KPMG

GDB DEBT RECOVERY AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

BASIC FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2024

(With Independent Auditors’ Report Thereon)

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

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Independent Auditors' Report

The Board of Trustees
GDB Debt Recovery Authority:

Opinion

We have audited the financial statements of the GDB Debt Recovery Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2024 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

San Juan, Puerto Rico
March 11, 2025

License Number LLP-21
Expires December 1, 2025

DLLP21-48
GDB Debt Recovery Authority

The GDB Debt Recovery Authority (the "DRA" or the "Authority") offers readers of the DRA's financial statements this narrative overview and analysis of the DRA's financial performance during the fiscal year ended June 30, 2024. This management discussion and analysis (MD&A) is designed to assist the reader in focusing on significant financial matters and activities and to identify significant changes in the net position of the DRA.

The DRA is a statutory public trust and governmental instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth") created pursuant to the GDB Restructuring Act, Act No. 109 of August 24, 2017, as amended by Act No. 147 of July 18, 2018 (the "GDB Restructuring Act") enacted by the Legislative Assembly of the Commonwealth for the purpose of facilitating the restructuring of certain of Governmental Development Bank for Puerto Rico's (the "GDB") indebtedness and release of certain claims against GDB (also known as Participating Bond Claims) pursuant to a voluntary out-of-court debt restructuring process under Title VI of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") (this voluntary process is also known as a Qualifying Modification). On the closing date of the Qualifying Modification (November 29, 2018 or "Closing Date"), the DRA issued approximately $2.6 billion of 7.500% GDB Debt Recovery Authority Bonds due August 20, 2040 (the "Existing Bonds"), where the holders of the Participating Bond Claims at GDB (as defined in the Qualifying Modification and related transaction documents) exchanged their claims for the Restructuring Bonds issued (at an exchange rate of 55% of such Participating Bond Claims). Upon the execution of the Qualifying Modification, the Existing Bonds issued by the DRA did not initially provide for any distribution associated to the claims from the Public Finance Corporation bondholders ("PFC Claims") who were not part of the Participating Bonds Claims; however, the Indenture governing the Restructuring Bonds provided for the potential of additional DRA Bonds to be issued to cover any potential PFC Claims on these bonds or underlying letters of credit. On December 14, 2023 the DRA issued and delivered $47,690,561 aggregate principal amount of 7.500% GDB Debt Recovery Authority Bonds (Taxable) due 2040 (the "Additional Bonds") to resolve the PFC Claims. The Additional Bonds were issued pursuant to the express written instructions from the Puerto Rico Fiscal Agency and Financial Advisory Authority ("FAFAA") and GDB provided on September 18, 2023 and approved by the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board") on November 29, 2023. Additional information on the Additional Bonds can be found in Note 8 to the accompanying basic financial statements. The Existing Bonds and the Additional Bonds together are known as the "Restructuring Bonds".

1. FINANCIAL HIGHLIGHTS

- Total assets and total liabilities of the DRA as of June 30, 2024, amounted to approximately $907.8 million and $1,344.6 million, respectively, for a net deficit of approximately $436.8 million.

- During the year ended June 30, 2024, approximately $117.3 million and $95.6 million of loans principal and interest, respectively, were collected, from municipalities and public corporations.

- During the year ended June 30, 2024, approximately $294.4 million was collected in other income, attributed mostly to the collection of loans that had a carrying value of zero and related to the settlement agreement between the DRA, Puerto Rico Ports Authority ("PRPA") and other government instrumentalities.

- The DRA has a Restructuring Bonds Payable outstanding balance as of June 30, 2024, of $1,268.9 million. There were debt service payments during fiscal year 2024 in the amount of approximately

$390.8 million and $121.0 million in principal and interest, respectively. In addition, $47.7 million in Additional Bonds were issued during the year ended June 30, 2024.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A provides a narrative overview and analysis of the financial activities of the DRA as of and for the year ended June 30, 2024. This MD&A is intended to serve as an introduction to the DRA's basic financial statements, which are comprised of the basic financial statements and the notes to the basic financial statements. Since the DRA is comprised of a single business-type activity, no fund-level financial statements are presented.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the DRA's finances, in a manner similar to a private-sector business. These basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental entities. The DRA's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Using the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which they are incurred.

The statement of net position (deficit) presents information on the DRA's assets and liabilities, with the difference between the two reported as net position (deficit). Net position increases when revenues exceed expenses. Increases in assets without a corresponding increase to liabilities result in increased net position, which indicates an improved financial position. On the other hand, net position decreases when expenses exceed revenues. Increases in liabilities without a corresponding increase in assets or decreases in assets without corresponding decreases in liabilities result in a decreased net position.

The statement of revenues, expenses, and changes in net position (deficit) presents information showing how an entity's net position changed during the fiscal year. Changes in net position are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

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

Notes to the Basic Financial Statements

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

3. FINANCIAL ANALYSIS

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

	June 30,		Change	
	2024	**2023**	**Amount**	**Percent**
Assets:				
Restricted current assets:				
Cash and cash equivalents	$ 52,878	$ 18,524	$ 34,354	185%
Investment securities	31,939	26,612	5,327	20%
Loans receivable - net	785,892	903,114	(117,222)	-13%
Accrued interest receivable - net	36,919	37,295	(376)	-1%
Real estate available for sale	-	1,038	(1,038)	-100%
Other assets	216	270	(54)	-20%
Total assets	907,844	986,853	(79,009)	-8%
Liabilities:				
Current liabilities payable from restricted assets:				
Accounts payable and accrued liabilities	75,735	56,834	18,901	33%
Bonds payable:				
Due in one year	93,065	59,016	34,049	58%
Due in more than one year	1,175,809	1,552,926	(377,117)	-24%
Total liabilities payable from restricted assets	1,344,609	1,668,776	(324,167)	-19%
Net position (deficit) - Unrestricted	$ (436,765)	$(681,923)	$ 245,158	36%

On June 30, 2024, cash equivalents amounted to approximately $52.9 million, an increase of 185% or approximately $34.4 million when compared to June 30, 2023. This increase responds to cash received from operations, principally highlighted by loan principal and interest collections of approximately $117.3 million and $95.7 million, respectively, proceeds from sale and paydown of investment securities aggregating $46.7 million and proceeds of approximately $294.4 million from settlements of loans with zero carrying value. Cash inflows were offset by the principal and interest paid on the Restructuring Bonds payable of approximately $390.8 million and $121.0 million, respectively, plus cash payments for operating expenses of approximately $16.1 million (for total cash outflows of approximately $527.8 million).

The most significant decrease in the liabilities of the DRA during fiscal year 2024 consisted of the decrease of approximately $343.1 million in bonds payable, as a result of the repayments of $390.8 million offset by the issuances of Additional Bonds of $47.7 million.

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

	Fiscal Year		**Change**	
	2024	**2023**	**Amount**	**Percent**
Operating revenues:				
Interest income	$ 98,111	$ 69,196	$ 28,915	42%
Gains from sale and settlements of loans	-	28,346	(28,346)	-100%
Income from settlements	291,226	22,688	268,538	1184%
Other non-interest income	54,296	7,799	46,497	596%
Total operating revenue	443,633	128,029	315,604	247%
Operating expenses:				
Release for loan losses	(58)	(190)	132	69%
Direct operating expenses	92,809	20,061	72,748	363%
Total operating expenses	92,751	19,871	72,880	367%
Operating income	350,882	108,158	242,724	224%
Interest expense	111,951	126,503	(14,552)	-12%
Unrealized gain on investment securities	6,227	2,005	4,222	211%
Change in unrestricted net position (deficit)	$ 245,158	$ (16,340)	$ 261,498	1600%
NET POSITION (DEFICIT) - Beginning of year	(681,923)	(665,583)	(16,340)	-2%
NET POSITION (DEFICIT) - End of year	$(436,765)	$(681,923)	$ 245,160	36%

The net deficit of the DRA decreased by approximately $245.2 million during fiscal year 2024, principally as a result of the combination of an increase in operating income of approximately $242.7 million, offset by a reduction of approximately $14.6 million in interest expense.

Total operating revenue during fiscal year 2024 increased by approximately $315.6 million or 247%, as compared to 2023, mostly attributed to increases in interest income of $28.9 million and increases in noninterest income of $315 million, mostly attributed to increased activity in the settlement of nonperforming loans and loans with no carrying value (hence recognized as interest income collected on nonperforming loans and as other income, respectively), as compared to the prior year. The most significant settlement, among the various executed during the year, was attributed to the PRPA settlement referred to in the Financial Highlights. The PRPA settlement transaction is also described further in Note 4 to the accompanying basic financial statements. Approximately $46.5 million of the total noninterest income also related to gains from the sale and paydown of investment securities. These increases were somewhat mitigated by decreases in gains from the sale and settlement of loans of approximately $28.3 million. Higher interest income also resulted from higher interest rates during 2024 on the DRA's municipal variable rate loans.

Direct operating expenses increased $72.7 million compared to the prior year; in addition to an increase in provision (release) for loan losses of $0.1 million for the fiscal year 2024. Approximately $47.7 million or 52% of the total direct operating expense increase is attributed to the adjustment for the issuance of Additional Bonds during 2024, further described in Note 8 to the accompanying basic financial statements. The rest of the increase in the direct operating expenses are principally attributed to a $22.9 million increase in servicer and collateral monitor fees and expenses, which is directly linked to the increased efforts during the year in the settlement of the PRPA loan, among other loan settlements and the disposition of Contingent Value Instruments ("CVI") investments.

Total interest expense on the DRA's Restructuring Bonds amounted to approximately $112 million during fiscal year 2024, based on the carrying coupon interest rate of 7.500% on its outstanding balance throughout the year.

4. DRA DEBT

As summarized in Note 1 to the accompanying basic financial statements, on the Closing Date of the Qualifying Modification, the DRA issued $2.6 billion of 7.500% GDB Debt Recovery Authority Bonds due August 20, 2040 and on December 14, 2023, $47.7 million related to the Additional Bonds were issued as discussed in Note 8 of the accompanying basic financial statements (together the "Restructuring Bonds"). For additional details related to the issuance of the bonds, refer to the Offering Memorandum.

Debt repaid during fiscal year 2024 amounted to approximately $390.8 million and interest of $121.0 million was also paid during the fiscal year. Refer to Note 8 to the accompanying basic financial statements for additional information on the Bonds.

5. CURRENTLY KNOWN FACTS

On the payment date of August 20, 2024, available cash of approximately $141.2 million was used to make interest and principal payments on the Restructuring Bonds in the amounts of $48.1 million and $93.1 million, respectively.

GDB DEBT RECOVERY AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Net Position (Deficit) (in thousands)
As of June 30, 2024

ASSETS		
Restricted current assets:		
Cash and cash equivalents	$	52,878
Investment securities		31,939
Loans receivable — net of allowance for loan losses		75,775
Accrued interest receivable		36,919
Other current assets		216
Total restricted current assets		197,727
Restricted non-current assets:		
Loans receivable — net of allowance for loan losses		710,117
Total restricted non-current assets		710,117
TOTAL RESTRICTED ASSETS	$	907,844
LIABILITIES AND NET POSITION (DEFICIT)		
Current liabilities payable from restricted assets:		
Accrued interest payable	$	34,630
Accounts payable and other liabilities		41,105
Bonds payable		93,065
Total current liabilities payable from restricted assets		168,800
Non-current liabilities payable from restricted assets:		
Bonds payable		1,175,809
Total non-current liabilities payable from restricted assets		1,175,809
NET POSITION (DEFICIT) - UNRESTRICTED		(436,765)
TOTAL LIABILITIES AND NET POSITION (DEFICIT)	$	907,844

See accompanying notes to basic financial statements.

GDB DEBT RECOVERY AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Revenues, Expenses and Changes in Net Position (Deficit) (in thousands)
For the year ended June 30, 2024

OPERATING REVENUES	
Interest income:	
Interest income on cash and cash equivalents	$ 3,039
Interest income on loans receivable	95,072
Total interest income	98,111
Realized gain on investment securities, net	45,834
Income from settlements	291,226
Other non-interest income	8,462
Total operating revenues	443,633
OPERATING EXPENSES	
Non-interest expenses:	
Board and Executive Director compensation	300
Administrative expenses	783
Servicer fees and expenses	24,767
Indenture trustee fees and expenses	559
Collateral monitor fees and expenses	17,671
Issuance of Additional Bonds	47,691
Loss on sale of real estate available for sale	1,038
Release of provision for loan losses	(58)
Total operating expenses	92,751
OPERATING INCOME	350,882
INTEREST EXPENSE	111,951
UNREALIZED GAIN ON CHANGES IN FAIR VALUE OF INVESTMENT SECURITIES	6,227
CHANGE IN NET POSITION	245,158
NET POSITION (DEFICIT) - UNRESTRICTED - Beginning of year	(681,923)
NET POSITION (DEFICIT) - UNRESTRICTED - End of year	$ (436,765)

See accompanying notes to basic financial statements.

GDB DEBT RECOVERY AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows (in thousands)
For the year ended June 30, 2024

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from loan settlements as operating noninterest revenues	$	291,226
Cash received from other operating noninterest revenue transactions		8,462
Cash received from collections of interest income on loan receivables		95,597
Cash received from collections of principal on loan receivables		117,278
Cash received from sales and call redemptions of investment securities		46,734
Cash received from interest on cash balances and investment securities		2,892
Cash paid for general and administrative expenses		(16,098)
Net cash provided by operating activities		546,091
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Payments of bonds payable		(390,759)
Interest paid on bonds payable		(120,978)
Net cash used in non-capital financing activities		(511,737)
NET INCREASE IN CASH AND CASH EQUIVALENTS		34,354
CASH AND CASH EQUIVALENTS - Beginning of year		18,524
CASH EQUIVALENTS - End of year	$	52,878
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT END OF YEAR TO STATEMENT OF NET POSITION:		
Unrestricted cash and cash equivalents	$	-
Restricted cash equivalents		52,878
TOTAL CASH EQUIVALENTS AT END OF YEAR	$	52,878

See accompanying notes to basic financial statements.

(Continued)

GDB DEBT RECOVERY AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows (in thousands)
For the year ended June 30, 2024

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	$ 350,882
Adjustments to reconcile operating income to net cash provided by operating activities:	
Provision for loss on other real estate available for sale	1,038
Release of provision for loan losses	(58)
Adjustment for the issuance of Additional Bonds	47,691
Realized gain on investment securities, net	(45,834)
Changes in other assets and liabilities:	
Decrease in loans receivable	117,280
Decrease in accrued interest receivable	376
Decrease in investment securities	46,734
Increase in accrued expenses and other liabilities	27,928
Increase in other assets	54
Net cash provided by operating activities	$ 546,091
Noncash investing and noncapital financing activities:	
Unrealized gain in fair value of investment securities	$ 6,227

See accompanying notes to basic financial statements.

1. ORGANIZATION AND REPORTING ENTITY

The GDB Debt Recovery Authority (the "DRA" or the "Authority") is a statutory public trust and governmental instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth") created pursuant to the GDB Restructuring Act, Act No. 109 of August 24, 2017, as amended by Act No. 147 of July 18, 2018 (the "GDB Restructuring Act") enacted by the Legislative Assembly of the Commonwealth for the purpose of facilitating the restructuring of certain Government Development Bank for Puerto Rico's (the "GDB") indebtedness and release of certain claims against GDB (also known as Participating Bond Claims) pursuant to a voluntary out-of-court debt restructuring process under Title VI of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"). This voluntary process was also known as a Qualifying Modification. PROMESA was enacted seeking to provide the Commonwealth and its public corporations and instrumentalities with fiscal and economic discipline, through, among other things, the establishment of the (the "Oversight Board"). On the closing date of the Qualifying Modification (November 29, 2018 or "Closing Date"), the DRA issued approximately $2.6 billion of 7.500% GDB Debt Recovery Authority Bonds due August 20, 2040 (the "Existing Bonds"), where the holders of the Participating Bond Claims at GDB exchanged their claims for the bonds issued (at an exchange rate of 55% of such Participating Bond Claims). Upon the execution of the Qualifying Modification, the Existing Bonds issued by the DRA did not initially provide for any distribution associated to the claims from the Public Finance Corporation bondholders ("PFC Claims") who were not part of the Participating Bonds Claims; however, the Indenture governing the Restructuring Bonds provided for the potential of additional DRA Bonds to be issued to cover any potential PFC Claims on these bonds or underlying letters of credit. On December 14, 2023 the DRA issued $47,690,561 aggregate principal amount of 7.500% GDB Debt Recovery Authority Bonds (Taxable) due August 20, 2040 (the "Additional Bonds"), to resolve the PFC Claims (See Note 8 to the basic financial statements for more information on the Additional Bonds issued).

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

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

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

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

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

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

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

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

- Merging or consolidating with any person.

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

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

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

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

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

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

Upon the issuance of the Restructuring Bonds, the Restructuring Property became subject to a statutory lien in favor of the selected trustee, Wilmington Trust, N.A., (the "Indenture Trustee"), for the benefit of such bondholders in order to secure the amounts owing in respect of the Restructuring Bonds. An indenture (the "Bond Indenture") was consequently established between the DRA and the Indenture Trustee to establish the roles and duties of the Indenture Trustee by having received in trust the Restructuring Property and its performance obligations owing with respect to the payment of the Restructuring Bonds issued.

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the DRA conform to Accounting Principles Generally Accepted in the United States of America ("GAAP") for governments as prescribed by the GASB, specifically, under the hierarchy established by GASB Statement No. 76 (GASB No. 76), *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ materially from those estimates. Significant items subject to such estimates and assumptions include the allowance for loan losses, valuation of investment securities and the valuation of real estate available for sale.

Measurement Focus, Basis of Accounting and Financial Statements Presentation

The DRA's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. The statement of revenues, expenses and changes in net position (deficit) generally distinguishes operating revenues and expenses from non-operating items. As the DRA was created to receive certain assets, the collection and settlement of which (including its interest and future proceeds) are to be used to pay the DRA's operating expenses and bonds, the revenues and expenses that result from the DRA's fulfilling of its specified purpose are considered operating items. The DRA's operating revenues are generated from the interest earned on the loans, interest income on investments, proceeds from the sale of the real estate and from the potential future proceeds from the collection of the beneficial interest of certain assets that are managed by GDB. Operating expenses include provision for losses on the loans and the real estate assets available for sale and general and administrative expenses, among others, while interest expense and unrealized gains or losses in the changes in fair value of investment securities are presented as a non-operating income or expense, as applicable.

The statement of net position (deficit) presents the DRA's assets and liabilities, with the difference reported as net position (deficit). Net position is usually reported in two categories:

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

(ii) Unrestricted component of net position consists of net amount of the assets and liabilities that do not meet the definition of the preceding category. Unrestricted component of net position often is designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted component of net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

Based on the nature and purpose in the creation of the DRA and the constraints imposed to its assets pursuant the GDB Restructuring Act, all of its assets are restricted. However, since the DRA's liabilities exceed its total assets, in accordance with GASB, the resulting net deficit is considered unrestricted.

Taxes

The DRA is exempt from and is not required to pay taxes, assessments, licenses, stamps, fees or other similar charges levied by the Commonwealth or other government entity upon the property it owns, possesses, holds or uses, or on its activities, or upon other income, payment or gain derived therefrom. The transfer of the Restructuring Property by GDB to the DRA is also exempt from the aforementioned taxes, assessments, licenses, stamps, fees and other similar charges levied by the Commonwealth or other government entity.

Cash and Cash Equivalents

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

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

As of June 30, 2024, the cash equivalent maintained by the DRA consisted of $52.9 million in a money market mutual fund, which meets the definition of eligible investments as per the Bond Indenture. The money market mutual fund is rated as AAA-m and AAA-mf by Standard and Poor's and Moody's, respectively, and has an average duration maturity of 45 days. This money market mutual fund is not insured or guaranteed by the Federal Deposit Insurance Corporation.

Investment securities

Investment securities generally consist of new general obligation bonds (the New GO Bonds), contingent value instruments (CVIs) issued by the Commonwealth and clawback contingent value instruments issued by the Highway & Transportation Authority (Second Priority HTA Clawback CVIs and Fourth Priority HTA Clawback CVIs), which the DRA received as part of the Commonwealth Plan of Adjustment (POA). The New GO Bonds that the DRA had received as part of the POA were disposed of in previous years. Details about the nature of the POA and the activities during the year for the remaining investment securities are further described in Note 3 below.

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

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

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

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

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

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

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, provides clarity that when there is an exchange of nonmonetary assets and the fair value of the assets exchanged cannot be determinable within reasonable limits, the assets are to be reported at the time the assets are exchanged for a monetary asset. This statement clarifies how fair value should be regarded if it is not determinable within reasonable limits given there are major uncertainties that exist about the realizability of the value that would be assigned to an asset received in a nonmonetary transaction accounted for at fair value. As of June 30, 2024, the Fourth Priority HTA Clawback CVI had fair value that could not be determined within reasonable limits, as such this investment will be recorded when exchanged for a monetary asset.

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

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

Restructuring Property

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

Loans Receivable and Allowance for Loan Losses

General Policy — The loans transferred to the DRA, which are part of the Restructuring Property transferred from GDB as described in Note 1 to the basic financial statements, were recorded at GDB's historical carrying value (unpaid principal balance reduced by the corresponding allowance for loan losses and write-down of loans previously recorded by GDB prior to transfer). As such, if the carrying value of the loans and related accrued interest receivable was zero on the GDB financial statements, the carrying value was reflected as a zero balance on the DRA's financial statements. For instance, the Commonwealth loans and Commonwealth guaranteed loans, and Other loans were recorded upon transfer to the DRA at a zero value. Certain Public Corporation loans and Municipal loans were also transferred at a recorded value of zero. Subsequent collections of principal or interest on these loans under the DRA are recognized as Other Income upon receipt. The remaining Municipal loans and certain Public Corporation loans were recorded at the carrying value of GDB.

If the carrying value of the loans and related accrued interest receivable was greater than zero (which would be as such if the GDB had either recorded no allowance for loan losses or an allowance for loan losses less than 100% of the loan principal amount) on the GDB financial statements, the GDB carrying value was reflected on DRA's financial statements at the transfer date. As long as these loans remain on accrual status, collections on these loans are applied to principal and interest in accordance with the loan agreement. If loans are in non-accrual status, once the carrying value has been fully collected, future collections will be reflected as other income upon receipt on a cash basis.

Interest on performing loans is generally recognized on the accrual basis. Interest is not accrued on loans that are classified as nonaccrual, and any interest that was accrued but unpaid on such loans is reversed from interest income at that time, or when deemed to be uncollectible. Interest income on nonaccrual loans is thereafter recognized as income only to the extent actually collected. Loans are classified as nonaccrual when management determines that any of the following characteristics are present: (a) a loan becomes six months past due; (b) a loan has no current source of repayment; (c) a loan is not covered by a formal commitment from the Commonwealth; and (d) a loan does not have designated collateral, or such collateral is insufficient. Nonaccrual loans are returned to an accrual status when there is adequate evidence indicating that the loans will be performing as contracted. Refer to Note 4 to the accompanying basic financial statements for additional details on nonaccrual loans.

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

The DRA determined that major sources of repayment on the loan portfolios were property taxes, sales and use taxes, operating revenues of the borrowers, rental income generated by the borrowers, and collateral sales. Public corporations and municipalities portfolios were segregated into the following risk-based buckets taking into consideration their source of repayment, guaranty and payment history. The risk based buckets included (i) loans with a reliable source of repayment for which an allowance for loan losses was not recorded, (ii) loans which were subsequently paid-off or transferred with zero carrying value from the GDB for which no allowance for loan losses was recorded, (iii) loans with unreliable source of repayment that were not performing according to contract terms, and did not have real estate collateral as an additional source of repayment, and (iv) loans with an unreliable source of repayment that were performing as to principal and interest, but did not have real estate as a source of repayment. A loan is considered impaired when, based on current information and events, it is probable that the DRA will not be able to collect all amounts due, both principal and interest, according to the contractual terms of the loan agreement transferred. Specifically, the DRA established an allowance for losses on impaired loans on bucket (iii) based on management's estimate of the present value of expected debt service payments discounted at the loans' effective interest rate. For loans identified as those to be individually measured for impairment, resulting present value of estimated future cash flows was compared with the respective balance of the recorded investment in the loan to determine the impairment amount or required allowance for loan losses.

As a general procedure for collateral-dependent loans, related appraisals may be internally reviewed as part of the allowance determination process. Appraisals may be adjusted due to their age, property conditions, geographical area or general market conditions as deemed necessary. The adjustments applied are based upon internal information, such as other appraisals and/or loss severity information available in several real estate market publications.

Loan charge-offs after the initial transfer are recorded against the allowance when management believes that the collection of the principal is unlikely. Recoveries of amounts previously charged off after the initial transfer are credited to the respective allowance.

Because of uncertainties inherent in the estimation process for charge-offs and reserves, management's estimate of credit losses in the outstanding loans receivable portfolios and the related allowance may change if economic and other conditions differ substantially from the assumptions used in making the estimates.

Real Estate Available for Sale

Real estate available for sale is carried at the lower of cost or estimated fair value. DRA's real estate available for sale was initially recorded upon transfer at the carrying value of GDB, which represented the lower of cost or fair value. The carrying value of those properties is established by the DRA using a third-party professional assessment or based upon an appraisal, less estimated costs to sell. Subsequent declines in the value of real estate available for sale are charged to expense.

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

Bond Issue Costs

Bond issue costs are recorded as expenditures when incurred.

Future Adoption of Accounting Pronouncements

The DRA has evaluated all statements that the GASB has issued with effective days after June 30, 2024 and determined they will not have a material impact on its basic financial statements, other than minor disclosure updates that management might determine applicable, if any, on certain risks related to the DRA's vulnerabilities due to certain concentrations or constraints (GASB Statement No. 102, *Certain Risk Disclosures*) and minor potential improvements in the content order and formatting of the management's discussion and analysis (GASB Statement No. 103, *Financial Reporting Model Improvements*). These statements are effective for fiscal years beginning after June 15, 2024 and 2025, respectively.

3. INVESTMENT SECURITIES

As of June 30, 2024, the DRA holds Second Priority HTA Clawback CVIs (notional amount of $50.7 million) with an estimated fair value of $31.9 million and Fourth Priority HTA Clawback CVIs (notional amount of $1,252.5 million) with a fair value that was not determinable within reasonable limits. These CVI's were received by the DRA in June 2022, in relation to the settlement of clawback claims on the Highway & Transportation Authority (HTA) Variable Rate Bonds 1998A ("HTA 1998 bonds") and certain other HTA loans with outstanding principal amounts of $200.0 million and $1,733.7 million, respectively, as of such date, originally made by the GDB to HTA and transferred to the DRA in connection with the issuance of the Bonds.

In May 2024, the DRA was able to execute a transaction in the secondary market with a private investor for a notional amount of $225 million of the Fourth Priority HTA Clawback CVIs. This single transaction resulted in proceeds of $45 million, which are presented within realized gain on investment securities, net in the accompanying statement of revenues, expenses, and changes in net position (deficit). The remaining Fourth Priority HTA Clawback CVIs notional amount was $1,252.5 million as of June 30, 2024, after this sale.

The Fourth Priority HTA Clawback CVIs (notional amount of $1,252.5 million) remain outstanding as of June 30, 2024; however, these are not recognized in the accompanying financial statements as the fair value of these securities was not determinable within reasonable limits due to the following factors:

1. Lack of Market Activity: This instrument has no significant observable orderly market transactions, making it difficult to obtain reliable market prices or comparable data for valuation purposes. Although the DRA was able to execute a transaction in the secondary market, there have been no other relevant transactions associated with this instrument that would reasonably support there are orderly market transactions.

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

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

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

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

As of the date of these financial statements, the Fourth Priority HTA Clawback CVIs have not received any cash flows as defined in the Bond Indenture as no applicable performance conditions or waterfall structure metrics have been met. As a result, these conditions create significant uncertainties to establish reasonable methods and assumptions to determine a reasonable fair value measurement that would comply with market participants and in compliance with GAAP as of the date of the financial statements. As time lapses and market participant information becomes available it may support changes to the fair value conclusions made by the DRA in subsequent periods.

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

In November 2023, as a result of meeting certain triggers referred to above, the Second Priority HTA Clawback CVIs received a paydown in the notional amount of approximately $1.7 million, which had an equivalent fair value recorded of approximately $900,000, which resulted in a recognized gain on such redemption of approximately $834,000.

The ASC 820 fair value hierarchy of the $50.7 million notional amount of Second Priority HTA Clawback CVIs as of June 30, 2024, falls within level 2, Significant Other Observable Inputs, with a fair value estimated in $31.9 million.

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

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

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

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

4. LOANS RECEIVABLE

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

Loans receivable balance as of June 30, 2024 are presented below. In addition, the unpaid principal balance as of the same date is also presented (in thousands):

	Carrying Value	***Unpaid Principal Balance***
Loans:		
Municipal loans	$ 796,341	*$ 851,433*
Public corporation loans	-	*241,514*
Other loans (private sector loans)	-	*361*
Allowance for loan losses	(10,449)	*n/a*
Loans receivable, net	$ 785,892	*$ 1,093,308*

During the fiscal year ended June 30, 2024, in addition to the normal repayment activity within the performing municipal loan portfolio, the DRA also received payments in the amount of approximately $3.2 million on some of its non-performing municipal loan assets that had no carrying value recognized in the financial statements; therefore the proceeds were recognized as other non-interest income in the accompanying statement of revenues, expenses and changes in net position (deficit).

On January 23, 2024, the DRA entered into a settlement agreement with the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) and the Puerto Rico Ports Authority (PRPA). The settlement addresses claims related to several loans: a 2008 loan of $180 million secured by a mortgage on the San Juan Waterfront Project, a 2014 loan of $10 million for development at the Rafael Hernández Airport in Aguadilla, and other obligations under a 2011 Reimbursement Agreement, for which an aggregate total of approximately $33.3 million had been recognized in the financial statements. The settlement included a full and final payment to the DRA in cash totaling approximately $320 million. The DRA subsequently released all related mortgages, liens, and security interests on PRPA's obligations related to these loans. As a result of this full settlement of the PRPA credit facilities, the $33.3 million of recorded carrying value referred to above on such loans were repaid, related interest income of approximately $22.6 million recognized and the remaining proceeds of approximately $264.5 million was recorded as other income in settlement of loans in the accompanying statement of revenues, expenses and changes in net position (deficit), since the remaining PRPA facilities had no carrying value recognized when transferred from GDB. On October 13, 2023, also in agreement with FAFAA, the DRA received approximately $26.7 million representing the full and final settlement on a series of other public corporations loans that had no carrying value recorded when transferred from GDB; therefore, the entire amount of the proceeds were also recognized as other income in settlement of loans in the accompanying statement of revenues, expenses and changes in net position (deficit).

In addition to the loan settlements described in the previous paragraph, the DRA, in the normal course of operations, received a final repayment of its Additional Recovery Authority loan with an outstanding balance of approximately $929,000 and related interest in the amount of approximately $25,000.

The following table presents cash collected for principal, interest and other income (including the cash settlement for the PRPA loans referred to in the previous paragraphs) during the year (in thousands):

	Principal Collected	Interest Collected	Other Income Collected
Loan:			
Municipal loans	$ 83,012	$ 73,015	$ 3,244
Public corporation loans	34,266	22,582	291,226
Total	$ 117,278	$ 95,597	$ 294,470

Municipal Loans

The carrying value of loans to municipalities as of June 30, 2024 amounted to approximately $785.9 million. For the year ended June 30, 2024, municipal loan collections (including interest), excluding payments on zero value loans, amounted to approximately $156 million.

The following is a summary of municipal loans considered to be impaired as of June 30, 2024 (excluding those that were transferred with no carrying value from GDB), and the related interest income for the year then ended (in thousands):

		Amount
Recorded investment in impaired loans:		
Not requiring an allowance for loan losses	$	-
Requiring an allowance for loan losses		10,449
Total recorded investment in impaired loans	$	10,449
Related allowance for loan losses	$	10,449
Average recorded investment in impaired loans	$	10,478
Interest income recognized on impaired loans	$	113

During the year ended June 30, 2024, there was a reduction of $58 thousand in the provision for loan losses recognized on the Municipal loans portfolio based on the evaluation of the risk characteristics of the loans, including such factors as the nature of individual credits outstanding, known and inherent risks in the portfolios, sources of repayment, adverse situations that may affect the borrower's ability to repay, the estimated value of underlying collateral, and general economic conditions, recognizing that potential changes in economic conditions or specifically, financial conditions of municipalities.

As of June 30, 2024, municipal loans totaling $10.4 million have been classified in nonaccrual status. Interest income that would have been recorded if such nonaccrual loans had been accruing in accordance with their original terms was approximately $0.7 million in fiscal year 2024.

Beneficial Interests on GDB Retained Loans

The DRA also received payments of its beneficial interest in one of the GDB Retained Loans in the amount of approximately $5.2 million, which was recognized as other non-interest income in the accompanying statement of revenues, expenses and changes in net position (deficit).

As part of the settlement agreement reached with PRPA, as described above, FAFAA also had agreed to work constructively in good faith and use its reasonable best efforts to resolve all GDB Retained Loans that remained outstanding as of the closing date of such settlement agreement as follows:

(i) With respect to the remaining GDB Retained Loans owed by at least 50% of the remaining obligors, within nine (9) months of the PRPA settlement agreement closing date; and

(ii) With respect to all other GDB Retained Loans, no later than fifteen (15) months after the PRPA settlement agreement closing date.

As of the date of the accompanying financial statements, the GDB Retained Loans remain to be resolved and settled.

5. ALLOWANCES FOR LOAN LOSSES

The following is an overall summary of the activity in the allowance for loan losses for the year ended June 30, 2024 (in thousands):

	Municipal Loans
Balance, beginning of year	$ 10,507
Provision for loan losses	–
Charge-offs	–
Recoveries	(58)
Balance, end of year	$ 10,449

6. ACCRUED INTEREST ON LOANS

Interest receivable on municipal loans as of June 30, 2024 was $36.7 million.

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

7. REAL ESTATE AVAILABLE FOR SALE

The activity of the real estate available for sale during the year, with a balance as of June 30, 2024, at the lower of carrying or fair value, consisted of the following (in thousands):

	Amount
Real estate available for sale as of June 30, 2023	$ 1,038
Subtractions:	
Change in recorded fair value	(1,038)
Real estate available for sale as of June 30, 2024	$ -

8. BONDS PAYABLE

The activity of the Restructuring Bonds payable for the year ended June 30, 2024 is as follows (in thousands):

	Beginning balance	Additions	Payments	Ending Balance
GDB Debt Recovery Authority Bonds, principal and interest payments on each February 20th and August 20th, due August 20, 2040	$ 1,611,942	$ 47,691	$ (390,759)	$ 1,268,874

Terms and Description of the Restructuring Bonds

On November 29, 2018 and December 14, 2023, the DRA issued approximately $2.6 billion in GDB Debt Recovery Authority Bonds (the Existing Bonds) and $47.7 million in Additional Bonds (together the Restructuring Bonds), respectively, in a single series secured by a first priority statutory lien on the Restructuring Property.

No new assets or proceeds were received by DRA as security for the Additional Bonds issued in December 2023, as most of the Restructuring Property had already been received on the Closing Date upon issuance of the original Existing Bonds. This Restructuring Property was intended to serve as a statutory lien, under the Master Transfer Agreement referred to in Note 1 to the basic financial statements, to secure the Existing Bonds issued and also any future potential additional bonds. Therefore, the issuance of the Additional Bonds has been treated as a continuation of the original issuance and accounted for similarly, with the difference between the Additional Bonds issued and the carrying value of the Restructuring Property received (which was zero as no assets were received) recognized within noninterest operating expense as a separate line item titled "*Issuance of Additional Bonds*".

The Restructuring Bonds have a 7.500% annual coupon rate, payable on the Special First Payment Date (which was December 3, 2018) and, thereafter, on each February 20 and August 20, until its due date of August 20, 2040 (the Final Scheduled Payment Date), in cash or in kind. The Restructuring Bonds are special limited obligations of the DRA and are not indebtedness or liabilities of GDB, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF), the Commonwealth or any of the Commonwealth's public instrumentalities or political subdivisions, other than the DRA. The Restructuring Bonds are not backed by the good faith, credit and taxing power of the Commonwealth nor are they payable or secured by GDB, AAFAF, the Commonwealth or any of the Commonwealth's public instrumentalities or political subdivisions, other than the DRA. The Additional Bonds are part of the same series as the Existing Bonds; however, they bear a separate CUSIP number and are therefore not fungible with the Existing Bonds or any other securities of the DRA, GDB, FAFAA, the Commonwealth or any of the Commonwealth's public instrumentalities or political subdivisions.

The payments of principal and interest on the Restructuring Bonds will depend on the available cash existing in the DRA's Collection Account at each payment date. Available cash represents the funds available for payment to the holders of the bonds on the relevant payment date equal to (i) the sum of all amounts in the Collection Account as of the day immediately preceding the relevant payment date, less (ii) the sum of certain fees and expense reserves as defined in the Indenture Trustee and the sum of all amounts due to the Indenture Trustee, the Servicer and the Collateral Monitor. The available cash balance in the Collection Account will be used to pay the principal and interest due at each payment date. The principal balance will be paid to the extent available after accrued interest with respect to such payment date has been paid in full in cash, thereby reducing the outstanding principal balance of the Restructuring Bonds by such amount. To the extent there is insufficient available cash on a payment date to pay in full in cash the interest accrued during the applicable interest period preceding such payment date on the Restructuring Bonds, such accrued interest will be paid in cash pro rata to the extent of and from available cash, and principal on the bonds will accrue at an amount equal to the amount of the available cash shortfall (such amount of shortfall known as the "PIK" Amount). Following an increase in the principal amount of the Restructuring Bonds as a result of the accrual of a PIK Amount, the Restructuring Bonds will bear interest on the then-outstanding principal, which will include such accrued PIK Amount. In addition, to the extent there is insufficient available cash on a payment date to pay at least $1.00 of interest for every $1,000 of outstanding principal amount of Restructuring Bonds, there will be no distribution to the holders of the Restructuring Bonds on such payment date and available cash will remain in the Collection Account until the following payment date.

As disclosed in the Offering Memorandum, it is not expected that bondholders will receive payment in full of principal and interest due on the Restructuring Bonds since there is considerable uncertainty as to whether the Restructuring Property will provide sufficient cash flows to make payments of interest and principal (including PIK Amounts). If this occurs, there will not be a subsequent insolvency proceeding. Ultimately all remaining assets will be transferred to the indenture trustee, who will liquidate them for the benefit of bondholders and thereafter the balance of the bond debt will be contractually discharged.

The table below presents aggregate activities for the year ended June 30, 2024, on the Restructuring Property and the amount of cash distributed to the bondholders as a whole on the Restructuring Bonds.

	Bonds (in millions)				
	Interest Paid in Cash	Principal Paid in Cash	PIK Accrued per Period	New Bonds Issued	Total Ending Principal
Payment Date					
August 2023	$ 60.8	$ 59	$ -	$ -	$ 1,553
December 2023	-	-	-	48	1,601
February 2024	60.2	332	-	-	1,269
Total	$ 121	$ 391	$ -	$ 48	

Covenants and Events of Default

The obligations and covenants of the DRA are fully described in the Bond Indenture.

Consistent with the requirements of Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities and Exchange of 1934, the DRA will covenant in a Continuing Disclosure Agreement (the “Disclosure Agreement”) among the DRA, AAFAF and the Indenture Trustee, to provide certain ongoing continuing disclosures and reports, as defined and described in the Bond Indenture, with respect to the Restructuring Bonds, for the benefit of the bondholders.

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

i. Failure by the DRA to accrue any PIK amount as required or make any required payment from Available Cash in respect of any of the Restructuring Bonds on the date on which the same is due;

ii. A failure by the DRA to observe or perform any covenant or agreement (other than the covenant referred to in (i) above) contained in the Bond Indenture, and such failure continues or is not cured for a period of 60 days after written notice by the Indenture Trustee or bondholders holding not less than 25% in principal amount of the Restructuring Bonds then outstanding;

iii. The DRA, pursuant to the meaning of several bankruptcy provisions, as defined in the Bond Indenture, including PROMESA:

- Commences proceedings to be adjudicated bankrupt or insolvent.
- Consents to the institutions of bankruptcy or insolvency proceedings against it.
- Files or consents to the filing of a petition or answer or consent seeking an arrangement of debt, reorganization, dissolution, winding up or relief under applicable Bankruptcy Law.
- Consents to the appointment of a receiver, liquidator or other similar official of it for all or any substantial part of its property; provided that any such official appointed in respect of an obligor under any Restructuring Property will not constitute a Bond Indenture event of default under this section.
- Makes a general assignment for the benefit of its creditors.
- Is deemed to be a covered territorial instrumentality under PROMESA or it otherwise determined to be subject to oversight under applicable Bankruptcy Law.
- Takes any corporate or similar action in furtherance of any of the foregoing.

iv. A court of competent jurisdiction enters an order or decree under any Bankruptcy Law that does any of the foregoing on (iii) of this section or orders the liquidation, dissolution or winding up of the DRA and such order remains unstayed and in effect for 60 consecutive days;

v. Any legislation is enacted, government action is taken or any party (other than an obligor on the Restructuring Property) is determined by a final, non-appealable order or admitted in writing by the DRA to have rights that, in any such case, adversely affect (a) the receipt of current or future collections of the Restructuring Property to which the DRA is entitled in respect of assets having an aggregate value on the Closing Date of $25 million or more or (b) the binding effect or enforcement of, in accordance with their respective terms, the GDB Restructuring Act, the Qualifying Modification, the PET, the Bond Indenture, the Restructuring bonds or the liens on the Restructuring Property. This particular event of default is subject to various exceptions and conditions further defined in the Bond Indenture;

vi. Any entry of a judgment against the DRA in the amount of $10 million or more;

vii. The occurrence of an event of default by GDB under the Transfer Agreement; and

viii. The DRA permits the validity or effectiveness of the transaction documents under the Qualifying Modification to be impaired, and such impairment affects the enforceability of or payments on the Restructuring Bonds, or any person to be released from any covenants or obligations with respect to the Restructuring Bonds.

If a Bond Indenture event of default occurs and is continuing, the Indenture Trustee may, or upon direction of the bondholders holding not less than 25% in principal amount of the Restructuring Bonds then outstanding, will declare the principal of such Restructuring Bonds and accrued but unpaid interest and any other amounts owed thereon to be immediately due and payable, in the order of priority specified for payments. The bondholders may rescind or annul such an acceleration declaration on the Restructuring Bonds and the Indenture Trustee may also exercise a series of remedies available to waive an event of default, as further defined on the Bond Indenture.

In no event shall the DRA be deemed to be in default as a result of there being insufficient available cash to pay on cash any or all interest or principal on the Restructuring Bonds on any payment date. Notwithstanding any other provision of the Bond Indenture, no default under the disclosure agreement provisions therein will be deemed a Bond Indenture Event of Default, and the sole remedy under such disclosure agreement provisions will be an action to compel performance.

As of June 30, 2024, there were no events of default incurred by the DRA.

9. RISK MANAGEMENT

The DRA's by-laws require the DRA to indemnify the members of the Board to the fullest extent permitted under the Commonwealth law against liabilities that may arise by reason of their service to the DRA, and to advance expenses reasonably incurred as a result of proceedings against them for which they could be indemnified. To minimize the risk of loss for potential liabilities, the DRA obtained directors' and officers' insurance coverage, along with legal fees and expenses payable from collections on the Restructuring Property prior to making payments on the Restructuring Bonds. Insurance coverage is updated annually to account for changes in operating risk. For the year ended June 30, 2024, there has been neither insurance settlements nor related claims against the DRA board members.

10. COMMITMENTS AND CONTINGENCIES

The Keepwell Agreement

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

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

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

Litigation

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

11. SUBSEQUENT EVENTS

Subsequent events were evaluated through March 11, 2025 to determine if such events should either be recognized or disclosed in the 2024 basic financial statements.

Payment on Restructuring Bonds

On the payment date of August 20, 2024, available cash of approximately $141.2 million was used to make interest and principal payments on the Restructuring Bonds in the amounts of $48.1 million and $93.1 million, respectively. On the payment date of February 20, 2025, available cash of approximately $51.8 million was used to make interest and principal payments on the Restructuring Bonds in the amounts of $45.1 million and $6.7 million, respectively.