



Special Communities Perpetual Trust

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

Basic Financial Statements and
Required Supplementary Information

June 30, 2021

(With Independent Auditors' Report Thereon)

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

Basic Financial Statements and
Required Supplementary Information
June 30, 2021

(With Independent Auditors' Report Thereon)

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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, 2021, 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.

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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. This includes the lack of a reliable check register tracking process and the availability of underlying supporting documentation. Also, the escrow liability accounts recognizing the collection of mortgage payments allegedly representing mortgage insurance payments; and the due from Commonwealth and Municipalities resulting from mortgage loans and rental collections made by the Department of Housing and certain municipalities on behalf of the Trust, lack a more detailed evaluation sustaining the legal status of such insurance collections and the completeness and accuracy of the balances receivable from those government entities, respectively. 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, 2021, and the changes in its financial position thereof for the year then ended has not been determined. In addition, certain mortgage loan collections are not being adequately updated and reconciled against the Trust's mortgage loans subsidiary. Since the Trust has adopted the policy of maintaining a full valuation allowance on its loans, this control deficiency does not have an impact on the carrying value of the mortgage loans. However, its impact on the gross loans' activity information disclosed in Note 5 to the basic financial statements and on certain income accounts classification in the statements of activities on the government-wide financial statements and revenues, expenses and changes in deficit-governmental funds has not been determined.

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 the Puerto Rico Socioeconomic 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, 2021. 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 matter 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, 2021, 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, 2021, 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.



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 2021. 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), the approval of the Commonwealth Plan of Adjustment effective March 15, 2022, which discharges any claim related to budgetary appropriations from the Commonwealth (as disclosed in notes 3 and 9) and the enactment of Act No. 10 creating the 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.

San Juan, Puerto Rico
March 9, 2023.

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
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SPECIAL COMMUNITIES PERPETUAL TRUST
(A BLENDED COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

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, 2021. 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 at June 30, 2021 amounted to approximately \$1.9 million and \$409.7 million, respectively, for a net deficit of approximately \$407.8 million.
- During the period ended June 30, 2021, interest expense on note 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, 2021, amounted to approximately \$234.7 million. There were no debt service payments during fiscal year 2021 because the approved budget of the Commonwealth did not include appropriations for such purpose. As part of the Commonwealth Plan of Adjustment (Commonwealth POA) made effective on March 15, 2022, all Commonwealth laws that required the transfer of funds from the Commonwealth to other entities (such as the Trust), including laws providing appropriations to GDB, are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. In addition, the Commonwealth POA discharges any claim related to budgetary appropriations, including appropriations for the repayment of the Trust’s note payable to GDB.

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.

SPECIAL COMMUNITIES PERPETUAL TRUST
(A BLENDED COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

Management's Discussion and Analysis (continued)

- 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.

SPECIAL COMMUNITIES PERPETUAL TRUST
(A BLENDED COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

Management's Discussion and Analysis (continued)

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, 2021 and 2020, are presented below (in thousands):

	<u>As of June 30,</u>		<u>Change</u>	
	<u>2021</u>	<u>2020</u>	<u>Amount</u>	<u>%</u>
Restricted assets	\$ 1,931	\$ 3,326	\$ (1,395)	(42%)
Accrued interest payable	145,395	128,966	16,429	13%
Contracts payable	8,534	8,684	(150)	(2%)
Retainage payable	9,957	9,957	-	0%
Due to Commonwealth of PR	69	232	(163)	(70%)
Due to GDB	15	15	-	0%
Other payables	2,205	2,207	(2)	(0%)
Reserve for legal claims	8,855	9,907	(1,052)	(11%)
Note payable	<u>234,692</u>	<u>234,692</u>	<u>-</u>	<u>0%</u>
Total liabilities	<u>409,722</u>	<u>394,660</u>	<u>15,062</u>	<u>4%</u>
Unrestricted	<u>(407,791)</u>	<u>(391,334)</u>	<u>(16,457)</u>	<u>4%</u>
Net position (deficit)	<u>\$ (407,791)</u>	<u>\$ (391,334)</u>	<u>\$ (16,457)</u>	<u>4%</u>

The principal changes in the Trust's statement of net position during fiscal year 2021 consisted of an increase of approximately \$16.4 million in accrued interest payable on the Trust's remaining outstanding note payable balance, representing the accrual of interest expense for the year on such note payable; and a decrease in reserve for legal claims of approximately \$1 million, caused by the settlement for the same amount of two legal claims that had been previously reserved.

SPECIAL COMMUNITIES PERPETUAL TRUST
(A BLENDED COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

Management's Discussion and Analysis (continued)

Condensed Statement of Activities for the year ended June 30, 2021 and 2020, are presented below (in thousands):

	<u>As of June 30,</u>		<u>Change</u>	
	<u>2021</u>	<u>2020</u>	<u>Amount</u>	<u>%</u>
Revenues:				
Interest income	\$ -	\$ 9	\$ (9)	100%
Rent and other income	335	2,330	(1,995)	(86%)
Contributions from Commonwealth of Puerto Rico	54	42	12	29%
Total revenues	<u>389</u>	<u>2,381</u>	<u>(1,992)</u>	<u>(84%)</u>
Expenses:				
Professional services and general government	468	830	(362)	(44%)
Public works	(149)	-	(149)	100%
Housing assistance	117	146	(29)	(20%)
Interest on note payable	16,428	16,428	-	0%
Recovery of fully reserved mortgage loans	(18)	(71)	53	(75%)
Total expenses	<u>16,846</u>	<u>17,333</u>	<u>(487)</u>	<u>(3%)</u>
Change in net position (deficit)	(16,457)	(14,952)	(1,505)	10%
Net deficit - Beginning of year	<u>(391,334)</u>	<u>(376,382)</u>	<u>(14,952)</u>	4%
Deficit - End of year	<u>\$ (407,791)</u>	<u>\$ (391,334)</u>	<u>\$ (16,457)</u>	4%

The most significant change is a net decrease in rent and other income, due to a one-time significant settlement recovery in fiscal year 2020 of approximately \$2.0 million, which did not recur in fiscal year 2021.

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SPECIAL COMMUNITIES PERPETUAL TRUST
(A BLENDED COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

Management's Discussion and Analysis (continued)

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):

	<u>As of June 30,</u>		<u>Change</u>	
	<u>2021</u>	<u>2020</u>	<u>\$</u>	<u>%</u>
Revenue:				
Interest income	\$ -	\$ 9	\$ (9)	(100%)
Rent and other income	335	2,330	(1,995)	(86%)
Contributions from Commonwealth of Puerto Rico	54	42	12	29%
Total revenue	<u>389</u>	<u>2,381</u>	<u>(1,992)</u>	<u>(84%)</u>
Expenditures:				
Professional services and general government	468	946	(478)	(51%)
Public works	902	-	902	100%
Housing assistance	117	146	(29)	(20%)
mortgage loans	(18)	(71)	53	(75%)
Total expenditures	<u>1,469</u>	<u>1,021</u>	<u>448</u>	<u>44%</u>
Change in net position	(1,080)	1,360	(2,440)	(179%)
Deficit — Beginning of year	<u>(17,769)</u>	<u>(19,129)</u>	<u>1,360</u>	<u>(7%)</u>
Deficit – End of year	<u>\$ (18,849)</u>	<u>\$ (17,769)</u>	<u>\$ (1,080)</u>	<u>6%</u>

The Trust's governmental funds reported total deficits as of June 30, 2021, and 2020 of approximately \$18.8 million and \$17.7 million, respectively.

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 years ended June 30, 2021 and 2020, there were no fees on mortgage loans, however, approximately \$18 thousand, and \$71 thousand, respectively, were adjustments related to recovery of fully reserved mortgage loans.

SPECIAL COMMUNITIES PERPETUAL TRUST
(A BLENDED COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

Management's Discussion and Analysis (continued)

5. Long Term Debt:

The Trust maintains a non-revolving note payable with GDB. The outstanding balance as of June 30, 2021, amounted to approximately \$234.7 million. There were no debt service payments during fiscal years 2021 and 2020.

6. 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, Government Development Bank for Puerto Rico, P.O. Box 42001 San Juan, P.R. 00940-2001.

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

BASIC FINANCIAL STATEMENTS

SPECIAL COMMUNITIES PERPETUAL TRUST
(A BLENDED COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENT OF NET POSITION (DEFICIT)
JUNE 30, 2021

ASSETS

Current restricted assets:

Cash	\$ 1,117,131
Due from Commonwealth of Puerto Rico	279,179
Due from Municipality	530,644
Other assets - prepaid equipment maintenance	3,822
Total current restricted assets	1,930,776

Non-current restricted assets:

Mortgage loans receivable	7,390,106
Less: Allowance for losses on mortgage loans receivable	(7,390,106)
Total noncurrent restricted assets	-

Total assets	1,930,776
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LIABILITIES

Current liabilities:

Accrued interest payable	145,394,513
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Current liabilities payable from restricted assets:

Contracts payable	8,534,392
Retainage payable	9,956,836
Due to Commonwealth of Puerto Rico	68,624
Due to Governmental Development Bank for Puerto Rico	15,352
Other payables	2,204,883
Total current liabilities	166,174,600

Non-current liabilities:

Reserve for legal claims payable from restricted assets	8,855,473
Note payable due in more than one year	234,692,018
Total non-current liabilities	243,547,491

Total liabilities	409,722,091
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NET DEFICIT

Unrestricted	(407,791,315)
Total net deficit	\$ (407,791,315)

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, 2021

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Position</u>
		<u>Rent and Other Income</u>	<u>Contributions from Commonwealth</u>	
GOVERNMENTAL ACTIVITIES:				
General government	\$ 468,509	\$ 7,209	\$ -	\$ (461,300)
Public works	(149,989)	-	-	149,989
Housing assistance	117,529	328,088	54,471	265,030
Interest expense on note payable	16,428,441	-	-	(16,428,441)
Recovery of fully reserved mortgage loans	(17,693)	-	-	17,693
Total governmental activities	<u>\$ 16,846,797</u>	<u>\$ 335,297</u>	<u>\$ 54,471</u>	(16,457,029)
GENERAL REVENUES				<u>-</u>
CHANGE IN NET POSITION				(16,457,029)
DEFICIT — Beginning of year				<u>(391,334,286)</u>
DEFICIT — End of year				<u>\$ (407,791,315)</u>

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, 2021

	General Fund	Debt Service Fund	Total
ASSETS			
Cash	\$ 1,117,131	\$ -	\$ 1,117,131
Due from Commonwealth of Puerto Rico	279,179	-	279,179
Due from Municipality	530,644	-	530,644
Other assets - prepaid equipment maintenance	3,822	-	3,822
	<u>1,930,776</u>	<u>-</u>	<u>1,930,776</u>
Total assets	<u>1,930,776</u>	<u>-</u>	<u>1,930,776</u>
LIABILITIES:			
Contracts payable	8,534,392	-	8,534,392
Retainage payable	9,956,836	-	9,956,836
Due to Commonwealth of Puerto Rico	68,624	-	68,624
Due to Government Development Bank for Puerto Rico	15,352	-	15,352
Other payables	2,204,883	-	2,204,883
	<u>20,780,087</u>	<u>-</u>	<u>20,780,087</u>
Total liabilities	<u>20,780,087</u>	<u>-</u>	<u>20,780,087</u>
DEFICIT			
Unassigned	(18,849,311)	-	(18,849,311)
	<u>(18,849,311)</u>	<u>-</u>	<u>(18,849,311)</u>
Total deficit	<u>(18,849,311)</u>	<u>-</u>	<u>(18,849,311)</u>
TOTAL LIABILITIES AND DEFICIT	<u>\$ 1,930,776</u>	<u>\$ -</u>	<u>\$ 1,930,776</u>

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, 2021

DEFICIT PER GOVERNMENTAL FUNDS BALANCE SHEET \$ (18,849,311)

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 (8,855,473)

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 (380,086,531)

NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ (407,791,315)

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, 2021

	General Fund	Debt Service Fund	Total
	<u> </u>	<u> </u>	<u> </u>
REVENUES:			
Rent and other	\$ 335,297	\$ -	\$ 335,297
Contribution from the Commonwealth of Puerto Rico	54,471	-	54,471
	<u>389,768</u>	<u>-</u>	<u>389,768</u>
Total revenues			
EXPENDITURES:			
Professional services and general government	468,509	-	468,509
Public works	902,011	-	902,011
Housing assistance	117,529	-	117,529
Recovery of fully reserved mortgage loans	(17,693)	-	(17,693)
	<u>1,470,356</u>	<u>-</u>	<u>1,470,356</u>
Total expenditures			
NET CHANGES IN GOVERNMENTAL FUNDS	<u>(1,080,588)</u>	<u>-</u>	<u>(1,080,588)</u>
FUND BALANCE			
DEFICIT — Beginning of year	<u>(17,768,723)</u>	<u>-</u>	<u>(17,768,723)</u>
DEFICIT — End of year	<u>\$ (18,849,311)</u>	<u>\$ -</u>	<u>\$ (18,849,311)</u>

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, 2021

NET CHANGE IN FUND BALANCE — GOVERNMENTAL FUNDS \$ (1,080,588)

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. 1,052,000

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 (16,428,441)

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ (16,457,029)

See notes to basic financial statements.

SPECIAL COMMUNITIES PERPETUAL TRUST
(A BLENDED COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021

NOTES TO THE 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.

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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:

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2. Summary of Significant Accounting Policies (continued)

- 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.

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2. Summary of Significant Accounting Policies (continued)

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, 2021, has been fully reserved.

Recent Accounting Pronouncements — The GASB has issued the following accounting pronouncements that have effective date after June 30, 2021:

GASB Statement No.	Name	Application required in fiscal year (per GASB 95)
87	<i>Leases:</i> 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.	2022**
89	<i>Accounting for Interest Cost Incurred before the End of a Construction Period:</i> his Statement establishes accounting requirements for interest cost incurred before the end of a construction period. 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.	2022*
91	<i>Conduit Debt Obligations :</i> 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.	2023*
92	<i>Omnibus 2020:</i> This Statement addresses a variety of topics and specific provisions in GASB Statements 67, 68, 73, 74, 84 and 87.	2022*
93	<i>Replacement of Interbank Offered Rates :</i> This Statement addresses to address accounting and financial reporting implications for derivative instruments that result from the replacement of an IBOR.	2022*

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2. Summary of Significant Accounting Policies (continued)

GASB Statement No.	Name	Application required in fiscal year (per GASB 95)
95	<i>Postponement of the Effective Dates of Certain Authoritative Guidance</i>	*by one year ** by 18 months
96	<i>Subscription-Based Information Technology Arrangements :</i> This Statement (1) defines a subscription-based information technology arrangements (SBITAs); (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, <i>Leases</i> , as amended.	2023
97	<i>Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans :</i> This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or an other 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.	2022
99	<i>Omnibus 2022</i> , Affects the following: Amends GASBS 10, ¶49, ¶56, and ¶130; Supersedes GASBS 24, ¶6 and fn3–fn5: Will supersede GASBS 62, ¶109, ¶110, and fn43; Amends GASBS 24, ¶2, ¶3, and ¶16: Amends GASBS 30, ¶6: Amends GASBS 33, ¶5: Amends GASBS 34, ¶6, ¶13, and fn23: Amends GASBS 53, ¶20, ¶23, ¶25, ¶35, and fn7: Will amend GASBS 53, ¶12, ¶20, ¶23, ¶25, and ¶69: Will supersede GASBS 62, ¶109, ¶110, and fn43: Amends GASBS 62, ¶280, ¶485, and fn228: Will amend GASBS 62, ¶98 and ¶99: Will amend GASBS 72, ¶80: Amends GASBS 87, ¶16, ¶22, ¶26, ¶28, ¶45, ¶50, and ¶61: Amends GASBS 93, ¶11: Amends GASBS 94, ¶10, ¶28, ¶45, and ¶47: Amends GASBS 96, ¶9, ¶21, and ¶23: Amends GASBI 1, ¶11: Amends GASBIG 2015-1, Q7.34.4 and Q10.13.7: Will amend GASBIG 2015-1, Q1.65.5, Q10.13.6, Q10.15.3, Q10.15.6, Q10.16.4, Q10.16.5, and Q10.18.1–Q10.18.4: Amends GASBIG 2016-1, Q4.7 and Q5.15: Will amend GASBIG 2016-1, Q4.7 and Q4.67: Will amend GASBIG 2019-1, Q4.6: Amends GASBIG 2019-3, Q4.13, Q4.14, Q4.19, Q4.28, Q4.29, Q4.34, and Q4.46–Q4.48	2023 and 2024

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2. Summary of Significant Accounting Policies (continued)

GASB Statement No.	Name	Application required in fiscal year (per GASB 95)
100	<i>Accounting Changes and Error Corrections (an amendment of GASB Statement No. 62.</i> 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.	2024
101	<i>Compensated Absences:</i> This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means.	2025

Management is evaluating the impact that these statements will have on the Trusts basic financial statements.

The implementation of GASB Statements 90, 94 and 98 had no effect on the financial statements.

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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. On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law (the Findings of Fact) in connection with the Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico (the Commonwealth POA), and an order confirming the Commonwealth POA. 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. As part of the Commonwealth POA, all Commonwealth laws that required the transfer of funds from the Commonwealth to other entities (such as the Trust), including laws providing appropriations to GDB, are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. In addition, the Commonwealth POA discharges any claim related to budgetary appropriations, including appropriations for the repayment of the Trust's note payable to GDB. Therefore, it is unlikely that available resources will be accessible to cover debt service payments on the debt. The Commonwealth's budgets since 2017, have not included appropriations for the debt service payments on the note payable to 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

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3. Going Concern (continued)

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-judicial 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 amount of approximately \$0.9 million as of June 30, 2021.

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.

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5. Mortgage Loans Receivable (continued)

- 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, 2021 (in thousands):

Mortgage Loan Portfolio	Amount
Beginning balance	\$ 7,408
New mortgage loans granted	-
Principal payments received and adjustments, net	(18)
Ending balance	\$ 7,390

The following is a summary of the activity in the allowance for losses on mortgage loans for the year ended June 30, 2021 (in thousands):

Allowance for Losses on Mortgage Loans	Amount
Beginning balance	\$ (7,408)
Provision for losses on mortgage loans	-
Recovery of fully reserved mortgage loans and adjustments, net	18
Ending balance	\$ (7,390)

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 2021, the Trust received payments on these loans in the amount of approximately \$88,000, recognized in 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's management recorded an account receivable for such collections that had not been repaid back to the Trust. At June 30, 2021 the balance of the account receivable with such municipality amounted to approximately \$531,000 which is included as the due from Municipality in the accompanying basic financial statements.

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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. The amount of revenue recognized by the Trust under this concept amounted to approximately \$54,000 during 2021.

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 \$26,000 for the year ended on June 30, 2021 and are recorded within general governmental expenditures in the accompanying statement of activities and in the statement of revenues, expenditures and change in deficit.

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, 2021, the Trust did not make any expropriations.

The PROSCDO 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 PROSCDO 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 of 2002, 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 2021, there were no appropriations, and the interest was not paid, GDB is not charging the default interest rate.

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7. Long Term Debt – Note Payable (continued)

Note payable activity for the year ended June 30, 2021, was as follows:

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

The Commonwealth’s 2021 general fund budget did not include an appropriation for the payment of the note payable for the year ended June 30, 2021. Appropriations are based on negotiations between the GDB and the Office of Management and Budget (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. In addition, as described in Note 3, as part of the Commonwealth POA, all Commonwealth laws that required the transfer of funds from the Commonwealth to other entities (such as the Trust), including laws providing appropriations to GDB, are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. In addition, the Commonwealth POA discharges any claim related to budgetary appropriations, including appropriations for the repayment of the Trust’s note payable to GDB. The repayment of the note outstanding is 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, 2021, 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 \$8.8 million to cover for awarded and anticipated unfavorable judgments at June 30, 2021. 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.

On June 30, 2017, the Trust and the Municipality of Caguas (Caguas) entered into a stipulation agreement to close civil case E PE 2017-2020, whereas Caguas would refund to the Trust the unused surplus funds remaining from certain projects’ contracts that existed between the Trust and the Caguas administration for which the Trust had provided funds. On July 16, 2020, the Trust received approximately \$170.2 thousand as a result of this stipulation agreement, which was included in other income in the accompanying statements of activities, and changes of revenues, expenditures, and changes in deficit-governmental funds.

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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 that reflects agreements reached with creditors after the filing of seven previous amended plans that began back on September 27, 2020. The Plan of Adjustment 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 Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

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.

Special Community Perpetual Trust v. Municipality of Culebra

On January 12, 2023, the Trust and the Municipality of Culebra (Culebra) entered into a stipulation agreement to close civil case NSC 2007-0809, whereas Culebra had been ordered by the First Instance Court to refund \$1,616,650 to the Trust. Culebra, not having sufficient funds, entered into the stipulation agreement with the Trust to transfer parcel number 6 of real estate, located at Barrio Playa Sardinias II of the Municipality of Culebra, with an approximate value of \$2,750,000, per a September 30, 2021 appraisal.

Mortgage Loans Collection Service Agreement

On March 17, 2021, the Trust entered into an agreement with Banco Popular de Puerto Rico (BPPR), which allows BPPR to become a collection agent for the Trust, with respect to its mortgage loans. The service consists of processing and crediting payments received on a daily basis, and to update the mortgage loans receivable of the Trust. BPPR will commence performance under this agreement effective February 2023.

Subsequent events were evaluated through March 9, 2023, to determine if any such events should either be recognized or disclosed in the 2021 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.
