Kevane
Grant Thornton

Special Communities Perpetual Trust

(A Blended Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and
Required Supplementary Information

June 30, 2020

(With Independent Auditors' Report Thereon)

SPECIAL COMMUNITIES PERPETUAL TRUST
(A BLENDED COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

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Required Supplementary Information
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Contents

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Special Communities Perpetual Trust:

Report on the Basic Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Special Communities Perpetual Trust (the "Trust") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Basic Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

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

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

Kevane Grant Thornton

Basis for Qualified Opinion on Governmental Activities and General Fund

The Trust could not provide a complete, detailed, updated and reconciled analysis of several liability accounts, including certain payable subsidiaries and related items, segregated among suppliers and communities. This includes the lack of a reliable check register tracking process. Also, the escrow liability accounts recognizing the collection of mortgage payments allegedly representing mortgage insurance payments, lacks a more complete evaluation as to the composition and legal status of such collections. The amount by which this lack of reconciliation, update and analysis would affect the financial position of the governmental activities and General Fund of the Trust as of June 30, 2020, and the changes in its financial position thereof for the year then ended has not been determined. In addition, the Trust could not provide us with documentation supporting the nature, existence and accuracy of certain payment checks issued subsequent to June 30, 2020 in the amount of approximately $51,000. We were unable to obtain sufficient appropriate evidence about such expenditures by other auditing procedures.

As further disclosed in Note 9 to the basic financial statements, on November 4, 2021, the Oversight Board created by PROMESA announced that it filed the eighth amended Plan of Adjustment (POA) that reflects agreements reached with creditors after the filing of seven previous amended plans that began back on September 27, 2020. The POA is anticipated to reduce the debt of the Commonwealth to affordable and sustainable levels. On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth POA were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth POA has been confirmed and is currently effective as of the date hereof. Management, consultants, and legal advisors of Puerto Rico Socioeconomic and Community Development Office (PRSCDO), the Trust, the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) and the Department of the Treasury are currently investigating and evaluating whether the POA has had or will have any impact on the reserve for legal claims and obligations recognized by the Trust as of June 30, 2020. As of the date of the accompanying financial statements, such evaluation has not concluded; consequently, the amount by which the Trust’s reserve for legal claims and obligations might be impacted, if any, have not been determined.

Qualified Opinion

In our opinion, except for the effects of the matters described in the “Basis for Qualified Opinion” paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and General Fund of the Trust as of June 30, 2020, and the changes in its financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Debt Service Fund of the Trust as of June 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Kevane Grant Thornton

Emphasis of Matters

The Trust's Ability to Continue as a Going Concern
The accompanying financial statements have been prepared assuming that the Trust will continue as a going concern. As discussed in note 3 to the basic financial statements, the Legislature of the Commonwealth of Puerto Rico has not appropriated the funds, as required by Legislative Resolution No.1028, to pay the debt service on the note outstanding since fiscal year 2017. Therefore, the Trust has not been able to make the required debt service payments for the fiscal years since then, including fiscal year 2020. The repayment of the note outstanding is derived from Commonwealth's appropriations, which are dependent on the availability of funds from the Commonwealth's annual budget and its legislative approval, and the certification of such availability and approval from the Financial Oversight and Management Board for Puerto Rico (Oversight Board). The repayment of the note outstanding is also dependent on the ability of the Trust to extend, renew or restructure such note. The legislative approval to appropriate the funds required for the debt service of the note, the Trust's ability to secure some type of extension, renewal or restructuring on such bonds and the ultimate certification and approval from the Oversight Board are uncertain. Also, the approval of Act No. 21 of April 6, 2016, as amended, the wind down and Qualifying Modification of the Government Development Bank's (GDB) (as disclosed in notes 3 and 4) and the enactment of Act No. 10 creating the Puerto Rico Socioeconomic and Community Development Office (PRSCDO) for, among other things, addressing and correcting matters related to the Trust, raise furthermore the uncertainty on the continued sustainability of its operations. These circumstances raise substantial doubt about the Trust's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 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, which 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 auditing standards generally accepted in the United States of America, 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.

Kevane Grant Thornton LLP

San Juan, Puerto Rico
July 21, 2022.

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
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OF THE PUERTO RICO SOCIETY OF
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COPY OF THIS REPORT.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Special Communities Perpetual Trust (the "Trust"), we offer readers of the Trust's basic financial statements this narrative overview and analysis of the Trust's financial performance during the fiscal year ended June 30, 2020. Please read it in conjunction with the Trust's basic financial statements including the notes thereto, which follow this section.

1. Financial Highlights:

- Total assets and total liabilities of the Trust as of June 30, 2020 amounted to approximately $3.3 million and $394.6 million, respectively, for a net deficit of approximately $391.3 million.
- During the fiscal year ended June 30, 2020, the Trust received $2.182 million as a result of a stipulation agreement entered with the municipality of Toa Alta whereas the municipality agreed to refund the Trust the unused funds remaining from certain projects' contracts. These funds received have been included as other income in the accompanying statement of activities and statement of revenue, expenditures, and changes in deficit-governmental funds.
- During the fiscal year ended June 30, 2020, interest expense on notes payable amounted to approximately $16.4 million.
- The Trust maintains a non-revolving note payable with the Government Development Bank for Puerto Rico (GDB). The outstanding balance as of June 30, 2020, amounted to approximately $234.7 million. There were no debt service payments during fiscal year 2020 because the approved budget of the Commonwealth did not include appropriations for such purpose. The current financial situation of the Commonwealth is precarious and is unlikely that available resources will be accessible to cover the Trust's debt in the near future. The Government is considering its options for the continuance of this Trust.

2. Overview of the Basic Financial Statements:

The management's discussion and analysis are intended to serve as an introduction to the Trust's basic financial statements. The Trust's basic financial statements comprise three components: a) government-wide financial statements, b) fund financial statements, and c) notes to the basic financial statements.

Government-wide financial statements:

Provide information about the Trust's overall financial position and results of operations. These statements, which are presented on an accrual basis of accounting, consist of the statement of net position and the statement of activities.

Statement of net position:

The statement of net position is designed to display the financial position of the Trust. In accordance with Governmental Accounting Standards Board ("GASB") Concepts Statement No. 1, *Objectives of Financial Reporting*, financial reporting should provide the information needed to:

- Assess the financial position and condition of the government.
- Determine whether the government's overall financial position improved or deteriorated as a result of the current year operations.
- Assess the level of services that can be provided by the government and its ability to meet obligations as they become due.
- Understand the extent to which the government has invested in capital assets.
- Disclose legal or contractual restrictions on resources.
- Provide information about whether current year revenues were sufficient to cover the cost of current year services.
- Provide information about how the governmental entity financed its activities.
- Assist users in evaluating the operating results of the governmental entity for the year.
- Provide information necessary to determine whether the entity's financial position improved or deteriorated as a result of the year's operations.

Statement of activities:

The statement of activities presents information on how the Trust's net position changed during the reporting period. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Governmental fund financial statements:

Provide more detailed information about the Trust's most significant funds and not the Trust as a whole. The Trust maintains two governmental funds which are considered major funds: the general fund and the debt service fund. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on current inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. This information may be useful in evaluating the Trust's current financing requirements.

Notes to the basic financial statements:

The notes to the basic financial statements provide additional information that is essential for its complete understanding.

3. Government-Wide Financial Analysis:

The government-wide financial statements were designed so that the users could evaluate the Trust's financial condition at the end of the year. Condensed information about the Statements of Net Position (deficit) for the year ended June 30, 2020 and 2019, are presented below (in thousands):

	As of June 30,		Change	
	2020	2019	Amount	%
Restricted assets	$ 3,326	$ 1,711	$ 1,615	94%
Accrued interest payable	128,966	112,538	16,428	15%
Contracts payable	8,684	8,684	-	0%
Retainage payable	9,957	9,957	-	0%
Due to Commonwealth of PR	232	194	38	20%
Due to GDB	15	15	-	0%
Other payables	2,207	1,989	218	11%
Reserve for legal claims	9,907	10,024	(117)	(1%)
Note payable	234,692	234,692	-	0%
Total liabilities	394,660	378,093	16,567	4%
Unrestricted	(391,334)	(376,382)	(14,952)	4%
Net position (deficit)	$ (391,334)	$ (376,382)	$ (14,952)	4%

The principal changes in the Trust's statement of net position during fiscal year 2020 consisted of an increase of approximately $16.4 million in accrued interest payable on the Trust's remaining outstanding note payable balance, as no payments were made during the fiscal year.

Condensed Statement of Revenues, Expenses, and Change in Net Position (deficit) for the year ended June 30, 2020 and 2019, are presented below (in thousands):

	As of June 30,		Change	
	2020	2019	Amount	%
Revenues:				
Interest income	$ 9	$ 3	$ 6	200%
Rent and other income	2,330	230	2,100	913%
Contributions from Commonwealth of Puerto Rico	42	116	(74)	(64%)
Recovery of custodial credit risk loss on deposits	-	105,756	(105,756)	(100%)
Total revenues	2,381	106,105	(103,724)	(98%)
Expenses:				
Professional services and general government	830	104	726	698%
Housing assistance	146	138	8	6%
Interest on note payable	16,428	19,648	(3,220)	(16%)
Recovery of fully reserved mortgage loans	(71)	(179)	108	(60%)
Total expenses	17,333	19,711	(2,378)	(12%)
Extraordinary item - extinguishment of debt restructuring	-	5,394	(5,394)	(100%)
Change in net position (deficit)	(14,952)	91,788	(106,740)	(116%)
Deficit - Beginning of year	(376,382)	(468,170)	91,788	(20%)
Deficit - End of year	$ (391,334)	$ (376,382)	$ (14,952)	4%

The decrease in recovery of custodial credit risk loss on deposit was due to the one-time Qualifying Modification agreement with GDB effected in fiscal year 2019 to offset previously reserved Trust's deposits held at GDB against notes due to GDB, which resulted in a recovery gain of $105.8 million, an event that did not recur in fiscal year 2020. The increase of $2.1 million in rent and other income responds to a stipulation agreement entered with the municipality of Toa Alta whereas the municipality agreed to refund the Trust the unused funds of approximately $2.182 million remaining from certain projects' contracts. These funds received were included as other income in the accompanying statement of activities and statement of revenue, expenditures, and changes in deficit-governmental funds.

Interest expense on the note payable of the Trust decreased in the amount of approximately $3.2 million in fiscal year 2020, as a result of a lower average outstanding balance in fiscal year 2020.

4. Governmental Funds Results:

The Trust has two governmental funds which are the general fund and the debt service fund. Condensed information about the governmental funds' net change in fund balance (deficit) follows (in thousands):

	As of June 30,		Change	
	2020	2019	Amount	%
Revenues:				
Interest income	$ 9	$ 3	$ 6	200%
Rent and other income	2,330	230	2,100	913%
Contributions from Commonwealth of Puerto Rico	42	116	(74)	(64%)
Recovery of custodial credit risk loss on deposits	-	105,756	(105,756)	100%
Total revenues	2,381	106,105	(103,724)	(98%)
Expenses:				
Professional services and general government	946	104	842	810%
Housing assistance	146	138	8	6%
Recovery of fully reserved mortgage loans	(71)	(179)	108	(60%)
Debt services-principal	-	105,757	(105,757)	100%
Total expenses	1,021	105,820	(104,799)	(99%)
Change in net position (deficit)	1,360	285	1,075	377%
Deficit - Beginning of year	(19,129)	(19,414)	285	(1%)
Deficit - End of year	$ (17,769)	$ (19,129)	$ 1,360	(7%)

The Trust's governmental funds reported total deficits as of June 30, 2020 and 2019 of approximately $17.8 million and $19.1 million, respectively.

The principal changes reflected in the governmental funds coincide for the most part on the fluctuations already described for the statement of activities on page 7.

According to Rule No. 6839 - *Reglamento del Programa de Préstamos para la Rehabilitación y Construcción de Vivienda para Nuestras Comunidades Especiales*, issued on July 13, 2004, the Trust has the faculty to issue mortgage loans to participants of the housing program. As of June 30, 2017, the outstanding balance of the mortgage loans receivable was fully reserved. During the year ended June 30, 2020, there were no fees on mortgage loans, however, approximately $71 thousand was collected, thus explaining such amount presented as recovery of fully reserved mortgage loans.

5. Long Term Debt:

The Trust maintains a non-revolving note payable with GDB. The outstanding balance as of June 30, 2020, amounted to approximately $234.7 million. There were no debt service payments during fiscal year 2020.

6. Currently Known Facts:

Proposed Title III Joint Plan of Adjustment for the Commonwealth, Employees' Retirement System of the Government of the Commonwealth (ERS) and Public Building Authority (PBA)

On November 4, 2021, the Oversight Board created by PROMESA announced that it filed the eight amended Plan of Adjustment (POA) that reflects agreements reached with creditors after the filing of seven previous amended plans that began back on September 27, 2020. The POA is anticipated to reduce the debt of the Commonwealth to affordable and sustainable levels. The plan reduces the Commonwealth's debt from approximately $35 billion in outstanding claims by approximately 80% to $7.4 billion in future debt and reduces the Commonwealth's total debt service payments by more than 60%. On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth POA were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth POA has been confirmed and is currently effective as of the date hereof.

Management, consultants, and legal advisors of PRSCDO, the Trust, the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) and the Department of the Treasury are currently investigating and evaluating whether the POA has had or will have any impact on the reserve for legal claims and obligations recognized by the Trust as of June 30, 2020. As of the date of the accompanying financial statements, such evaluation has not concluded; consequently, the amount by which the Trust's reserve for legal claims and obligations might be impacted, if any, have not been determined.

Act No. 23 of August 5, 2021

On August 5, 2021, Act No. 23, known as the Law of Justice for Families and Individuals of the Special Communities Program, was enacted to strengthen and empower the Trust to adopt, repeal and amend the relevant regulations to achieve the objectives of the operation and implementation of the Special Communities Program. Upon the approval of this Act, among other provision, all entities, departments, instrumentalities, and corporations of the Commonwealth of Puerto Rico that acquired any real estate property using the Trust's funds historically, are obliged to carry out all the legal procedures necessary to transfer and assign those assets in favor of the Trust.

7. Requests for Information:

This financial report is designed to provide a general overview of the Trust's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Special Communities Perpetual Trust's Executive Director, Puerto Rico Socioeconomic and Community Development Office, 1208 Roosevelt Ave., San Juan, P.R. 00920.

BASIC FINANCIAL STATEMENTS

SPECIAL COMMUNITIES PERPETUAL TRUST
(A BLENDED COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENT OF NET POSITION (DEFICIT)
JUNE 30, 2020

ASSETS		
Current restricted assets:		
Cash	$	1,848,010
Due from Commonwealth of Puerto Rico		976,632
Due from Municipality		497,668
Other assets - prepaid equipment maintenance		3,822
Total current restricted assets		3,326,132
Non-current restricted assets:		
Mortgage loans receivable		7,407,800
Less: Allowance for losses on mortgage loans receivable		(7,407,800)
Total noncurrent restricted assets		-
Total assets		3,326,132
LIABILITIES		
Current liabilities:		
Accrued interest payable		128,966,072
Current liabilities payable from restricted assets:		
Contracts payable		8,684,380
Retainage payable		9,956,801
Due to Commonwealth of Puerto Rico		231,864
Due to Governmental Development Bank for Puerto Rico		15,352
Other payables		2,206,458
Total current liabilities		150,060,927
Non-current liabilities:		
Reserve for legal claims payable from restricted assets		9,907,473
Note payable due in more than one year		234,692,018
Total non-current liabilities		244,599,491
Total liabilities		394,660,418
NET DEFICIT		
Unrestricted		(391,334,286)
Total net deficit	$	(391,334,286)

See notes to basic financial statements.

SPECIAL COMMUNITIES PERPETUAL TRUST
(A BLENDED COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

		Program Revenues		Net (Expenses)
Functions/Programs	**Expenses**	**Rent and Other Income**	**Contributions from Commonwealth**	**Revenues and Changes in Net Position**
GOVERNMENTAL ACTIVITIES:				
General government	$ 829,625	$ 7,200	$ -	$ (822,425)
Housing assistance	145,895	2,322,822	42,218	2,219,145
Interest expense on note payable	16,428,440	-	-	(16,428,440)
Recovery of fully reserved mortgage loans	(71,344)	-	-	71,344
Total governmental activities	$ 17,332,616	$ 2,330,022	$ 42,218	(14,960,376)
GENERAL REVENUES				8,576
CHANGE IN NET POSITION				(14,951,800)
DEFICIT — Beginning of year				(376,382,486)
DEFICIT — End of year				$ (391,334,286)

See notes to basic financial statements.

SPECIAL COMMUNITIES PERPETUAL TRUST
(A BLENDED COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2020

	General Fund	Debt Service Fund	Total
ASSETS			
Cash	$ 1,848,010	$ -	$ 1,848,010
Due from Commonwealth of Puerto Rico	976,632	-	976,632
Due from Municipality	497,668	-	497,668
Other assets - prepaid equipment maintenance	3,822	-	3,822
Total assets	3,326,132	-	3,326,132
LIABILITIES:			
Contracts payable	8,684,380	-	8,684,380
Retainage payable	9,956,801	-	9,956,801
Due to Commonwealth of Puerto Rico	231,864	-	231,864
Due to Government Development Bank for Puerto Rico	15,352	-	15,352
Other payables	2,206,458	-	2,206,458
Total liabilities	21,094,855	-	21,094,856
DEFICIT			
Unassigned	17,768,723	-	17,768,723
Total deficit	17,768,723	-	17,768,723
TOTAL LIABILITIES AND DEFICIT	$ 3,326,132	$ -	$ 3,326,132

See notes to basic financial statements.

SPECIAL COMMUNITIES PERPETUAL TRUST
(A BLENDED COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES
JUNE 30, 2020

DEFICIT PER GOVERNMENTAL FUNDS BALANCE SHEET	$	(17,768,723)
Amounts reported for Governmental Activities in the Statement of Net Position are different than the amounts reported in the Governmental Funds because:		
Reserve for legal claims is not due and payable in the current period, and, therefore, not reported in the governmental funds balance sheet		(9,907,473)
Note payable and accrued interest payable are not due and payable in the current period and, therefore, not reported in the governmental funds balance sheet		(363,658,090)
NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	$	(391,334,286)

See notes to basic financial statements.

SPECIAL COMMUNITIES PERPETUAL TRUST
(A BLENDED COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN DEFICIT – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	General Fund	Debt Service Fund	Total
REVENUES:			
Interest income	$ 8,576	$ -	$ 8,576
Rent and other	2,330,022	-	2,330,022
Contribution from the Commonwealth of Puerto Rico	42,218	-	42,218
Total revenues	2,380,816	-	2,380,816
EXPENDITURES:			
Professional services and general government	946,478	-	946,478
Housing assistance	145,895	-	145,895
Recovery of fully reserved mortgage loans	(71,344)	-	(71,344)
Total expenditures	1,021,029	-	1,021,029
NET CHANGES IN NET POSITION	1,359,787	-	1,359,787
DEFICIT — Beginning of year	(19,128,510)	-	(19,128,510)
DEFICIT — End of year	$ 17,768,723	$ -	$ (17,768,723)

See notes to the basic financial statements.

SPECIAL COMMUNITIES PERPETUAL TRUST
(A BLENDED COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN DEFICIT – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

NET CHANGE IN FUND BALANCE — GOVERNMENTAL FUNDS	$	1,359,787
Amounts reported for Governmental Activities in the Statement of Activities are different than the amounts Reported in the Governmental Funds because:		
Net change in reserve for legal claims reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.		116,853
Net change in accrued interest on note payable during the year does not require the use of current financial resources and, therefore is not reported as expenditures in the governmental fund		(16,428,440)
CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	$	(14,951,800)

See notes to basic financial statements.

1. REPORTING ENTITY

The Special Communities Perpetual Trust (the "Trust") was created through Act No. 271 of November 21, 2002 as amended by Act No. 10 of 2017 and is a blended component unit of the Commonwealth of Puerto Rico (the "Commonwealth"). It is governed by a board of directors composed of seven (7) members: the Secretary of the Department of Housing (the "Housing Department") of the Commonwealth, the Secretary of the Department of Transportation and Public Works ("DOT") of the Commonwealth, the Executive Director of Puerto Rico Socioeconomic and Community Development Office (PRSCDO), one mayor of a municipality of the Commonwealth, one community leader resident in a special community and two private citizens representing the public interest. All members of the board of directors are designated by the Governor of the Commonwealth.

The Trust was created for the construction and rehabilitation of housing, construction and improvements of electric, water and sewage systems, repair and improvement of streets and sidewalks, construction and improvement of recreational facilities and to encourage the attempts to develop initiatives for economic auto-sufficiency for the residents of 686 communities. The Trust was funded with $1,000 million of which $560 million were designated for the rehabilitation and construction of 20,000 housing units; $130 million were designated for the construction of new public facilities; and $310 million were designated for other construction, improvement and rehabilitation projects.

The total source of funding was required to be provided by the Government Development Bank for Puerto Rico ("GDB") with a note payable for $500 million, approved through Legislative Resolution No. 1028, and from an operating contribution of $500 million, approved through Legislative Resolution No. 1027. Both resolutions were approved on November 21, 2002. The proceeds of the note payable and the operating contribution were transferred from GDB to the Trust.

In accordance with Rule No. 6839 - *Reglamento del Programa de Préstamo para la Rehabilitación y Construcción de Viviendas para Nuestras Comunidades Especiales*, effective on July 13, 2004, the Trust has the faculty to grant mortgage loans to residents of the 686 communities.

On September 3, 2010, the Trust's management signed an agreement with Puerto Rico Infrastructure Financing Authority ("PRIFA"), in which PRIFA agreed to provide the Trust administrative and technical assistance with certain projects. The projects were to be completed with the Trust's resources and PRIFA would be allowed to charge certain management and administrative fees to the Trust, as agreed by the parties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Trust conform to Accounting Principles Generally Accepted in the United States of America ("GAAP") for governments, as prescribed by the Governmental Accounting Standards Board ("GASB"). Specifically, the Trust has adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of GAAP. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of changes in net position during the reporting period. Actual results could differ from those estimates.

Following is a description of the Trust's most significant accounting policies:

Government-Wide and Fund Financial Statements:

Government-Wide Financial Statements– The statement of net position and the statement of activities report information on all activities of the Trust. Only governmental activities are presented in the Trust's basic financial statements. Governmental activities are financed through contributions from the Commonwealth, interest income on demand deposits accounts, and occasionally other financing sources. Following is a description of the Trust's government-wide financial statements.

- The statement of net position presents the Trust's assets and liabilities, with the difference reported as net position.

- The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues often include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues or direct expenses, are reported as general revenues.

Governmental Fund's Financial Statements – Fund accounting is designed to demonstrate legal compliance and to aid financial 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. All of the financial activities of the Trust have been classified as governmental and all funds are reported in separate columns in the fund financial statements.

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

- Nonspendable — amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- Restricted — amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- 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.

- Assigned — amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- Unassigned — amounts that are available for any purpose.

When both restricted and unrestricted resources are available for use, it is the Trust's policy to use restricted resources first, and then, unrestricted resources as they are needed.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

Government- Wide Financial Statements – The Trust's government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Exception to this general rule are certain expenses that are recorded once they are approved by the Trust without taking into consideration if the expense was incurred in prior periods. Grants and similar items are recognized as revenue as soon as all the eligibility requirements imposed by the provider have been met.

Governmental Fund's Financial Statements – The governmental fund's financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Trust considers revenues to be available if they are to be collected within 60 days after the end of the current fiscal year-end. Expenditures are recorded when the related liability is incurred. Exceptions to this general rule are; (i) the principal and interest on general long-term debt, which are recognized when due, including principal and interest due on July 1st, of the following fiscal year, if resources are available for its payment as of June 30th and; (ii) certain expenses which are recorded once they are approved by the Trust without taking into consideration if the expense was incurred in prior periods.

The financial activities of the Trust that are reported in the accompanying basic financial statements have been classified into the following major governmental funds:

- ***General Fund –*** The general fund is the general operating fund of the Trust that is used to account for all financial resources, except those required to be accounted for in another fund.

- ***Debt Service Fund –*** The debt service fund accounts for the accumulation of resources for payment of interest and principal on long-term obligations.

Due from Commonwealth and Municipality — The Housing Department and a municipality collect the monthly payments of mortgage loans and leases due from participants on behalf of the Trust. These funds are deposited temporarily in the accounts of the Commonwealth and the municipality until their transfer to the Trust.

Mortgage Loans and Cost Recovery Method — The Trust grants mortgage loans to participants of the housing program in exchange for housing benefits received. Loans are stated at unpaid principal balances reduced by an allowance for loan losses. Loans are measured for impairment when it is probable that all amounts, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement. Due, among other reasons, to the housing assistance nature of this social program, and the high proportion of mortgage loans that are delinquent, management of the Trust believes that amounts to be ultimately collected will be minimal and, to that effect, adopted the cost recovery method for the accounting of mortgage loans. Under the cost recovery method, the Trust records all mortgage payments received as a reduction of the principal, therefore delaying recognition of interest income until the principal of the mortgage loans has been collected in its totality. Accordingly, the balance of mortgage loans receivable as of June 30, 2020, has been fully reserved.

Recent Accounting Pronouncements – The GASB has issued the following accounting pronouncements that have effective date after June 30, 2020:

- GASB Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued. This statement is not expected to have material impact on the Authority's financial statements.

- GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2020. as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance,* which allowed for an eighteen-months postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

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

GASB Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*, which allowed for

a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

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

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2022, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance*, which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

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

- GASB Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)— most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date.

- GASB Statement No. 94*, Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, 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), which the Board defines in this Statement as a PPP in which (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). As defined in this Statement, 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*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—and amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statement; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

This Statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74*, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or another employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement No. 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67 or paragraph 3 of Statement No. 74, respectively, are effective immediately.

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

Management is evaluating the impact that these statements will have on the Trust's Financial Statements but no significant impact, if any, is expected.

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

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

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

    - Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as 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 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.

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

3. Going Concern

Management believes that there is substantial doubt about the Trust's ability to continue as a going concern because of the following:

- The Trust maintained most of its cash and deposits with GDB. On March 23, 2019, GDB ceased its operations and determined to wind down in an orderly fashion under Title VI of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA), which was signed into law by President Barack Obama on June 30, 2016. Prior to the enactment of PROMESA, on April 6, 2016, the Commonwealth had enacted Act No. 21, known as the Puerto Rico Emergency Moratorium and Rehabilitation Act (the Moratorium Act) under which, the Commonwealth and certain of its component units suspended their respective debt service payments.

  Also, subsequent executive orders issued by the Governor established restrictive procedures with respect to loan disbursements by GDB and governmental withdrawals, payments, and transfer requests of funds held on deposit at GDB. Therefore, deposits held at GDB were subject to strict restrictions and limitations during fiscal year 2017 and subsequent periods.

Management determined that a custodial credit loss existed since fiscal year 2016 for the deposits held at GDB for significant amounts. Refer to Note 4.

- The Trust maintains a non-revolving note payable with GDB for which repayment of interest and principal would come from Commonwealth's budget appropriations. The Commonwealth current financial situation is also precarious and is unlikely that available resources will be accessible to cover debt service payments on the debt. The Commonwealth's 2017 budget did not include appropriations for the debt service payments on the note payable to GDB. Also, the Commonwealth's budget ultimately approved for fiscal years 2020 and 2021 did not include appropriations to pay the note payable of the Trust with GDB.

Remediation Plan

Management believes that the Trust faces significant risks and uncertainties, and it currently does not have sufficient liquid financial resources to meet its obligations. On February 15, 2017, the Commonwealth of Puerto Rico enacted Act No. 10 to create the PRSCDO to integrate all community development programs and nonprofit organizations support programs funded by new and existing federal and state funds and programs. The Act No. 10 also created the Puerto Rico Social Reinvestment Fund (Fund) to be administered by PRSCDO for the purpose of incentivizing both community and nonprofit initiatives. The Fund would be financed by new and existing federal and state funds and programs. Furthermore, PRSCDO shall be responsible for analyzing, addressing and correcting matters relating to the special communities' program, including the Trust. The PRSCDO submitted a detailed report with its findings and recommendations to the Governor and the Legislative Assembly with respect to the Trust. Such report found, among other things, deficiencies in the administration and operational structure of the Trust. As recommended, PRSCDO stressed the need to act as a quasi-juridical organization since most cases within the communities can be resolved with mediation or arbitration. PRSCDO also looks towards the centralization of responsibility to provide a better allocation of resources to ensure continuity in the work realized on the communities. Management of the Trust believes that the aforementioned events and the further circumstances discussed throughout the basic financial statements could result in modifying or terminating the Trust's purpose and raise substantial doubt about the Trust's ability to continue as going concern.

4. Custodial Credit Risk

For deposits, custodial credit risk is the risk that in the event of bank failure, the Trust's deposits may not be returned to it. Under applicable Commonwealth law, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. The Trust maintains bank balances in excess of the Federal Deposit Insurance Corporation insurance in the amounts of approximately $1.6 million as of June 30, 2020.

5. MORTGAGE LOANS RECEIVABLE

Effective July 13, 2004, the Trust has the authority to grant mortgage loans. The eligibility requirements are the following:

- Personal status — Single or head of household.
- Be a resident of one of the 686 communities before November 26, 2002.
- Did not own another real property during the last two (2) years preceding the application date.

The Housing Department evaluates the houses identified as eligible and determines the improvements required. The improvements are classified as follows:

- Minor improvements — Improvement costs that do not exceed $15,000.
- Major improvements — Improvement costs that are over $15,000 but are less than $25,000.
- New construction.

The financing alternatives for the participants are the following:

- Minor improvements — Six (6) years non-interest-bearing loan up to $15,000, amortizing based on the years the participant lives the property.

- Major improvements:

    i. Six (6) years non-interest-bearing loan for $15,000, amortizing based on the years the participant lives the property.

    ii. Thirty (30) years 5% interest bearing loan for the excess of $15,000, up to $25,000.

- New construction — Acquisition cost of the participant's previous residence will be deducted from total construction cost to be financed.

    a. Thirty (30) years loan for $15,000, bearing 5% annual interest.

    b. Thirty (30) years loan for the remaining balance (second mortgage not requiring any payments from participants, contingent on use restrictions requirements), non-interest bearing, and amortizing based on the years the participant lives the property. These second mortgage loans not requiring any payments are administered by the Department of Housing and not presented in the mortgage tables below.

The Trust will forgive the monthly payments on loans associated with major improvements and new construction as it relates to the following participants. The original balance of these exempted loans amounted to approximately $2.4 million, also not included in the mortgage tables below as such loans have no recorded value:

- Low income handicapped participants unable to work.
- Low income primary care giver to handicapped person.
- Low income senior citizens, 65 years or older.

Mortgage loans receivable represent secured loans with a first lien on real estate property.

The following is a summary of the activity of the Trust's mortgage loans portfolio (for which the Trust has a corresponding documented subsidiary record) for the year ended June 30, 2020 (in thousands):

Mortgage Loan Portfolio		**Amount**
Beginning balance	$	7,479
New mortgage loans granted		-
Principal payments received		(71)
Ending balance	$	7,408

The following is a summary of the activity in the allowance for losses on mortgage loans for the year ended June 30, 2020 (in thousands):

Allowance for Losses on Mortgage Loans		**Amount**
Beginning balance	$	(7,479)
Provision for losses on mortgage loans		-
Recovery of fully reserved mortgage loans		71
Ending balance	$	(7,408)

The Trust also receives payments on certain mortgage loans which the Trust labels as undocumented, as no detailed subsidiary records exist for these mortgage loans. During fiscal year 2020, the Trust received payments on these loans in the amount of approximately $111,000, recognized other income within the accompanying statement of activities and statement of revenue, expenditures and changes in deficit.

On February 27, 2015, the Trust was notified that the municipality of Ponce had been collecting mortgage related payments from the participants who reside in said municipality, pursuant to a previously approved agreement between the municipality and the Trust Management recorded an account receivable for such collections that had not been repaid back to the Trust. At June 30, 2020 the balance of the account receivable with such municipality amounted to approximately $497,668 which is included as the due from Municipality in the accompanying basic financial statements.

6. RELATED PARTIES TRANSACTIONS

The Housing Department grants leases to the participants of the housing program of the Trust when circumstances cause a delay in the process of granting the mortgage loans. Once the circumstances preventing the granting of the mortgage are resolved, the lease granted by the Housing Department is terminated and a mortgage loan is granted by the Trust. The revenue generated by the Housing Department for the leases is transferred from the Housing Department to the Trust and reported as contribution from Commonwealth. During the year ended June 30, 2020, the Trust recognized operating contributions amounting to approximately $42,218, related to this matter.

The Housing Department collects lease and mortgage payments from the program participants and charges the Trust a fee of 15% of the collections processed. These fees amounted to approximately $36,900 for the year ended on June 30, 2020 and are recorded within general governmental expenditures in the accompanying statement of activities and in the statement of revenues, expenditures and change in deficit. The lease and mortgage loan collections made by the Housing Department but not relayed immediately to the Trust are recognized and presented by the Trust within due from Commonwealth in the accompanying statement of net position and balance sheet of the General Fund. The amount of such collections net of collection fees and other charges during fiscal year 2020 increased the due from Commonwealth balance by $99,992.

In the execution of the Trust's programs and objectives, the Trust may contribute funds to Department of Transportation (DOT) and the Housing Department for the expropriations of land, housing and buildings. Pursuant to the Trust's programs and objectives, these properties have been purchased to either, develop the infrastructure of a special community and later transfer such developments to the community or to acquire housing for relocated residents, who would in turn eventually enter into a rental or mortgage agreement with the Trust, through the Housing Department. These properties have been purchased in the names of these agencies of the Commonwealth because the Trust does not have the power and authority to purchase such assets and register them on the Trust's name. The amounts contributed by the Trust are recorded as program expenditure in the year the disbursements are made. During the year ended June 30, 2020, the Trust did not make any expropriations.

However, during fiscal year ended 2020, the Trust began executing property transfer transactions where formal title was assigned to the Trust. When properties are transferred to the Trust from government agencies that are within the Commonwealth reporting entity, such transfers should be recognized at the carrying value of such properties at the hand of the transferor; while on transfers made from municipalities, other governments or private entities outside the Commonwealth reporting entity, such transfers should be recognized at the fair value of the applicable properties at the time of the transfer. During fiscal year 2020, the Department of Housing transferred three lots of land to the Trust for eventual development for the benefit of underlying communities. Such transfers were not recorded at the Trust since the Department of Housing had no carrying value recognized on its accounting records.

PRIFA provides the Trust administrative and technical assistance with certain projects and charges the Trust for such services. No services were provided during 2020.

The PRSCDO entered into an informal collaboration agreement with the Trust to manage the accounting services and other administrative matters of the Trust. The purpose of the agreement is to transfer certain administrative services previously provided by the GDB under an administrative support agreement signed in 2003. The PRSCDO provides the services to the Trust at no cost.

7. LONG TERM DEBT – NOTE PAYABLE

The Trust maintains a non-revolving note payable with GDB with maturity at June 30, 2040. The terms of the note payable were originally established by Legislative Resolution No. 1028, which provided that the repayment of interest and principal on the note payable would come from Commonwealth appropriations. These terms have been modified on several occasions through the life of the Trust. The non-revolving note payable bears a yearly interest rate of 7%. A default rate of 4% above the yearly interest rate was set in case of late payment of principal and or interest. Even though for fiscal year 2020 the interest was not paid, GDB is not charging the default interest rate.

Note payable activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Additions	Reductions: Deposits offset	Reductions: Extinguishment	Ending Balance	Due Within One Year
Note payable	$234,692,018	$ -	$ -	$ -	$234,692,018	$ -

The Commonwealth's 2020 general fund budget did not include an appropriation for the payment of the note payable for the year ended June 30, 2020. Appropriations are based on negotiations between the GDB and the OMB to repay principal of, and interest on public sector loans whose repayment source was originally from, future issuances of Commonwealth's general obligation bonds for public improvements. GDB would annually negotiate with the OMB, the principal and interest amounts to be included in the Commonwealth's budget for legislative approval. However, despite any negotiation ability GDB and OMB may have, Commonwealth's appropriations to repay the Trust's note, are dependent on the availability of funds from the Commonwealth's annual budget and its legislative approval. The repayment of the note outstanding is also dependent on the ability of the Trust to extend, renew or restructure such note. The legislative approval to appropriate the funds required for the debt service of the note and the Trust's ability to secure some type of extension, renewal or restructuring on such bonds are uncertain. During the year ended June 30, 2020, neither principal nor interest payments were made on the Trust's note obligation, aside from the deposits offset referred to above.

8. CONTINGENCIES

The Trust is a defendant and a party in numerous legal proceedings and extrajudicial claims pertaining to matters incidental to the performance of its normal operations. The Trust has recognized approximately $9.9 million to cover for awarded and anticipated unfavorable judgments at June 30, 2020. This amount is presented as reserve for legal claims in the accompanying statement of net position, and represents the amount estimated as probable liability that will require future available financial resources for its payment.

Certain invoices in the amount of approximately $221,000 have been received during fiscal year 2017 for services rendered on certain projects; however, management's legal counsel has determined that such services were not performed in accordance with the underlying and corresponding projects' agreements and decided not to recognize the aforementioned amount as an obligation of the Trust. Management will defend this position vigorously and accordingly determined that no provision for liability on these projects is required.

On April 12, 2019, the Trust and the Municipality of Toa Alta (Toa Alta) entered into a stipulation agreement to close civil case DAC 2016-2156, whereas Toa Alta would refund to the Trust the unused surplus funds remaining from certain projects' contracts that existed between the Trust and Toa Alta administration for which the Trust had provided funds. On September 5, 2019, the Trust received $2.182 million as a result of this stipulation agreement, which has been included as other income in the accompanying statement of activities and statement of revenue, expenditures and changes in deficit-governmental funds.

On January 21, 2014, a sentence in favor the Trust was decided by the court under civil case No. NSCI200700809, where it concluded that the Municipality of Culebra did not comply with the established agreement for the use of the funds assigned by the Trust under such agreement; consequently, the Municipality of Culebra would need to return to the Trust the original funds assigned in the amount of $1,616,650. The Municipality of Culebra offered a payment plan of annual installments of $230,950 for 7 years to begin on fiscal year 2022; however, the Trust rejected the offer and presented a request for sentence execution, seeking the pledge or transfer of certain land and assets of the Municipality in order to guarantee such payment plan offer. The sentence execution is still awaiting the municipal Assembly to vote for the approval of the proposed land and assets pledge or transfer transaction.

9. SUBSEQUENT EVENTS

Proposed Title III Joint Plan of Adjustment for the Commonwealth, Employees' Retirement System of the Government of the Commonwealth (ERS) and Public Building Authority (PBA)

On November 4, 2021, the Oversight Board created by PROMESA announced that it filed the eight amended Plan of Adjustment (POA) that reflects agreements reached with creditors after the filing of seven previous amended plans that began back on September 27, 2020. The POA is anticipated to reduce the debt of the Commonwealth to affordable and sustainable levels. The plan reduces the Commonwealth's debt from approximately $35 billion in outstanding claims by approximately 80% to $7.4 billion in future debt and reduces the Commonwealth's total debt service payments by more than 60%. On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth POA were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth POA has been confirmed and is currently effective as of the date hereof.

Management, consultants, and legal advisors of PRSCDO, the Trust, the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) and the Department of the Treasury are currently investigating and evaluating whether the POA has had or will have any impact on the reserve for legal claims and obligations recognized by the Trust as of June 30, 2020. As of the date of the accompanying financial statements, such evaluation has not concluded; consequently, the amount by which the Trust's reserve for legal claims and obligations might be impacted, if any, have not been determined.

Coronavirus

On March 11th, 2020, the World Health Organization declared the Coronavirus disease ("COVID-19") as a global pandemic. As a result of the health threat and to contain the virus spread across the island, Governor Vázquez-Garced issued executive order EO 2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. The executive order authorizes the Commonwealth's Secretary of the Treasury and the Executive Director of the PROMB to set up a special budget, from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and sharing information with the municipalities. Subsequent executive orders, including curfew directives and other protective measures have been issued in response to the COVID-19 spread. Also, economic stabilization measures have been implemented by both the Government of Puerto Rico and the U.S. Government to provide support and stimulus to frontline workers, educators and students, hospitals and small businesses, including individuals and businesses in Puerto Rico, in response to the economic distress caused by the COVID-19 pandemic.

The Trust and PRSCDO's operational and programmatic performance were impacted due to resources constraints and challenges associated with the social distancing and remote work policies put in place. On July 1, 2020, the Trust and PRSCDO's operational and programmatic work was resumed as usual, following the protective measures established by the Covid-19 contingency plan established by the Trust and PRSCDO's management.

Act No. 23 of August 5, 2021
On August 5, 2021, Act No. 23, known as the Law of Justice for Families and Individuals of the Special Communities Program, was enacted to strengthen and empower the Trust to adopt, repeal and amend the relevant regulations to achieve the objectives of the operation and implementation of the Special Communities Program. Upon the approval of this Act, among other provision, all entities, departments, instrumentalities and corporations of the Commonwealth of Puerto Rico that acquired any real estate property using the Trust's funds historically, are obliged to carry out all the legal procedures necessary to transfer and assign those assets in favor of the Trust.

Subsequent events were evaluated through July 21, 2022, to determine if any such events should either be recognized or disclosed in the 2020 basic financial statements. Management believes that the subsequent events disclosed above are intrinsically related to the financial statements of the Trust. These might have been disclosed elsewhere in these financial statements, but management believes they require specific mentioning based on their relevance and materiality as a whole.

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