 1,233,653	$ (1,233,653)	$ -
Housing Finance Authority	65,242,680	(65,242,680)	-
Tourism Development Fund	1,609,472	(1,609,472)	-
Total	$ 68,085,805	$ (68,085,805)	$ -

The GDB Operating Fund had an overnight deposit with EDB in the amount of $35.1 million. On April 18, 2022, the Board of Director of FAFAA approved, pursuant to Section 207 of PROMESA, an EDB proposed Settlement Agreement with the Bank regarding this $35.1 million overnight deposit. Pursuant to the proposed Settlement Agreement, EDB made a commitment for a one-time cash payment of $3.1 million, which the Bank accrued as of June 30, 2022, in full settlement of the outstanding balance of the aforementioned overnight deposit. As these overnight deposits were part of the Restructuring Property retained by GDB, which beneficial interest pertains to the DRA pursuant to the GDB Restructuring Act (see Note 4), the proceeds received upon this settlement were subsequently transferred to the DRA after June 30, 2022 (See Note 12).

The GDB Operating Fund has another time deposit with EDB, for which it has recognized custodial credit losses as of June 30, 2022 in the amount of approximately $1.2 million (none were recognized during fiscal year 2022). Interest income that had been recognized on this time deposit during fiscal year 2022 in the amount of approximately $25,000 was reversed. The depository bank balance as of June 30, 2022 amounted to $1,276,601.

The HFA, a blended component unit of the Bank, was audited by another auditor and issued its 2022 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, 2022 (none were recognized during fiscal year 2022). The depository bank balance as of June 30, 2022 amounted to $67,476,722.

The TDF has recognized custodial credit losses on its cash and deposits with EDB as of June 30, 2022 in the amount of $1,609,472 (none were recognized during fiscal year 2022). Interest income that had been recognized and capitalized on these cash and deposits during fiscal year 2022 in the amount of approximately $9,000 was also reversed, which is the basis for the custodial credit loss of $1,609,472 as of June 30, 2022. The depository bank balance as of June 30, 2022 amounted to $1,674,485.

(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.

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, 2022. 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	$ 55,507,649	$ -	$ -	$ -	$ 55,507,649
Mortgage and asset-backed securities:					
Government National Mortgage Association ("GNMA")	-	16,097,179	14,867,732	6,786,421	37,751,332
Federal National Mortgage Association ("FNMA")	-	605,336	647,447	-	1,252,783
Other	-	-	-	85,370	85,370
External investment pools-Federated Government Obligations	-	-	12,285,967	-	12,285,967
GDB Debt Recovery Authority bonds	-	-	-	3,681,738	3,681,738
Nonparticipating investment contracts:					
Trinity Funding Co	-	-	13,073,251	-	13,073,251
Popular Bank of Puerto Rico	-	-	5,039,757	-	5,039,757
Santander Bank Puerto Rico	-	-	4,933,352	-	4,933,352
Total investments	$ 55,507,649	$ 16,702,515	$ 50,847,506	$ 10,553,529	133,611,199
Preferred securities/interest:					
Other					4,500
Total					$ 133,615,699

Total investments in fixed-income external investment pools were approximately $12.3 million, consisting of Federated Government Obligations with an average maturity of five to ten years.

During fiscal year 2013, the TDF entered into an agreement with a third party to redeem its investment in class B preferred special interest in Desarrolladora Del Norte, S. en C. for $32 million in cash and an $8 million non-interest-bearing promissory note. The non-interest-bearing promissory note requires annual payments of $800,000 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, 2022.

As of June 30, 2022, 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 $28.2 million as of June 30, 2022), the terms of which generally provide for early redemption of the bonds if the securities are repaid early.

During the year ending June 30, 2022, proceeds from redemptions of investments from all the proprietary funds amounted to approximately $120 million. There were no gains or losses on the sale and redemption of investments during fiscal year 2022. Purchases of investments during the year ending June 30, 2022 amounted to approximately $153 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:

	Credit Risk Rating [1]				
Securities type	**AAA**	**AA**	**A**	**B**	**Total**
Mortgage and asset-backed securities					
FNMA	$ -	$ 1,252,783	$ -	$ -	$ 1,252,783
Other	-	85,370	-	-	85,370
External investment pools-Federated					
Government Obligations	12,285,967	-	-	-	12,285,967
Non-participating investment contracts	-	-	18,006,603	5,039,757	23,046,360
Total	$ 12,285,967	$ 1,338,153	$ 18,006,603	$ 5,039,757	$ 36,670,480

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

The credit quality ratings of non-participating investment contracts are based on the credit quality ratings, as of June 30, 2022, 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.

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As of June 30, 2022, 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	$ 55,507,649	$ -	$ -	$ 55,507,649
Mortgage and asset-backed securities:				
Government National Mortgage Association ("GNMA")	-	37,751,332	-	37,751,332
FNMA	-	1,252,783	-	1,252,783
Other	-	85,370	-	85,370
External investment pools-Federated				
Government Obligations	-	12,285,967	-	12,285,967
GDB Debt Recovery Authority bonds	-	3,681,738	-	3,681,738
Preferred securities/interest	-	-	4,500	4,500
Total investments measured at fair value	$ 55,507,649	$ 55,057,190	$ 4,500	110,569,339
Investments not measured at fair value:				
Nonparticipating investment contracts (at amortized cost)				23,046,360
Total investments				$ 133,615,699

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(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, 2022 consisted as follows:

Description	Amount
Investment in RLF as of June 30, 2021	$ 34,488,234
Equity pick up on earnings of PRHFA RLF Investment Fund, LLC	1,032,921
Investment in RLF as of June 30, 2022	$ 35,521,155

The equity pickup related to the net earnings of RLF during the fiscal year ending June 30, 2022, amounting to $1,032,921 is recorded separately in the Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds.

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(8) Loans Receivable and Allowance for Loan Losses

As of June 30, 2022, the outstanding balance (in thousands) of loans is as follows:

	GDB Operating Fund [1]	Tourism Development Fund	Housing Finance Authority	Development Fund	Total
Public corporations and agencies	$ 863,768	$ -	$ -	$ -	$ 863,768
Allowance for loan losses	(863,768)	-	-	-	(863,768)
Net loans to public sector	-	-	-	-	-
Private sector	-	26,488	188,714	18,300	233,502
Allowance for loan losses	-	(26,488)	(32,115)	(18,300)	(76,903)
Net loans to private sector	-	-	156,599	-	156,599
Total loans receivable, net	$ -	$ -	$ 156,599	$ -	$ 156,599

[1] 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 were 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, 2022, 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
	$ 863,768

For the year ending June 30, 2022, there were no further disbursements or collections on the GDB Retained Loans.

As further disclosed in Note 21, the budget certified by the Oversight Board for fiscal years 2019 through 2023 did not include appropriations for the payment of debt service of the remaining GDB Retained Loans.

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The following is a summary of the GDB Retained Loans considered to be impaired as of June 30, 2022, and the related interest income for the year then ended (in thousands):

	GDB Retained Loans (in thousands)
Recorded investment in impaired loans:	
Not requiring an allowance for loan losses	$ -
Requiring an allowance for loan losses	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, 2022, 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 interest in accordance with their original terms, is approximately $46 million in fiscal year 2022.

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 to 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 $157 million as of June 30, 2022, 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, 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, 2022, the TDF had collected $4.5 million on such contingency, none of which was collected during the year ending June 30, 2022.

Private sector loans classified as nonaccrual amounted to approximately $75.8 million as of June 30, 2022. Interest income that would have been recorded if these loans had been performing in accordance with their original terms was approximately $4.7 million in 2022.

The following is a summary of private sector loans considered to be impaired as of June 30, 2022, 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	$ -	$ 9,610	$ -	$ 9,610
Requiring an allowance for loan losses	26,488	21,399	18,300	66,187
Total recorded investment in impaired loans	$ 26,488	$ 31,009	$ 18,300	$ 75,797
Related allowance for loan losses	$ 26,488	$ 22,650	$ 18,300	$ 67,438
Average recorded investment in impaired loans	$ 26,488	$ 32,711	$ 18,300	$ 77,499
Interest income recognized on impaired loans	$ -	$ -	$ -	$ -
Interest income that would have been recognized had these loans not been impaired	$ 1,589	$ 2,016	$ 1,120	$ 4,725

In the case of the HFA, an additional general reserve of approximately $9.1 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, 2022 (in thousands):

	Proprietary Funds				
	GDB Operating Fund	Tourism Development Fund	Housing Finance Authority	Development Fund	Total
Balance – beginning of year, as restated	$ 863,768	$ 26,488	$ 37,358	$ 18,300	$ 945,914
Release of provision for loan losses	-	-	(3,416)	-	(3,416)
Write-offs	-	-	(1,827)	-	(1,827)
Balance – end of year	$ 863,768	$ 26,488	$ 32,115	$ 18,300	$ 940,671

(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 $135.3 million during the year ending June 30, 2022. This amount includes approximately $3 million of administrative fees for services performed as contract administrator, which are reimbursed by HUD. As of June 30, 2022, the amounts due from the federal government under the HUD Programs fund amounted to approximately $836,000.

During the year ending June 30, 2022, 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, 2022, related to the HOME Program.

During the year ending June 30, 2022, the HFA expended approximately $107.2 million of CDBG Program funds. The HFA has approximately $17.4 million due from the federal government as of June 30, 2022, related to the HOME Program.

(10) Real Estate Available for Sale

Real estate available for sale as of June 30, 2022, at fair value, consisted of approximately $3.2 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, 2022, 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.

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(11) Capital Assets

Capital assets activity for the year ending June 30, 2022, was as follows:

	Governmental activities			
	Beginning balance	Additions	Reductions/ reclassifications	Ending balance
Capital assets:				
Information systems	$ 75,129	$ -	$ -	$ 75,129
Office furniture and equipment	37,633	-	-	37,633
Vehicles	97,286	-	-	97,286
Total capital assets	210,048	-	-	210,048
Less accumulated depreciation and amortization for:				
Information systems	(68,920)	(2,931)	-	(71,851)
Office furniture and equipment	(37,633)	-	-	(37,633)
Vehicles	(85,133)	(6,230)	-	(91,363)
Total accumulated depreciation	(191,686)	(9,161)	-	(200,847)
Capital assets governmental activities – net	$ 18,362	$ (9,161)	$ -	$ 9,201

	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	4,279,478	-	-	4,279,478
Information systems	5,771,962	153,975	-	5,925,937
Office furniture and equipment	2,325,419	29,750	-	2,355,169
Right of use assets-equipment	-	555,019	-	555,019
Vehicles	251,807	-	-	251,807
Total capital assets being depreciated	12,628,666	738,744	-	13,367,410
Less accumulated depreciation and amortization for:				
Leasehold improvements	(4,146,845)	(27,653)	-	(4,174,498)
Information systems	(5,328,383)	(332,037)	-	(5,660,420)
Office furniture and equipment	(2,287,727)	(19,219)	-	(2,306,946)
Right of use assets-equipment	-	(153,921)	-	(153,921)
Vehicles	(234,658)	(11,911)	-	(246,569)
Total accumulated depreciation and amortization	(11,997,613)	(544,741)	-	(12,542,354)
Total capital assets being depreciated – net	631,053	194,003	-	825,056
Capital assets business type activities – net	$ 8,383,764	$ 194,003	$ -	8,577,767
Total capital assets – net				$ 8,586,968

(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, 2022, 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	$ 653,140
Less unaccreted discount	(51,079)	2,704	-	(48,375)	-
Total appropriation bonds	3,346,607	2,704	-	3,349,311	653,140
Note payable to the DRA	19,909,611	-	-	19,909,611	19,909,611
Total governmental activities	$ 23,256,218	$ 2,704	$ -	$ 23,258,922	$ 20,562,751

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Business-type activities:					
Housing Finance Authority:					
Revenue bonds-					
Mortgage-Backed Certificates 2006 Series A	$ 37,002,386	$ -	$ (6,426,107)	$ 30,576,279	$ 9,762,004
Subtotal	37,002,386	-	(6,426,107)	30,576,279	9,762,004
Notes payable:					
Special obligation notes (Home Purchase Stimulus Program)	65,691,710	-	(5,570,904)	60,120,806	1,821,110
Plus unamortized premium	132,168	-	(27,148)	105,020	-
Less unaccreted discount	(5,021,241)	-	2,333,958	(2,687,283)	-
Total Housing Finance Authority	97,805,023	-	(9,690,201)	88,114,822	11,583,114
Total business-type activities	$ 97,805,023	$ -	$ (9,690,201)	$ 88,114,822	$ 11,583,114

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, 2022, 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)). Refer to subsequent event related to this reserve in Note 21.

The annual debt service requirements to maturity, including principal and interest on HFA's long-term debt, as of June 30, 2022 are as follows:

	Housing Finance Authority			
	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
Years ending June 30:				
2023	$ 20,562,751	$ 165,800	$ 11,583,114	$ 5,347,041
2024	31,541	163,621	6,193,402	4,900,303
2025	130,875	159,426	6,485,057	4,563,200
2026	130,875	151,574	5,929,207	4,227,498
2027	77,478	145,323	5,465,108	3,917,074
2028-2032	2,325,402	213,360	16,023,225	16,149,590
2033-2037	-	-	17,246,470	10,844,468
2038-2042	-	-	19,638,444	3,922,780
2043-2047	-	-	2,133,058	94,658
Total	$ 23,258,922	$ 999,104	$ 90,697,085	$ 53,966,612

(a) ***Governmental Activities***

Bonds and notes payable related to governmental activities as of June 30, 2022, consist of the following:

Description and maturity date	Interest rate	Amount outstanding
Note payable AHMSP Act No. 124 due on August 1, 2016 and each August 1, thereafter to August 1, 2031	6%	$ 3,349,311
Note payable to the DRA	3%	19,909,611
Total governmental activities		$ 23,258,922

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

During June 2004, the PFC advance refunded a portion of certain of its outstanding Commonwealth appropriation bonds issued in 2001 under Act No. 164 of December 17, 2001. The HFA recognized a mirror effect of this advance refunding by the PFC on its own notes payable in proportion to the portion of the HFA's note payable included in the PFC refunding. The aggregate debt service requirements of the refunding and unrefunded notes are payable from annual appropriations from the Commonwealth. However, the certified budget by the Oversight Board since fiscal years 2019 has not included 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, 2022, was $3,349,311 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, 2022. 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, 2022, 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, 2022, consist of the following:

Description and maturity date	Interest rate	Carrying amount
Mortgage-Backed Certificates, 2006 Series A – Principal and interest payable monthly from September 29, 2006 to August 29, 2030	2.95–6.56%	$ 28,245,205
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%	21,527,895
Special Obligation Notes, 2011 Series A – Principal and interest payable monthly from September 1, 2021 to September 1, 2041	7.00%	13,823,073
Special Obligation Notes, 2012 Series A – Principal and interest payable monthly from June 18, 2012 to September 1, 2041	7.00%	24,518,649
Total		$ 88,114,822

(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, 2022, a $5.4 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)
Obligations to Designated Depositors under the PET	5,375,000	(See Note 4)
Beneficial interest payable to the DRA	3,100,000	(See Note 5)
Escrow accounts payable from restricted cash, mostly to CRIM	1,792,039	
Compensated absences	994,267	
Remaining accounts payable and accrued liabilities, mostly at HFA	8,679,337	
	$ 32,740,643	

The activity for compensated absences included within accounts payable and accrued liabilities during the year ending June 30, 2022 are as follows:

	Beginning balance	Provision	Reductions	Ending balance	Due within one year
Vacation	$ 692,947	$ 703,162	$ (401,842)	$ 994,267	$ 994,267

No significant changes have been made during fiscal year 2022 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.

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, 2022, the mortgage loan insurance program covered loans aggregating approximately $418 million. A liability of approximately $1.2 million was recorded as of June 30, 2022 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 $2,529,963 for the year ending on June 30, 2022.

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, 2022, the HFA had an unrestricted net position for such purposes of approximately $7.2 million.

(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.

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Standby letters of credit and financial guarantees are written conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. All 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 recently 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, 2022, the off-balance-sheet risks consisted of the following, all belonging to the Bank's blended component units (in thousands):

	Amount
Financial instruments whose credit risk is represented by contractual amounts:	
Financial guarantees – Private sector	$ 44,835
Commitments to extend credit (Housing Finance Authority) – Private sector	$ 25,000

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.

The only remaining liability for guaranteed obligations as of June 30, 2022 pertains to Tourism Development Fund in the amount of $42,010,364. See the subsequent events in Note 21 for additional information on these obligations.

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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 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.

- Second, 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.

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

In connection with the Bank Guarantee, on February 27, 2013, the GDB Operating Fund and the Ports Authority entered into a Reimbursement Agreement 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 guaranteed 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 guaranteed agreement.

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, 2022, the outstanding commitment amount under these guarantees amounted to approximately $44.8 million. See the subsequent events in Note 21 for additional information on these obligations.

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, 2022, 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 2022, 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.

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.

Refer to Note 21 for a description of the Qualifying Modification for the PFC Bonds, including the status of the distribution of DRA Bonds on account of the Bank Letter of Credit.

(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 was 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).

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.

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

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

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

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

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

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

(b) Compulsory Retirement

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

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If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013, or 75% of average compensation if the member was at least age 55 as of June 30,2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA) as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if the member was at least age 55 as of June 30, 2013) of average compensation in excessof $6,600.

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

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

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

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

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

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

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

(d) Special Benefits

(1) Minimum Benefits

- Past Ad hoc Increases

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

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

  The minimum monthly lifetime income for members who retired or 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.

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

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

(3) *Special "Bonus" Benefits*

- Christmas Bonus (Act No. 144, as Amended by Act No. 3)
- An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013.
- Medication Bonus (Act No. 155, as Amended by Act No. 3)
- An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

Effective July 1, 2017, contributions by members consists of 8.5% of compensation and are being directly deposited by the Department of the Treasury of the Commonwealth in the individual member accounts under the new Defined Contributions Plan. Also, as of that date, the ERS participants shall make no individual contributions or payments to the accumulated pension benefits payment accounts or additional contributions to the ERS. Total employee contributions for the different retirement programs during the year ending June 30, 2022, were approximately $601,000.

Total Pension Liability of the ERS

The total pension liability as of June 30, 2021 (the measurement date used for financial reporting for fiscal year 2022) was determined by an actuarial valuation as of July 1, 2020 that was rolled forward to June 30, 2021 and assuming no gains or losses.

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(1) *Actuarial Methods and Assumptions*

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

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

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

- *Pre-retirement Mortality* – For general employees not covered under Act No. 127-1958, PubG-2010 Employee Mortality Rates were adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 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-2021 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. 127-1958.
- *Post-retirement Retiree 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-2021 on a generational basis. As a generational table, it reflected mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.
- *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-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
- *Post-retirement Beneficiary Mortality* – Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement 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-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

(2) *Discount Rate*

The discount rate used to measure the total pension liability was 2.16% as of June 30, 2021 (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, 2021 (the measurement date), and the proportion percentage of the aggregate net pension liability of the ERS allocated to the Bank:

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Total for the Bank
Corresponding entity's proportion of the total pension liability	0.50461%	0.27380%	0.00057%	0.77898%
Corresponding entity's proportionate share of the total pension liability	$ 137,174,869	$ 74,430,452	$ 153,770	$ 211,759,091

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 2.16%, 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 (1.16%) or one percentage-point higher (3.16%) than the current rate:

	1% decrease or 1.16%	Current Discount rate of 2.16%	1% increase or 3.16%
GDB Operating Fund's proportionate share of the net pension liability	$ 156,727,722	$ 137,174,869	$ 121,330,415
Housing Finance Authority's proportionate share of the net pension liability	85,040,032	74,430,452	65,833,550
Tourism Development Fund's proportionate share of the net pension liability	177,037	153,770	137,053
Total Bank	$ 241,944,791	$ 211,759,091	$ 187,301,018

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, 2022 related to ERS amounted to a net amount of approximately $12 million.

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, 2022 are as follows:

	GDB Operating Fund	
Source	**Deferred outflows of resources**	**Deferred inflows of resources**
Differences between expected and actual experience	$ 219,120	$ 4,086,731
Changes in assumptions	14,042,291	1,620,935
Changes in proportion	7,855,203	925,734
Employer pension payments made subsequent to the measurement date	6,557,482	–
Total	$ 28,674,096	$ 6,633,400

	Housing Finance Authority	
Source	**Deferred outflows of resources**	**Deferred inflows of resources**
Differences between expected and actual experience	$ 118,893	$ 2,217,441
Changes in assumptions	7,619,282	879,512
Changes in proportion	793,115	1,307,706
Employer pension payments made subsequent to the measurement date	3,530,830	–
Total	$ 12,062,120	$ 4,404,659

	Tourism Development Fund	
Source	**Deferred outflows of resources**	**Deferred inflows of resources**
Differences between expected and actual experience	$ 246	$ 4,581
Changes in assumptions	15,741	1,817
Changes in proportion	6,902	–
Employer pension payments made subsequent to the measurement date	5,633	–
Total	$ 28,522	$ 6,398

Source	Total Business-Type Activities: Deferred outflows of resources	Total Business-Type Activities: Deferred inflows of resources
Differences between expected and actual experience	$ 338,259	$ 6,308,753
Changes in assumptions	21,677,314	2,502,264
Changes in proportion	8,655,220	2,233,440
Employer pension payments made subsequent to the measurement date	10,093,945	–
Total	$ 40,764,738	$ 11,044,457

Amounts reported as deferred outflows and inflows of resources from pension activities as of June 30, 2022 will be recognized in the pension expense as follows:

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Total Bank
Year ending June 30:				
2023	2,566,143	1,392,382	2,899	3,961,424
2024	2,566,143	1,392,382	2,899	3,961,424
2025	3,421,459	1,856,458	3,791	5,281,708
Total	$ 8,553,745	$ 4,641,222	$ 9,589	$ 13,204,556

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 $8,655,220 and $2,233,440, 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 $10,093,945 as of June 30, 2022 ($6,557,482 from the GDB Operating Fund, $3,530,830 from the HFA and $5,633 from the TDF) will be recognized as a reduction of the total pension liability in the fiscal year ending June 30, 2023. 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 approximately $10.1 million of such pension benefit payments was recognized accordingly during fiscal year 2022.

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, 2022, was determined by the actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021 (the measurement date) and assumed no liability gains or losses.

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The following are the most significant actuarial methods and assumptions used to estimate the total OPEB liability as of June 30, 2022 and the OPEB expense for the year then ended:

Inflation	Not applicable
Municipal bond index	3.50%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017 and the current general economy.
Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127-1958, PubG-2010 Employe Mortality Rates, adjusted by 100% for males and 110% females, projected to reflect Mortality Improvement Scale MP-2021 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-2021 on generational basis. As generation tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service were assumed to be occupational only for members covered under Act No. 127.
	Post-retirement Healthy Mortality: Rates 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-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
	Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 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-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
	Post-retirement Beneficiary Mortality: Prior to retiree's death, beneficiary mortality is assumed to be the same as the as the post-retirement 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-2021 on a generational basis. As a generational tabl it reflects mortality improvements both before and after the measurement date.

The discount rate for June 30, 2021 and June 30, 2020 was 2.16% and 2.21%, 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 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, 2021 (the measurement date) and the proportion percentage of the aggregate total OPEB liability of the ERS MIPC allocated to the Bank:

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Total for the Bank
The corresponding entity's proportion of the total OPEB liability	0.19415%	0.17378%	0.00091%	0.36884%
The corresponding entity's proportionate share of the total OPEB liability	$ 1,549,538	$ 1,386,940	$ 7,281	$ 2,943,759

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 2.16%, 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 (1.16%) or one percentage-point higher (3.16%) than the current rate:

	1% decrease or 1.16%	Discount Rate or 2.16%	1% increase or 3.16%
GDB Operating Fund's proportionate share of total OPEB liability	$ 1,700,898	$ 1,549,538	$ 1,420,663
Housing Finance Authority's proportionate share of the total OPEB liability	1,522,442	1,386,940	1,271,609
Tourism Development Fund's proportionate share of the total OPEB liability	7,972	7,281	6,659
Total Bank	$ 3,231,312	$ 2,943,759	$ 2,698,931

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

OPEB credit recognized by the Bank for the year ending June 30, 2022 related to ERS MIPC amounted to approximately $14,000.

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 $250,807 during fiscal year 2022 ($135,800 attributed for the GDB Operating Fund, $115,007 for the HFA, and none for the TDF), which will be recognized as a reduction of the total OPEB liability in the year ending June 30, 2023. These amounts were paid on behalf of the Bank; therefore, a due to Commonwealth for $250,807 of such pension benefit payments was recognized during fiscal year 2022.

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 a 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 with the GDB Operating Fund.

HFA has entered into various lease agreements for office equipment. Leases with terms of twelve months or less are not recorded on the balance sheet. Leases with terms greater than twelve months are recognized as a right-to-use asset and a lease liability on the balance sheet. The right-to-use asset represents the right to use the underlying asset for the lease term and the lease liability represents the obligation to make lease payments.

HFA has adopted GASB Statement No. 87, *Leases*. Under this standard, HFA recognizes lease assets and lease liabilities for substantially all leases, at the inception of the lease.

As of June 30, 2022, the Authority had minimum principal and interest payments requirements in its lessee activity as follows:

Year ending June 30,	Principal	Interest
2023	$ 150,871	$ 17,033
2024	81,847	11,057
2025	86,034	8,870
2026	90,436	2,468
Total	$ 409,188	$ 39,428

(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, 2022, the principal balance of the mortgage loans serviced for others is approximately as follows:

Description	Amount
Puerto Rico Community Development Fund I	$ 23,025,000
CRUV or its successor without guaranteed mortgage loan payments	6,546
Total	$ 23,031,546

(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 Crédito Abraham Rosa v. Commonwealth of Puerto Rico, Case No. 18-00028-LTS - This complaint was filed on March 22, 2018 by several state-chartered credit unions against GDB, the Public Corporation for the Supervision and Insurance of Cooperatives (COSSEC), FAFAA, the Oversight Board, the Commonwealth, the public corporations that are in Title III proceedings, and other defendants. The plaintiffs allege that the defendants maliciously and under false pretenses offered and sold to the plaintiff's unsound bonds issued by the Commonwealth and its instrumentalities, including GDB. They allege that this sale resulted in an undue concentration of bonds in the cooperative's portfolios and created a systemic risk for the plaintiffs. Additionally, they allege that GDB, as fiscal agent to the Commonwealth, exerted significant influence on COSSEC, the public corporation in charge of regulating the Commonwealth's credit unions, which resulted in the bonds being offered and sold to the plaintiffs in violation of statutory, fiduciary, and regulatory duties, causing them material losses. The plaintiffs request a determination that the plaintiffs' claims against all debtors in Title III proceedings are exempted from discharge in such proceedings, and the imposition of monetary damages and compensation for losses suffered for breach of contract, violations to securities laws, negligence, breach of fiduciary duties, fraud, misrepresentations, and unjust enrichment. On October 1, 2018, GDB filed a motion to dismiss this complaint. On December 27, 2021, the Court granted the motion to dismiss. The Plaintiffs filed a notice of appeal on January 12, 2022 in the United States Court of Appeals for the First Circuit under Case No.22-1048. On November 23, 2022, the First Circuit affirmed the Title III Court's dismissal of the case. The plaintiffs did not seek appeal to the U.S. Supreme Court.

(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, 2022, amounted to approximately $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 Note 21 regarding the elimination of the PFC Bonds pursuant to the executed Title VI PCF Qualifying Modification, which went effective January 12, 2023.

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 and are presented as contributions from Commonwealth in the accompanying Statement of Revenues, Expenses and Changes in Net Position (Deficit) - Proprietary Funds-Other Non-Major.

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 $191 million as of June 30, 2022.

(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, 2022, between governmental funds and proprietary funds:

Receivable by	Payable by	Purpose		Amount
Proprietary fund:	Governmental fund:			
Housing Finance Authority	HUD Programs	Advance of funds	$	836,212
Housing Finance Authority	HOME Programs	Advance of funds		527,616
Housing Finance Authority	CDBG Program	Advance of funds		10,095,996
Housing Finance Authority	ARPA Program	Advance of funds		402,535
Housing Finance Authority	AHS Programs	Advance of funds		9,912,037
		Total internal balances – net	$	21,774,396

The summary of interfund balances as of June 30, 2022 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 service	$	193,075
GDB Operating Fund	Devlopment Fund	Accrued allocation of management service		45,193
GDB Operating Fund	Public Finance Corporation	Accrued allocation of management service		12,171
GDB Operating Fund	Public Entity Trust	Overtransfer of loan proceeds		250,000
proprietary funds eliminated			$	500,439

The following table is a summary of interfund transfers for the year ending June 30, 2022:

Transfer out	Transfer in	Transfer for	Amount
Govermental funds:	Proprietary funds:		
AHS Program	Operating and Administrative	Repayment of debt	$ 2,163,460

(20) Funds Deficit

As of June 30, 2022, the Home Program fund, the GDB Operating Fund, and the TDF reflect deficits of approximately $909,000, $143 million, and $31.3 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.

(21) Subsequent Events

Subsequent events were evaluated through October 13, 2023, to determine if any such events should either be recognized or disclosed in the 2022 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 mention based on their relevance and materiality as a whole.

(a) *Budgetary Events and Related Legislation*

(1) *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.

(2) *Fiscal Year 2024*
The Oversight Board certified a budget in the amount of $12.7 billion, which did not Đ 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) ***PFC 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 provides for a restructuring and discharge of the PFC Bonds under a Title VI Qualifying Modification (the PFC Qualifying Modification). The PFC Qualifying Modification further provides 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, 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.

On December 30, 2022, the District Court entered an order approving the PFC Qualifying Modification. The PFC Qualifying Modification became effective on January 12, 2023. As a result of the PFC Qualifying Modification, the PFC Bonds were discharged and extinguished for the payment of $13.8 million in cash. In addition, the outstanding debt of the HFA described in Note 12(a) and of those other Commonwealth's instrumentalities and public corporations, where applicable, were cancelled and extinguished. Litigation remains ongoing as to whether the bondholders are also entitled to the $47.7 million in DRA Bonds. Oral argument on that issue took place on May 10, 2022 and the Court's decision remains pending at this time. The outcome of that litigation does not otherwise impact the effectiveness of the Qualifying Modification and the discharge of the PFC Bonds.

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

On February 24, 2023, an additional Excess Reserved Cash was confirmed in the amount of approximately $6 million, which the PET transferred to PREPA and to the ERS in the amount of approximately $5 million and $1 million, respectively, as further satisfaction of the Contingent Settlement Cash in accordance with the time and in the manner described in the PET Deed and UCC Stipulation.

(d) ***HFA Activities and Events***

(1) *Debt Transactions Approved by the Oversight Board*

- On August 4, 2022, the Oversight Board authorized HFA to enter into a credit agreement with Banco Popular de Puerto Rico (BPPR) to issue a Tax-Exempt Note (the "Note) in an amount up to $23,800,000 for a term of 34 months accruing interest at a fixed rate of 6.50% in order to finance an affordable elderly housing project in the Municipality of Arecibo.

  The Debt Transaction is being issued pursuant to HUD, the Puerto Rico Department of Housing, and the HFA related programs under the Qualified Allocation Plan 2020 in order to: (1) lend the net proceeds of the Note to Sagrado Corazón Affordable LLC to finance the proposed $40,848,035 affordable elderly housing project to construct 120 housing units in the Municipality of Arecibo and (2) to cover the financing and legal costs associating with issuing the Note.

The Note is not guaranteed by HFA, or by any agency, public corporation or instrumentality of the Commonwealth of Puerto Rico. Proceeds from the Note will only be used to finance the construction of this project and is to be gradually repaid with funds from the U.S. Federal Low Income Housing Tax Credits and funds from the Community Development Block Grant – Disaster Relief during the construction phase of the project.

- On December 21, 2022, the Oversight Board authorized HFA to enter into a conduit financing transaction in an amount up to $33,000,000 to assist in the financing of an affordable rental housing project to be located in the Municipality of San Juan. The Debt Transaction is being issued to lend the proceeds to TFS Housing LLC as HFA's borrower to partially cover the total construction and development costs of 89 single story housing units.

- On March 16, 2023, the Oversight Board authorized HFA to enter into a credit agreement with BPPR in an amount up to $24,000,000 to assist in the financing of an affordable public housing project to be located in the Municipality of Cataño. The Debt Transaction is being issued to lend the proceeds to Bahía Apartments LLC as the HFA's borrower to partially cover the total construction costs of a 104-unit affordable public housing complex and to cover the financing and legal costs of the Tax-Exempt Debt.

- On June 5, 2023, the Oversight Board authorized HFA to enter into three (3) credit agreements with BPPR to assist in the financing of an affordable public housing project in the amounts of approximately $55.75 million (300 units), and $21 million (80 units) in the Municipality of San Juan, and $40.5 million (149 units) in the Municipality of Yabucoa. Also, in that same date, the Oversight Board approved the Authority to enter into a conduit financing transaction in an amount up to $12 million (25 units) to assist in the financing of an affordable public housing project to be located in the Municipality of San Juan.

The proposed transaction is a non-recourse obligation to the HFA issued in order to access tax-exempt financing pursuant to the HUD and HFA 2020 qualified affordable housing program and will not be guaranteed by HFA, the Government of Puerto Rico or any of its agencies, public corporations, and instrumentalities. Proceeds of the transaction will be repaid through disbursements of Federal Funds, specifically Community Disaster Block Grant – Disaster Relief funds and Low-Income Housing Tax Credit funds. Repayment is not contingent on cash flows from the project and will be repaid at the end of construction. All fees of the transaction including any fees imposed by FAFAA will be funded by HFA.

(2) *Multifamily Housing Collateralized Revenue Bonds*

In February 2023, HFA issued $52,939,000 Multifamily Housing Collateralized Revenue Bonds. The proceeds from the issuance will be used to provide financing to a private company for the acquisition, improvement, rehabilitation, construction, and development of a 294-unit multifamily housing facility. These bonds are limited obligations of the HFA, payable primarily from a trust established as part of the financing.

(e) ***Puerto Rico Tourism Development Fund's Qualifying Modification***

On December 9, 2022, AAFAF, on behalf of TDF, entered into a restructuring support agreement (the "TDF RSA") with certain holders of TDF's outstanding obligations, which contemplates a restructure of those obligations under a Title VI Qualifying Modification (the "TDF Qualifying Modification"). Specifically, the TDF Qualifying Modification contemplates the restructuring of the following obligations:(1) the letters of credit issued by TDF to support the Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority Tourism Revenue Refunding Bonds, 2011 Series A and Tourism Revenue Bonds, 2000 Series A and (2) three loans owed by TDF to GDB, which are classified as GDB Retained Loans under the GDB Qualifying Modification (collectively, the "TDF Participating Obligations"). The GDB Retained Loans subject to the TDF Qualifying Modification include the following:

- The TDF St. Regis loan granted by GDB to TDF as an unsecured non-revolving line of credit in the principal amount of $119 million pursuant to a certain loan agreement dated as of June 10, 2008 (as amended by that certain First Amendment, dated June 11, 2012, the St. Regis Credit Facility). TDF used the proceeds from the line of credit to provide a loan (the BBR Loan) to Bahia Beach Resort, LLC (BBR) for the construction of the St. Regis Bahia Beach Resort. The line of credit was payable from the proceeds from the sale of the condo-hotel units by BBR, proceeds from the financing granted by TDF to BBR, proceeds from the operations of the hotel and the condo-hotel by BBR, unrestricted funds of TDF and any legislative appropriations. The underlying BBR Loan was sold in 2015 for $40 million, as a result of which TDF will not receive any additional proceeds from the BBR Loan. The remaining sources of repayment for the outstanding balance of $16,482,210.27 under the St. Regis Credit Facility are therefore legislative appropriations and unrestricted funds of TDF.

- The TDF Rio Mar loan granted by GDB to TDF as an unsecured non-revolving line of credit in the principal amount of $155.3 million pursuant to that certain loan agreement, dated as of November 3, 2003 (as amended, the Rio Mar Credit Facility). TDF used the proceeds of the line of credit to provide a loan (the RMA Loan) to Rio Mar Associates, L.P., S.E. (RMA) in order for RMA to refinance certain AFICA bonds issued in connection with the Rio Mar Hotel. The line of credit was payable from proceeds from RMA's operations, unrestricted funds of TDF and legislative appropriations. The underlying RMA Loan was cancelled, as a result of which TDF will not receive any additional proceeds from the RMA Loan. The remaining sources of repayment for the outstanding loan balance of $17,622,296.04 under the Rio Mar Credit Facility are therefore legislative appropriations and unrestricted funds of TDF.

- The TDF Condado Duo loan initially consisted of an unsecured line of credit issued by GDB to TDF pursuant to that certain loan agreement dated as of January 21, 2004, in the principal amount of $94 million (as amended, the "Condado Credit Facility"). TDF used the proceeds of this line of credit to provide a loan (the "IHA Loan") to International Hospitality Associates, Inc. ("IHA") for the restoration of the Vanderbilt and La Concha Hotels. The Second Amendment, among other modifications, increased the line of credit to $149, million and converted the line of credit to a revolving loan and provided that the revolving loan would be payable from proceeds from a loan by a private financial institution or an AFICA bond issuance, cash flows from the hotel operations, any unrestricted funds of TDF, any funds received by TDF from legislative appropriations, and any other payments received by TDF under the IHA Loan, including proceeds from the sale of condo hotel units to be developed by IHA. The underlying IHA Loan was cancelled, as a result of which TDF will not receive any additional proceeds from the IHA Loan. The remaining sources of repayment for the outstanding loan balance of $10,122,208.61 under the Condado Credit Facility are therefore legislative appropriations and unrestricted funds of TDF.

TDF Qualifying Modification contemplates, among other things, the restructuring and discharge of the TDF Participating Obligations in exchange for a distribution of $10.5 million cash and the transfer and release of TDF's interest in certain collateral. The TDF Qualifying Modification further contemplates the release and satisfaction of the claims against TDF arising from or relating to the TDF Participating Obligations.

On July 17, 2023, AAFAF, on behalf of TDF, launched solicitation of the Qualifying Modification and on July 18, 2023, commenced a Title VI proceeding in the U.S. District Court of Puerto Rico. On September 12, 2023, the Qualify Modification was approved. The Title VI proceeding is currently pending. For more information to the Title VI Court's website at: https://cases.ra.kroll.com/puertorico/Home-DocketInfo?DocAttribute=4537&DocAttrName=TDFDOCKET_Q&MenuID=8059&AttributeName=TDF%20Docket

(f) ***Settlement Agreement with the GDB Debt Recovery Authority***

On September 25, 2023, the Fiscal Oversight and Management Board approved a proposed settlement agreement between the GDB Debt Recovery Authority (DRA) and the following public entities: HFA, Comprehensive Fund for Agricultural Development of Puerto Rico (FIDA for its Spanish acronym), Ports Authority of Ponce (PAP), Ports of the Americas Authority (POAA) and the EDB, altogether, the "Public Entities". The settlement agreement consists of a cash payment amounting to $29.5 million to resolve $65.4 million in outstanding principal and interest of six loans owed by the Public Entities to the DRA.

The source of funding for the $29.5 million payment to the DRA consists of unrestricted and fully available cash to be contributed by FIDA, HFA, PFC and the Puerto Rico Development Fund (DF). Of the $29.5 million, EDB already contributed $2.8 million, as this amount represents the full payoff of an EDB loan with the DRA, which was made on June 1, 2023.

On October 2, 2023, the settlement agreement was entered by the Public Entities, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) and the DRA in which $50.9 million plus accrued interest in loans owed by the Public Entities to the DRA were settled for a total discounted payment amounting to $29.5 million. On June 1, 2023, EDB paid to the DRA a total of $2.8 million and the remaining balance amounting to $26.7 million was deposited by the Public Entities into a specially designated bank account in AAFAF from which on October 13, 2023, the settlement payment to the DRA was made.

On October 3, 2023, a Memo of Understanding (MOU) was signed between AAFAF, PFC and DF in order for AAFAF to fully undertake, on behalf of PFC and DF, any and all matters as deemed necessary and appropriate to complete the winding down and dissolution of PFC and the DF.

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, 2022

	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 Nonmajor
ASSETS							
Current assets:							
Cash and due from banks	$ 1,749,951	$ 3,323,207	$ 2,096,171	$ –	$ –	$ –	$ 7,169,329
Restricted:							
Cash and due from banks	5,635,929	–	–	–	–	–	5,635,929
Investments and investment contracts	–	3,681,738	–	–	–	–	3,681,738
Total assets	$ 7,385,880	$ 7,004,945	$ 2,096,171	$ –	$ –	$ –	$ 16,486,996
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities	$ –	$ –	$ 7,450	$ 11,400	$ –	$ –	$ 18,850
Due to other funds	250,000	45,193	12,171	–	–	–	307,364
Total current liabilities payable from unrestricted assets	250,000	45,193	19,621	11,400	–	–	326,214
Current liabilities payable from restricted assets:							
Accounts payable and accrued liabilities	5,375,000	–				–	5,375,000
Total current liabilities	5,625,000	45,193	19,621	11,400	–	–	5,701,214
NET POSITION:							
Restricted for:							
Qualifying modification distributions	260,929	–	–	–	–	–	260,929
Unrestricted	1,499,951	6,959,752	2,076,550	(11,400)	–	–	10,524,853
Total net position (deficit)	1,760,880	6,959,752	2,076,550	(11,400)	–	–	10,785,782
Total liabilities and net position	$ 7,385,880	$ 7,004,945	$ 2,096,171	$ –	$ –	$ –	$ 16,486,996

See accompanying notes to basic financial statements.

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, 2022

	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 Nonmajor
OPERATING REVENUES:							
Investment income:							
Interest income on deposits placed with banks	7,139	$ –	$ 284	$ –	$ –	$ –	$ 7,423
Interest and dividend income on investments and investment contracts	–	218,193	–	–	–	–	218,193
Net decrease in fair value of investments	–	(32,261)	–	–	–	–	(32,261)
Total investment income and interest income on loans	7,139	185,932	284	–	–	–	193,355
Noninterest income:							
Other income	1,500,000	92,818	28,341	–	–	–	1,621,159
Total noninterest income	1,500,000	92,818	28,341	–	–	–	1,621,159
Total operating revenues	1,507,139	278,750	28,625	–	–	–	1,814,514
OPERATING EXPENSES:							
Noninterest expenses:							
Legal and professional fees	–	–	–	5,528	–	–	5,528
Office and administrative	12,660	66,291	–	–	–	–	78,951
Distribution expense	5,539,275	–	–	–	–	–	5,539,275
Total operating expenses	5,551,935	66,291	–	5,528	–	–	5,623,754
OPERATING INCOME (LOSS)	(4,044,796)	212,459	28,625	(5,528)	–	–	(3,809,240)
NON-OPERATING INCOME (EXPENSES)							
Contributions from Commonwealth of Puerto Rico	–	–	2,085,847	–	–	–	2,085,847
OTHER FINANCING SOURCES - net transfer-in	4,039,275	–	–	1,728	–	–	4,041,003
CHANGES IN NET POSITION (DEFICIT)	(5,521)	212,459	2,114,472	(3,800)	–	–	2,317,610
NET POSITION (DEFICIT) — Beginning of year	1,766,401	6,747,293	(37,922)	(7,600)	–	–	8,468,172
NET POSITION (DEFICIT) — End of year	$ 1,760,880	$ 6,959,752	$ 2,076,550	$ (11,400)	$ –	$ –	$ 10,785,782

See accompanying notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
Other Non-major Funds – Combining Statement of Cash Flows
June 30, 2022

	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	1,737,340	(56,421)	–	(4,755)	–	–	1,676,164
Cash flows from noncapital financing activities:							
Transfers-in	–	–	–	4,755	–	–	4,755
Net cash provided by noncapital financing activities	–	–	–	4,755	–	–	4,755
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	4,902	436,661	5	–	–	–	441,568
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	$ 5,891,401	$ 2,489,296	$ 10,040	$ –	$ –	$ –	$ 8,390,737
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	$ 5,891,401	$ 2,489,296	$ 10,040	$ –	$ –	$ –	$ 8,390,737

See accompanying notes to basic financial statements.

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, 2022

	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 provied by (used in) operating activities	$ 1,737,340	$ (56,421)	$ –	$ (4,755)	$ –	$ –	$ 1,676,164

(continued)

See accompanying notes to basic financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
Required Supplementary Information
Schedule of Proportionate Share of The Collective
Total Pension Liability and Related Ratios (Unaudited)
June 30, 2022

	2021*	2021*	2020*	2019*
Proportion of the Collective Total Pension Liability	0.77898%	0.77041%	0.76375%	0.76553%
Proportionate Share of the Collective Total Pension Liability	$ 211,759,091	$ 216,253,534	$ 189,795,220	$ 187,476,717
Covered - Employee Payroll	n/a	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	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, 2022

	2022	2021*	2020*	2019*	2018*	2017*
Proportion of Total Other Postemployment Benefit Liability	0.36884%	0.36580%	0.35566%	0.33228%	0.30712%	0.28981%
Proportionate Share of Total Other Postemployment Benefit Liability	$ 2,943,759	$ 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	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	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