



Special Communities Perpetual Trust

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

Basic Financial Statements and
Required Supplementary Information

June 30, 2024

(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, 2024

(With Independent Auditors' Report Thereon)

Contents

INDEPENDENT AUDITORS' REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	6
STATEMENT OF NET POSITION (DEFICIT)	14
STATEMENT OF ACTIVITIES	15
BALANCE SHEET – GOVERNMENTAL FUNDS	16
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES.....	17
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN DEFICIT – GOVERNMENTAL FUNDS	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN DEFICIT – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES	19
NOTES TO THE BASIC FINANCIAL STATEMENTS	20



Kevane

Grant Thornton

50 YEARS

INDEPENDENT AUDITORS' REPORT

**To the Board of Directors of Special Communities of
Special Communities Perpetual Trust:**

Qualified, Unmodified, and Disclaimer of Opinions

We have audited the accompanying statement of net position (deficit)-governmental activities of the **Special Communities Perpetual Trust** as of June 30, 2024 and the accompanying balance sheet and statement of revenues, expenditures and changes in fund balance of the debt service fund as of June 30, 2024 and for the year then ended, and we were engaged to audit the statement of activities-governmental activities for the year ended June 30, 2024, and the financial statements of the general fund as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the **Special Communities Perpetual Trust** 's basic financial statements as listed in the table of contents.

Summary of Opinions

Disclaimer of Opinion on the Statement of Activities-Governmental Activities and Financial Statements of the General Fund

We do not express an opinion on the accompanying statement of activities-governmental activities and the accompanying financial statements of the general fund of **Special Communities Perpetual Trust**. Because of the significance of the matter described in the Basis for Disclaimer of Opinion on the Statement of Activities-Governmental Activities and the Financial Statements of the General Fund section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on said financial statements.

Qualified Opinion on Statement of Net Position (Deficit)-Governmental Activities

In our opinion, except for the effects of the matter described in the Basis for Qualified and Unmodified Opinions section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities of the **Special Communities Perpetual Trust** as of June 30, 2024, in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion on Debt Service Fund

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the debt service fund of the Special Communities Perpetual Trust, as of June 30, 2024, 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.

Basis for Disclaimer of Opinions on the Statement of Activities and the financial statements of the General Fund

On March 15, 2022, the conditions precedent to the effective date of the Commonwealth Plan of Adjustment (POA) were satisfied and/or waived by the Financial Oversight and Management for Puerto Rico (Oversight Board), thereby, causing the plan to become effective. As a result of the POA, some of the **Special Communities Perpetual Trust**'s liabilities may have been discharged since June 30, 2022. In addition, the escrow liability accounts associated with the collection of mortgage payments, allegedly representing mortgage insurance payments made by the Department of Housing and certain municipalities on behalf of the **Special Communities Perpetual Trust**, lack a more detailed evaluation sustaining the legal and accounting status of such insurance collections. As of the date of our audit report, management was still in the process of gathering the necessary underlying supporting documentary evidence and official representations to validate the extent of the discharge of the applicable obligations and the legal and accounting status of the escrow liabilities. We were unable to confirm, verify or receive by alternative means the information necessary to validate the amounts, if any, by which the **Special Communities Perpetual Trust**'s applicable liabilities might have been discharged, and to validate the propriety of the accounting and presentation of the escrow liabilities. As a result of these matters, we were unable to determine whether any adjustments are necessary to be made to the **Special Communities Perpetual Trust**'s liabilities included in the balance sheet-general fund and for its related impact on the **Special Communities Perpetual Trust**'s statement of activities-governmental activities and changes in financial position of the general fund as of and for the year ended June 30, 2024. The liabilities potentially involved in this scope limitation represent up to 99%, 106%, 7,584% and 123% of the general fund's total liabilities, general fund's deficit, general fund's change in financial position and governmental activities' change in net position, respectively.

Basis for Qualified and Unmodified Opinions

We conducted our audit of the statement of net position (deficit)-governmental activities and the financial statements of the debt service fund in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the **Special Communities Perpetual Trust**, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

Matter Giving Rise to Qualified Opinion on Statement of Net Position (Deficit)-Governmental Activities and Certain Disclosure Notes

The basis for the qualified opinion on the **Special Communities Perpetual Trust**'s statement of net position (deficit)-governmental activities consists of the same matter discussed above for the disclaimer of opinions on the **Special Communities Perpetual Trust**'s statement of activities and financial statements of the general fund. However, the impact is less pervasive, as the potential liabilities involved represent less than 5% of the **Special Communities Perpetual Trust**'s total liabilities and net position (deficit) as of June 30, 2024. In addition, certain mortgage loan collections are not being adequately updated and reconciled against the **Special Communities Perpetual Trust**'s mortgage loans subsidiary. Since the **Special Communities Perpetual 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 has not been determined.

Substantial Doubt About the Trust's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the **Special Communities Perpetual 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 **Special Communities Perpetual Trust** has not been able to make the required debt service payments for the fiscal years since then, including fiscal year 2024. 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 Oversight Board. The repayment of the note outstanding is also dependent on the ability of the **Special Communities Perpetual Trust** to extend, renew or restructure such note. The legislative approval to appropriate the funds required for the debt service of the note, the **Special Communities Perpetual 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) and the approval of the POA effective March 15, 2022, which discharges any claim related to budgetary appropriations from the Commonwealth (as disclosed in Note 3) and the enactment of Act No. 10 creating the Office of Socioeconomic and Community Development of the Government of Puerto Rico (OSCDPR) for, among other things, addressing and correcting matters related to the **Special Communities Perpetual Trust**, raise furthermore the uncertainty on the continued sustainability of its operations. These circumstances raise substantial doubt about the **Special Communities Perpetual 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.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Auditor's Responsibilities for the Audit of the Statement of Activities and the Financial Statements of the General Fund

Our responsibility is to conduct an audit of the **Special Communities Perpetual Trust**'s financial statements in accordance with GAAS and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion on the Statement of Activities and the Financial Statements of the General Fund section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on said financial statements.

We are required to be independent of the **Special Communities Perpetual Trust** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Auditor's Responsibilities for the Audit of the Statement of Position- Governmental Activities and the Debt Service Fund

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

In performing an audit in accordance with GAAS, we

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 11 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
December 1, 2025.




DLLP217-1458

Special Communities Perpetual Trust

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, 2024

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, 2024. 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, 2024 amounted to approximately \$1.3 million and \$459.2 million, respectively, for a net deficit of approximately \$458 million.
- During the period ended June 30, 2024, 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 principal balance as of June 30, 2024, amounted to approximately \$234.7 million.

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 of Puerto Rico (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.

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, 2024

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’s 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 the current year’s 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 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, 2024

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 years ended June 30, 2024 and 2023, are presented below (in thousands):

	As of June 30,		Change	
	2024	2023	Amount	%
Restricted assets	\$ 1,268	\$ 1,543	\$ (275)	(18%)
Accrued interest payable	194,680	178,251	16,429	9%
Accounts payable	85	65	20	31%
Contracts payable	8,534	8,534	-	0%
Retainage payable	9,968	9,968	-	0%
Due to Commonwealth of PR	20	30	(10)	(33%)
Due to GDB	-	15	(15)	(100%)
Other payables	2,004	2,004	-	0%
Reserve for legal claims	9,230	9,230	-	0%
Note payable	234,692	234,692	-	0%
Total liabilities	<u>459,213</u>	<u>442,789</u>	<u>16,424</u>	<u>4%</u>
Unrestricted	<u>(457,945)</u>	<u>(441,246)</u>	<u>(16,699)</u>	<u>4%</u>
Net position (deficit)	<u>\$ (457,945)</u>	<u>\$ (441,246)</u>	<u>\$ (16,699)</u>	<u>4%</u>

The principal change in the Trust's statement of net position during fiscal year ended June 30, 2024 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.

(INTENTIONALLY LEFT BLANK)

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, 2024

Condensed Statement of Activities for the year ended June 30, 2024 and 2023, are presented below (in thousands):

	As of June 30,		Change	
	2024	2023	Amount	%
Revenues:				
Rent and other income	\$ 174	\$ 122	\$ 52	42%
Contributions from Commonwealth of Puerto Rico	18	10	8	76%
Total revenues	192	132	60	45%
Expenses:				
Professional services and general government	236	252	(16)	(6%)
Housing assistance	257	122	135	111%
Interest on note payable	16,428	16,428	-	0%
Recovery of fully reserved mortgage loans	(30)	(22)	(8)	36%
Total expenses	16,891	16,780	111	1%
Change in net position (deficit)	(16,699)	(16,648)	(51)	0%
Net deficit - Beginning of year	(441,246)	(424,598)	(16,648)	4%
Deficit - End of year	\$ (457,945)	\$ (441,246)	\$ (16,699)	4%

The most significant changes consist of the following: an increase in rent and other income of approximately \$52 thousand, and an increase in total expenses of approximately \$111 thousand, driven by an increase in housing assistance of \$135 thousand.

(INTENTIONALLY LEFT BLANK)

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, 2024

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	
	2024	2023	\$	%
Revenue:				
Rent and other income	\$ 174	\$ 122	\$ 52	42%
Contributions from Commonwealth				
of Puerto Rico	18	10	8	80%
Total revenue	<u>192</u>	<u>132</u>	<u>60</u>	45%
Expenditures:				
General government	236	252	(16)	(6%)
Housing assistance	257	122	135	111%
Recovery of fully reserved mortgage loans	(30)	(22)	(8)	36%
Total expenditures	<u>463</u>	<u>352</u>	<u>111</u>	32%
Change in net position	(271)	(220)	(51)	23%
Deficit — Beginning of year	<u>(19,073)</u>	<u>(18,853)</u>	<u>(220)</u>	1%
Deficit – End of year	<u>\$ (19,344)</u>	<u>\$ (19,073)</u>	<u>\$ (271)</u>	1%

The Trust's governmental funds reported total deficits as of June 30, 2024, and 2023 of approximately \$19 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, 2024, the outstanding balance of the mortgage loans receivable was fully reserved. During the years ended June 30, 2024 and 2023, there were no fees on mortgage loans, however, approximately \$30,000 and \$22,000, respectively, were adjustments related to recovery of fully reserved mortgage loans.

The most significant changes in the government funds results respond to the same fluctuations described in the Statement of Activities analysis.

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, 2024

5. Long Term Debt:

The Trust maintains a non-revolving note payable with GDB. The outstanding balance as of June 30, 2024, amounted to approximately \$234.7 million. There were no debt service payments during fiscal years 2024 and 2023.

6. Currently Known Facts:

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 Sardinas II of the Municipality of Culebra, with an approximate total value of \$2,750,000, per September 30, 2021 appraisal. The Trust continues in the process of finalizing the registration of the plot in the Property Registry under the Trust's name, as stipulated in the agreement.

Proyecto del Senado 17 (PS 17)

On April 7, 2025, the Senate of Puerto Rico passed PS 17, a bill proposing the repeal of Law No. 271-2002, which created the Trust; and the transfer of its assets, rights, and responsibilities to the Office of Socioeconomic and Community Development of the Government of Puerto Rico (OSCDPR). The bill passed the Senate with amendments on April 7, 2025, and is currently under consideration in the House of Representatives.

If enacted, the bill could result in the transfer of real estate, financial assets, and related obligations from the trust to OSCDPR. The timing and valuation of such transfers will depend on the final legislative outcome and implementing regulations.

Trust vs. Municipality of Trujillo Alto

On May 16, 2024, the Trust filed a civil action against the Municipality of Trujillo Alto. The lawsuit sought recovery of \$632,616 in excess funds originally transferred to the Municipality in 2005 under a grant agreement for infrastructure projects in the Special Communities "La PRRA" and "Parcelas Carraízo."

On December 11, 2024, the Court issued a resolution authorizing the withdrawal of the disputed funds in favor of the Trust. As a result, the Trust received a payment of \$632,814 on December 16, 2024 representing the recovery of excess grant funds.

Auditor's Disclaimer of Opinion and Management's Corrective Actions

Management acknowledges the disclaimer of opinion issued by the independent auditors. Recognizing the importance of addressing the conditions that led to this disclaimer, management is committed to conducting a comprehensive review to identify the corrective measures required to clarify the status of the Trust's obligations. Management will also prepare verifiable, legally substantiated evidence to ensure that the Trust's financial position and results of operations are fully supported.

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, 2024

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, 1208 Ave. FD Roosevelt, San Juan, P.R. 00920.

**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, 2024

ASSETS

Current restricted assets:	
Cash	\$ 619,910
Due from Commonwealth of Puerto Rico, net	28,206
Due from Municipality	614,387
Other assets	5,277
Total current restricted assets	<u>1,267,780</u>
Non-current restricted assets:	
Mortgage loans receivable	7,322,351
Less: Allowance for losses on mortgage loans receivable	<u>(7,322,351)</u>
Total noncurrent restricted assets	-
Total assets	<u>1,267,780</u>

LIABILITIES

Current liabilities:	
Accrued interest payable	194,679,836
Accounts payable	85,478
Current liabilities payable from restricted assets:	
Contracts payable	8,534,392
Retainage payable	9,967,667
Due to Commonwealth of Puerto Rico	20,192
Other payables	<u>2,004,303</u>
Total current liabilities	<u>215,291,868</u>
Non-current liabilities:	
Reserve for legal claims payable from restricted assets	9,229,573
Note payable due in more than one year	<u>234,692,018</u>
Total non-current liabilities	<u>243,921,591</u>
Total liabilities	<u>459,213,459</u>

NET POSITION (DEFICIT)

Unrestricted	<u>(457,945,679)</u>
Total net position (deficit)	<u><u>\$ (457,945,679)</u></u>

See notes to basic financial statement

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2024

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>
	<u>Expenses</u>	<u>Rent and Other Income</u>	<u>Contributions from Commonwealth</u>	
GOVERNMENTAL ACTIVITIES:				
General government	\$ 235,167	\$ 39,994	\$ -	\$ (195,173)
Housing assistance	256,676	133,780	17,762	(105,134)
Interest expense on note payable	16,428,442	-	-	(16,428,442)
Recovery of fully reserved mortgage loans	(29,905)	-	-	29,905
Total governmental activities	<u>\$16,890,380</u>	<u>\$ 173,774</u>	<u>\$ 17,762</u>	
CHANGE IN NET DEFICIT				(16,698,844)
DEFICIT — Beginning of year				<u>(441,246,835)</u>
DEFICIT — End of year				<u>\$(457,945,679)</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, 2024

	General Fund	Debt Service Fund	Total
ASSETS			
Cash	\$ 619,910	\$ -	\$ 619,910
Due from Commonwealth of Puerto Rico, net	28,206	-	28,206
Due from Municipality	614,387	-	614,387
Other assets	5,277	-	5,277
Total assets	1,267,780	-	1,267,780
LIABILITIES:			
Accounts payable	85,478	-	85,478
Contracts payable	8,534,392	-	8,534,392
Retainage payable	9,967,667	-	9,967,667
Due to Commonwealth of Puerto Rico	20,192	-	20,192
Other payables	2,004,303	-	2,004,303
Total liabilities	20,612,032	-	20,612,032
DEFICIT			
Unassigned	(19,344,252)	-	(19,344,252)
Total deficit	(19,344,252)	-	(19,344,252)
TOTAL LIABILITIES AND DEFICIT	\$ 1,267,780	\$ -	\$ 1,267,780

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 (DEFICIT) –
GOVERNMENTAL ACTIVITIES
JUNE 30, 2024

DEFICIT PER GOVERNMENTAL FUNDS BALANCE SHEET	\$ (19,344,252)
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	(9,229,573)
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	<u>(429,371,854)</u>
NET DEFICIT OF GOVERNMENTAL ACTIVITIES	<u>\$ (457,945,679)</u>

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, 2024

	General Fund	Debt Service Fund	Total
REVENUES:			
Rent and other income	\$ 173,774	\$ -	\$ 173,774
Contribution from the Commonwealth of Puerto Rico	<u>17,762</u>	<u>-</u>	<u>17,762</u>
Total revenues	<u>191,536</u>	<u>-</u>	<u>191,536</u>
EXPENDITURES:			
General government	235,167	-	235,167
Housing assistance	<u>256,676</u>	<u>-</u>	<u>256,676</u>
Recovery of fully reserved mortgage loans	<u>(29,905)</u>	<u>-</u>	<u>(29,905)</u>
Total expenditures	<u>461,938</u>	<u>-</u>	<u>461,938</u>
NET CHANGES IN GOVERNMENTAL FUNDS	<u>(270,402)</u>	<u>-</u>	<u>(270,402)</u>
FUND BALANCE			
Beginning of year	<u>(19,073,850)</u>	<u>-</u>	<u>(19,073,850)</u>
DEFICIT — End of year	<u>\$ (19,344,252)</u>	<u>\$ -</u>	<u>\$ (19,344,252)</u>

See notes to 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, 2024

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS \$ (270,402)

Amounts reported for Governmental Activities in the Statement of Activities are different than the amounts reported in the Governmental Funds because:

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 (16,428,442)

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ (16,698,844)

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, 2024

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 of the Commonwealth, the Secretary of the Department of Transportation and Public Works (“DOT”) of the Commonwealth, the Executive Director of Office of Socioeconomic and Community Development of the Government of Puerto Rico (OSCDPR), 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.

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.

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, 2024

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. The 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 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.

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, 2024

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 for 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 Municipality of Ponce collects monthly payments of mortgage loans and leases due from participants on behalf of the Trust. Prior to fiscal year 2024, the Department of Housing used to also collect 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

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, 2024

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, 2024, has been fully reserved.

Recent Accounting Pronouncements – The GASB has issued the following accounting pronouncements, which are currently under evaluation for their impact in the financial statements:

- GASB Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023. Earlier application is encouraged.
- GASB Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement defines concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.
- GASB Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement introduces new requirements and modifications to enhance the transparency, comparability, and overall quality of financial reports. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.
- GASB Statement No. 104, Disclosure of Certain Capital Assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement No. 34. Lease assets recognized in accordance with Statement No. 87, Leases, and intangible right-to-use assets recognized in accordance with Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, should be disclosed separately by major class of underlying assets in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, Subscription-Based Information Technology Arrangements, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

Management is evaluating the impact that these statements may have on the Trust's basic financial statements upon adoption.

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, 2024

3. Going Concern

Management believes that there is substantial doubt about the Trust's ability to continue as a going concern because it currently does not have sufficient liquid financial resources (\$620 thousand in cash) or any other alternative means to raise funds to meet all its obligations exceeding \$459 million. The following events and circumstances support this belief and conclusion:

- 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.
- Any repayment of the note outstanding with GDB, would be 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 (the Oversight Board), the supervisory entity created by the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). The repayment of the note outstanding is also dependent on the ability of the Trust to extend, renew or restructure such note. However, 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 notes and the ultimate certification and approval from the Oversight Board are highly uncertain.

Remediation Plan

On February 15, 2017, the Commonwealth of Puerto Rico enacted Act No. 10 to create the OSCDPR 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 OSCDPR 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.

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, 2024

Furthermore, OSCDPR shall be responsible for analyzing, addressing, and correcting matters relating to the special communities' program, including the Trust. The OSCDPR submitted a detailed report with its findings and recommendations to the Governor and the Legislative Assembly with respect to the Trust. This report found, among other things, deficiencies in the administration and operational structure of the Trust. As recommended, OSCDPR stressed the need to act as a quasi-juridical organization since most cases within the communities can be resolved with mediation or arbitration. OSCDPR 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 \$370 thousand as of June 30, 2024.

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 Department of Housing 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.

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, 2024

- 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 represents 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, 2024 (in thousands):

Mortgage Loan Portfolio	Amount
Beginning balance	\$ 7,352
New mortgage loans granted	-
Principal payments received and adjustments, net	(30)
Ending balance	<u>\$ 7,322</u>

The following is a summary of the activity in the allowance for losses on mortgage loans for the year ended June 30, 2024 (in thousands):

Allowance for Losses on Mortgage Loans	Amount
Beginning balance	\$ (7,352)
Provision for losses on mortgage loans	-
Recovery of fully reserved mortgage loans and adjustments, net	30
Ending balance	<u>\$ (7,322)</u>

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 2024, the Trust received payments on these loans in the amount of approximately \$134,000, recognized in other income within the accompanying statement of activities and statement of revenue, expenditures, and changes in deficit.

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, 2024

Prior to fiscal year 2024, the Department of Housing had been collecting mortgage-related payments from the participants on behalf of the Trust, and accordingly, management recorded an account receivable for such collections that have not been repaid back to the Trust. As of June 30, 2024, the balance of the account receivable from the Department of Housing amounted to approximately \$28,000, net of a provision for uncollectible amounts of approximately \$279,000 (provision recognized during the fiscal year ended June 30, 2022).

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 have not been repaid back to the Trust. As of June 30, 2024 the balance of the account receivable from the Municipality of Ponce amounted to approximately \$614,000. No provision for uncollectible amounts has been considered necessary by management as of June 30, 2024.

6. RELATED PARTIES TRANSACTIONS

The Trust occasionally grants leases to qualifying participants of the housing program of the Trust, when circumstances cause a delay in the process of granting mortgage loans. Once the circumstances preventing the granting of the mortgage are resolved, the lease is terminated, and a mortgage loan is granted by the Trust. The revenue generated for the leases is reported as a contribution from the Commonwealth. The amount of revenue recognized by the Trust under this concept amounted to approximately \$18,000 during 2024.

Prior to entering into the MultiPago service agreement with Banco Popular de Puerto Rico effective February 2023, the Department of Housing collected lease and mortgage payments from the program participants and charged the Trust a fee of 15% of the collections processed. During the year ended June 30, 2024, the Department of Housing made payments to the Trust on its receivable in the amount of approximately \$24,000.

The Municipality of Ponce collects mortgage payments from the program participants who reside in said municipality, and charges the Trust a fee of 5% of the collections processed. During the year ended June 30, 2024, the Municipality of Ponce collected approximately \$8,000 on behalf of the Trust, which were recorded as an addition to the due from Municipality balance in the statement of net position.

In the execution of the Trust's programs and objectives, the Trust contributed funds to the Department of Transportation and Public Works (DTPW) and the Department of Housing for the expropriations of land, housing, and buildings. Pursuant to the Trust's programs and objectives, these properties were 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 DTPW and the Department of Housing. These properties were purchased in the names of these agencies of the Commonwealth because the Trust did not have the power and authority to purchase such assets and register them under the Trust's name. The amounts contributed by the Trust were recorded as program expenditure in the year the disbursements are made. During the year ended June 30, 2024, the Trust did not make any expropriations, or acquisition of assets.

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

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, 2024

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. The Trust has also established its right and ability to begin acquiring properties by its own name, without the need to utilize the DTPW and Department of Housing. For the year ended June 30, 2024, the Trust did not acquire any assets on its own name, nor transferred the title of any property held by Department of Housing or DTPW.

The OSCDPR 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.

Since December 29, 2020, the OSCDPR has been assigned from the Commonwealth certain funds pursuant contract No. 20200702018, which established the conditions and requirements for the use of such funds towards permanent projects under the custody and responsibility of the Trust. The terms of this accord are effective from its inception through December 31, 2024. On July 7, 2021, the Trust received funds in the amount of \$681,560 from the OSCDPR under this agreement for the Trust to execute a series of construction and improvement projects in several communities. The receipt of these funds has been presented as contributions from the Commonwealth in prior year's financial statements. Of these amounts received, the Trust has not executed any projects during the year ended June 20, 2024.

7. LONG TERM DEBT – NOTE PAYABLE

The Trust maintains a non-revolving note payable with GDB with maturity on 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 throughout 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 2024, there were no appropriations, and the interest was not paid, GDB is not charging the default interest rate.

Note payable activity for the year ended June 30, 2024, 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 2024 general fund budget did not include appropriation for the payment of the note payable for the year ended June 30, 2024. 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

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, 2024

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, 2024, 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 \$9.2 million to cover for awarded and anticipated unfavorable judgments at June 30, 2024. This amount is presented as a 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.

9. SUBSEQUENT EVENTS

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 Sardinas II of the Municipality of Culebra, with an approximate value of \$2,750,000, per September 30, 2021 appraisal. As stipulated in the agreement, the Trust continues in the process of segregating 40% of the plot that will be exchanged with the Municipality of Culebra, to finalize the registration in the Property Registry under the Trust's name.

Proyecto del Senado 17 (PS 17)

On April 7, 2025, the Senate of Puerto Rico passed PS 17, a bill proposing the repeal of Law No. 271-2002, which created the Trust; and the transfer of its assets, rights, and responsibilities to OSCDPR. As of the date these financial statements, the bill is pending further action in the Puerto Rico House of Representatives, and its outcome and implementation timeline remain uncertain.

The Trust is monitoring the legislative process, while remaining operational and continuing its obligations under Law 271-2002. Should PS 17 be enacted, the Trust will coordinate with OSCDPR and relevant oversight bodies to ensure a compliant and orderly transfer of assets and responsibilities in accordance with applicable legal and financial standards.

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, 2024

Trust vs. Municipality of Trujillo Alto

On May 16, 2024, the Trust filed a civil action against the Municipality of Trujillo Alto. The lawsuit sought recovery of \$632,616 in excess funds originally transferred to the Municipality in 2005 under a grant agreement for infrastructure projects in the Special Communities “La PRRA” and “Parcelas Carraízo.”

On December 11, 2024, the Court issued a resolution authorizing the withdrawal of the disputed funds in favor of the Trust. As a result, the Trust received a payment of \$632,814 on December 16, 2024 representing the recovery of grant funds.

Subsequent events were evaluated through December 1, 2025, to determine if any such events should either be recognized or disclosed in the 2024 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 mention based on their relevance and materiality as a whole.
