

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Single Audit Package

June 30, 2022

(With Independent Auditors' Report Thereon)

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

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Independent Auditors' Report

To the Board of Directors of
Economic Development Bank for Puerto Rico:

Report on the Audit of the Basic Financial Statements

Opinion

We have audited the accompanying Statement of Net Position (Deficit) of the Economic Development Bank for Puerto Rico (the Bank) as of June 30, 2022 and the statements of revenue, expenses and changes in net position (deficit), and cash flows for the year then ended, and the related notes to the basic financial statements, which collectively comprise the Bank's basic financial statements as listed in the table of contents.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of June 30, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Bank and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Uncertainty About the Bank's Ability to Continue as a Going Concern

As discussed in Note 2 to the basic financial statements, the Bank has suffered recurring losses from operations and has a net capital deficiency. Management has developed plans that alleviated the uncertainty about the Bank's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans to mitigate those matters are also described in Note 2. Our opinion is not modified with respect to this matter.

Subsequent Events

As further discussed in Note 22 to the basic financial statements, in fiscal year 2023 management plans to mitigate the going concern uncertainty were implemented and among other matters, the bank was appointed as manager and administrator of the program and funds allocated to Puerto Rico under the State Small Business Credit Initiative (SSBCI) and the subrecipient agreement for the Small Business Financing Program (SBFP) increased the total designed amount for grants to \$180 million, the Bank signed a settlement agreement with Government Development Bank for Puerto Rico (GDB) to settle GDB outstanding deposit amount of approximately \$35.4 million for \$3.1 million. Furthermore, as of September 20, 2023, settlement agreements have been signed and executed with depositors for \$109 million of the total deposits of \$110 million outstanding as of June 30, 2023. The implementation of management plans increased the Bank's liquidity and pave the way to achieve financial stability. Our opinion is not modified with respect to this matter.

Litigation

As discussed in Note 15 to the basic financial statements, various loan sales executed by the Bank during the past years, including the loan sale during fiscal year 2019, have been subjected to numerous litigations originated by impacted borrowers and by the Bank itself, claiming for the most part, among other remedies, the annulment of

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such loan sale agreements. Most of these cases are still outstanding and in discovery proceedings. It is still uncertain whether or not the courts will nullify the different loan sale agreements. The basic 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 Bank'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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* 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 generally accepted auditing standards and *Government Auditing Standards*, 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 Bank'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 Bank'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.

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Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis in pages 4 to 10 and the schedules of proportionate share of total pension liability and related ratios and schedule of proportionate share of total other postemployment benefit liability in pages 57 and 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 inquires 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bank's basic financial statements. The accompanying schedule of expenditures of federal awards, in pages 61-62, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2023, on our consideration of the Bank's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Bank's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Bank's internal control over financial reporting and compliance.



San Juan, Puerto Rico
September 29, 2023

Certified Public Accountants
License No. 95 expires on December 1, 2023.
Stamp No. E536151 of the Puerto Rico Society of CPAs
was affixed to the record copy of this report.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2022

Introduction

This section discussion contains an analysis of the statements of net position of the Economic Development Bank for Puerto Rico (the Bank) as of June 30, 2022 and 2021, and its changes in financial position for the years then ended. The information included in this section should be read in conjunction with the basic financial statements of the Bank and its notes.

The activities of the Bank are accounted for as enterprise funds, which include the activities of the Bank's principal operating fund and those of the Bank's blended component units, such as the Economic Development Bank Capital Investment (EDBCI) and the Community Development Block Grant – Disaster Recovery - Small Business Financing Program (CDBG-DR SBF Program). EDBCI was created to account for and focus separately on the activities and investments in local equity and venture capital funds. CDBG-DR SBF Program fund was created to account for and focus separately on the activities of pass-through subrecipient agreement with the Puerto Rico Department of Housing (PRDH) in relation to the disbursements of grants to eligible small business affected by Hurricanes Irma and María in 2017.

The required financial statements for an enterprise fund are as follows: statement of net position; statement of revenues, expenses, and changes in net position; and statement of cash flows. These financial statements report information using accounting methods similar to those used by private financial institutions.

The statement of net position includes all the Bank's assets and liabilities, classified as current, noncurrent, capital assets, and net position. This statement provides information as of a specific date about the nature and amount of investments in resources (assets), the obligations to creditors (liabilities), and its deferred outflows/inflows of resources. It also provides the basis for evaluating the Bank's capital structure.

The statement of revenues, expenses, and changes in net position includes revenues earned and expenses incurred by the Bank for a specific period (12 operating months beginning on July 1 and ending on June 30). This statement measures the results of the Bank's operation and can be used to determine whether the Bank has successfully recovered all its costs through user fees and other charges. This statement distinguishes interest and non-interest revenues and expenses.

The statement of cash flows reports cash receipts, cash payments, and changes in cash resulting from operations, noncapital financing, capital and related financing, and investing activities. This statement provides information about the Bank's cash flows and how cash is obtained, used, and what was the change in cash balance during the reporting period beginning on July 1 and ending on June 30.

Financial Highlights

- Net position decreased by approximately \$1 million, as a result of the net operating loss for the year.
- Total interest income amounted to approximately \$1.8 million, an increase of approximately \$1.6 million over the prior year's results; while total non-interest income amounted to approximately \$71.7 million, an increase of approximately \$19.3 million over the prior year non-interest income of approximately \$52.4 million.
- The Bank, as subrecipient of CDBG-DR SBF Program funds was awarded approximately \$67.5 million in 2022 to be disbursed as grants to eligible small businesses affected in 2017 by Hurricanes Irma and María, an increase of approximately \$36.8 million over prior year amount of \$30.7 million.

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Comparison of 2022 and 2021 Assets, Liabilities, and Net Position

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

Net Position	2022	2021	Increase/(Decrease)	
			Amount	Percentage
Assets:				
Current assets	\$ 116,003	111,984	4,019	3.6%
Noncurrent assets	57,692	62,728	(5,036)	-8.0%
Deferred outflows of resources	8,142	8,450	(308)	-3.6%
Total assets and deferred outflows of resources	\$ 181,837	183,162	(1,325)	-0.7%
Liabilities:				
Current liabilities	\$ 155,230	154,934	296	0.2%
Noncurrent liabilities	31,381	31,927	(546)	-1.7%
Deferred inflow of resources	1,198	1,105	93	8.4%
Total liabilities and deferred inflows of resources	187,809	187,966	(157)	-0.1%
Net Position:				
Net investment in capital assets	3,469	2,926	543	18.6%
Restricted for special loan programs	4,328	8,580	(4,252)	-49.6%
Unrestricted	(13,769)	(16,310)	2,541	-15.6%
Net Position	(5,972)	(4,804)	(1,168)	24.3%
Total liabilities, deferred inflows and net position	\$ 181,837	183,162	(1,325)	

At June 30, 2022, the Bank's total assets and deferred outflows of resources were approximately \$181.8 million (\$65.3 million from EDBC) compared to \$183.2 million at June 30, 2021 (\$61.8 million from EDBC). The decrease of \$1.32 million represents 0.7% of the 2021 total assets balance. Total loan portfolio decreased by 1.7% when compared to balances as of June 30, 2021. Loan disbursements increased from \$945,000 in 2021 to \$1.9 million in 2022, while principal collected on loans increased from \$1.1 million for fiscal year 2021 to \$3.3 million (includes \$1.3 million of recoveries from prior year loans charged-off) for fiscal year 2022. The related allowance for loan losses decreased by \$196,500 or 3.8% of the 2021 balance. The net loan portfolio decreased by \$91,000.

At June 30, 2022, the Bank's total liabilities and deferred inflows of resources were \$187.8 million compared to \$188 million at June 30, 2021. The decrease of \$157,000 represents 0.1% of the 2021 total liabilities. Total time deposits were \$145.5 million as of June 30, 2022. Time deposits consist totally of certificates of deposit of public funds from other governmental institutions. Total time deposits increased by \$146,000. As of year-end, the notes payable balance was \$3.7 million, which reflects a repayment of approximately \$800,000 during fiscal year 2022.

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The Bank had net position of \$(5.9) million at June 30, 2022, a decrease of \$1.17 million or 24.3% when compared to June 30, 2021. This decrease results from the \$1.17 million net operating loss for the year.

Additional information about net position composition is presented in Note 13 to the basic financial statements.

Comparison of 2022 and 2021 Revenues, Expenses, and Changes in Net Position

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

Revenues, Expenses and Changes in Net Position	2022	2021	Increase/(Decrease)	
			Amount	Percentage
Interest Income:				
Interest income from loans	\$ 1,596	(24)	1,620	6750%
Interest income from investments and deposits	177	162	15	9%
Total interest income	1,773	138	1,635	1185%
Noninterest income	71,765	52,397	19,368	37%
Total operating revenue	73,538	52,535	21,003	40%
Operating expenses:				
Provision (recovery) for loan losses	(1,300)	—	(1,300)	100%
Interest expense	507	1,010	(503)	-50%
Noninterest expenses	75,498	39,185	36,313	93%
Total operating expenses	74,705	40,195	34,510	86%
(Loss) income before capital - transfer out	(1,167)	12,340	(13,507)	-109%
Capital - transfer out	—	(867)	867	-100%
Net changes in net position	\$ (1,167)	11,473	(12,640)	-110%

For the year ended June 30, 2022, the Bank presents a net loss or net change in net position of \$1.17 million when compared to the net income of \$11.5 million for the year ended June 30, 2021. The decrease in operating income resulted from the net effect of the following:

a. Interest Income

Total interest income increased by approximately \$1.6 million, from \$138,000 in 2021 to \$1.8 million in 2022. This increase in interest income was mainly due to the collection of approximately \$800,000 in nonaccrual interest from an \$8 million loan that was in nonaccrual status during the fiscal year ended June 30, 2021.

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b. Noninterest income

Noninterest income increased by approximately \$19.3 million, from a \$52.4 million in fiscal year 2021 to \$71.7 million in 2022. The increase is mainly due to the grant revenue from the CDBG-DR SBF Program received during fiscal year ended June 30, 2022 of \$67.5 million, and to a decrease in net realized and unrealized gains on investments of \$17.2 million, from \$20.2 million in 2021 to \$3.0 million in 2022.

c. Provision for Loan Losses

There was a recovery of loan losses of \$1.3 million during the fiscal year ended June 30, 2022, while there was no provision nor recovery for/of loan losses during the fiscal year ended June 30, 2021.

d. Interest Expense

Total interest expense decreased by 50% or approximately \$500,000, from \$1,010,000 in 2021 to \$507,000 in 2022. This decrease in interest expense was mainly the result of reduced interest rates.

e. Pension and Other Post-Employment Benefits Credit Adjustments

The pension and other postemployment benefits show an increase of \$0.4 million, from approximately \$2.5 million in 2021 to \$2.9 million in 2022. This is mainly due to the additional pension benefits accumulated during year ended June 30, 2022, and other changes in actuarial assumptions. Refer to Notes 17 and 18 to the basic financial statements.

f. Noninterest Expenses

Noninterest expenses increased by approximately \$36 million or 93% during fiscal year 2022. This increase in noninterest expenses resulted from the net effect of the following:

- CDBG-DR SBF Program Grant expenditures during the year ended on June 30, 2022 of \$64.7 million. An increase of \$35.9 million or 125% in comparison with \$28.8 million in 2021.
- Salaries and employee benefits increased by 6.4% or \$466,000, from approximately \$7.3 million in 2021 to approximately \$7.8 million in 2022. This is mainly due to an increase of \$402,000 in pension expense, from \$2.5 million in 2021 to \$2.9 million in 2022, and an increase in payroll of approximately \$64,000.
- Professional fees decreased by 22.4% or \$147,000, from approximately \$654,000 in 2021 to approximately \$507,000 in 2022.
- Provision for losses on disposition of real estate held for sale decreased from \$20,000 in 2021 to \$-0- provision in 2022.
- Occupancy and related expenses (including depreciation and amortization) decreased by 4.7% or \$38,000, from approximately \$802,000 in 2021 to approximately \$764,000 in 2022.
- Advertising expense increased by 97% or \$36,200, from approximately \$37,500 in 2021 to approximately \$73,700 in 2022.

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Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2022

- All other noninterest expenses increased by 12.3% or \$191,300, from approximately \$1.56 million in 2021 to approximately \$1.75 million in 2022.

Analysis of the Overall Financial Position and Results of Operations

The average balance of funds available from deposits and the related investments reflect an increase when comparing 2022 to 2021, mainly due to the cash flows from principal collections on investment maturities of \$10.8 million. When compared with fiscal year 2021, cash and cash equivalents, increased 8.6% or \$8.4 million, from \$97.4 million in 2021 to \$105.8 million in 2022.

On the liabilities side, time deposits balances from other governmental and financial institutions increased \$146,000 or 0.1%, mainly due to the accrual of interest for 2022. Interest rates during fiscal years 2022 and 2021 remained low.

During the fiscal years 2022 and 2021, \$1,343,420 and \$56,000 were recovered in previously charged off loans, respectively.

Discussion of Significant Capital Assets and Long-Term Debt Activity

During fiscal year 2022, approximately \$161,000 in capital assets were acquired and none was retired. As of year-end, the total note payable balance was \$3.7 million, which reflected a repayment of approximately \$795,000 during fiscal year 2022. Additional information about capital assets and long-term debt activity is presented in Notes 6 and 11 to the basic financial statements, respectively.

Currently Known Facts

Going Concern Uncertainty

For many years the Bank and the Commonwealth of Puerto Rico (Commonwealth) faced a fiscal, economic and liquidity crisis, which resulted in significant governmental deficits, an economic recession that started in 2006, liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations that adversely affected their credit ratings and ability to obtain financing at reasonable interest rates. In addition to these factors, the investments held by the Bank declined in value and the Bank operated only on the interest income generated by its loan portfolio. This posed a difficult liquidity situation for the Bank because, due to the high default rate on its loan portfolio, its ability to raise cash through loan repayments was limited. Then, as a result and in looking for additional sources of liquidity, the Bank began executing in 2017 the strategy of monetizing most of its legacy loan portfolio to third parties. However, such sales, although providing some temporary liquidity relief, contributed to a significant reduction in its loan portfolio, therefore, extinguishing most of the interest income being generated by such loan base and jeopardizing the operational feasibility of the Bank. This combination of events also curtailed the ability of the Bank to honor and repay the deposits held at the Bank by its depositors. Pursuant to The Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) and the establishment of the Oversight Board on June 30, 2016, the United States Congress provided a mechanism to allow for the fiscal and economic discipline that ultimately resulted in the orderly restructuring of the Commonwealth obligations. After years of extensive litigation with creditors, on October 26, 2021, the Commonwealth enacted the Law to End the Bankruptcy of Puerto Rico (Law 53) to, among other things, approve the issuance of the New General Obligation Bonds and Contingent Value Instruments (CVIs) necessary to implement the restructuring transactions contemplated in

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the Seventh Amended Plan of Adjustment, subject to certain amendments that would preserve pension benefits. The Title III Court confirmed an amended version of the plan on January 18, 2022, and it became effective on March 15, 2022. On that date, the Commonwealth emerged from Title III of PROMESA.

As discussed in more detail in Management's Future Plans section, in 2023 the Bank was appointed as manager and administrator of the State Small Business Credit Initiative. Under this initiative the Bank will manage \$109 million approximately to be distributed to eligible participants through two programs, the Collateral Support Program and the Loan Participation Program.

On July 18, 2022, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) submitted to the Financial Oversight and Management Board for Puerto Rico an authorization request pursuant to Section 207 of PROMESA related to the Bank's proposed "Settlement Agreement" with Government Development Bank for Puerto Rico (GDB). In this agreement, the Bank will make a one-time payment to GDB in the amount of \$3,100,000 in full and final satisfaction of the outstanding EDB deposit amount of \$35,406,146 at June 30, 2021. This settlement agreement was approved by the Financial Oversight and Management Board for Puerto Rico on September 21, 2022. As a result, the Bank signed on September 28, 2022 the "Settlement Agreement" with GDB and made the required payment of \$3,100,000 on the same date.

On July 17, 2023, the Financial Oversight and Management Board for Puerto Rico approved a settlement agreement between the Bank and various government entities over certain deposits at the Bank. Pursuant to the Proposed Debt Transaction, the Bank shall make (i) a one-time cash payment of \$9.7 million in full settlement and satisfaction of \$110.4 million in unsecured deposit claims across 17 government entities at a recovery rate of 8.75%, and (ii) a \$3.7 million principal payment (plus accrued interest) in satisfaction in full of a senior secured mortgage loan owed by the Bank to the GDB Debt Recovery Authority. Now the Bank is in the process of performing the settlement negotiations and approvals with all 17 deposit claimants. The Proposed Debt Transaction is intended to be the final step in the process of restructure the Bank financial liabilities and pave the way to achieve long-term financial stability.

Notwithstanding the circumstances existing on June 30, 2022, based on subsequent events that improved the Bank's capital and financial condition and addressed its liabilities, management does not believe there is substantial doubt about the Bank's ability to continue as a going concern as of the date of these basic financial statements.

Management's Future Plans

Strategic Plan - The Bank has worked on a strategic business plan for the next five years with new business strategies aimed at improving its operations. As part of its strategic business plan, the Bank was approved by the U.S. Department of Treasury to administer the State Small Business Credit Initiative (SSBCI) program with the following Credit programs: Loan Participations and Collateral Support. Another program for Venture Capital Investments is been worked as an amendment to the original application approved. The SSBCI is a federal funds program, re-approved under the American Rescue Plan Act of 2021, that aims to empower small businesses to access capital needed to invest in job-creating opportunities as the country emerges from the pandemic. On February 8, 2023, the allocation agreement that establishes the terms and conditions was formalized by the U.S. Department of Treasury and the Commonwealth of Puerto Rico (Participating Jurisdiction for the management of the funds). On March 10, 2023, an interagency agreement between the Bank and The Puerto Rico Department of Treasury was formalized. In this agreement the Bank was appointed as manager and administrator of the program and funds allocated to the Puerto Rico jurisdiction. Under this program, Puerto Rico was assigned over \$109 million.

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Other initiatives contemplated in the strategic business plan is a layered guarantee program. The Bank seeks to increase the guarantees that certain federal agencies offer, such as Small Business Administration (SBA), to increase the current approval rates and thus, the amounts of loans disbursed to the economy.

Government Sponsored Initiatives - The Bank is having a direct participation in the Government of Puerto Rico Disaster Recovery Action Plan for the use of CDBG-DR SBF Program funds, estimated in approximately \$10 billion (grand total for Puerto Rico), awarded by the U.S Government in response to the Hurricanes Irma and María. The Bank as a sub-grantee, is working on the small business financing program, which provides up to \$50,000, grants to small businesses that incurred in losses due to Hurricanes Irma and María in 2017. On December 1, 2022, the grants were increased up to \$150,000. The program is aligned to eligible CDBG-DR SBF Program activities in the economic development and job creation or retention course of action from the Puerto Rico Recovery Plan. The Bank will benefit by recovering costs involved in deploying the program.

Debt Restructuring

The Bank's Time Deposits have been negotiated with other government agencies as of June 30, 2023, with the approval of the Federal Oversight and Management Board, in order to cancel them against a payment for a discounted amount, which will generate a gain on extinguishment of debt to the bank of \$100.7 million.

The Bank is evaluating other opportunities to define the Bank's role and future operations within the current economic and fiscal government environment.

Litigation

The loan sale executed by the Bank during the year ended June 30, 2019, described also in Note 5 to the basic financial statements, has been subjected to numerous litigations originated by impacted borrowers and by the Bank itself, claiming for the most part, among other remedies, the annulment of such sale contracts.

With respect to the loan sales executed in the years prior to fiscal year 2019, several former borrowers of the Bank are suing both the assignee of such loans and the Bank alleging that such sales were null, and void and that the buyer of the loans lacked standing to collect. With respect to the prior years loan sales, former borrowers and the Bank itself initiated separate litigations against the ultimate buyers, as well as the intermediary advisor contracted by the Bank's management then, alleging that such advisor failed to abide by applicable laws in the sale process, among other claims. The majority of the remedies being requested are seeking to declare the loan sale null and consequently return all consideration received by the Bank, return all the loans sold to the buyers or arrive at an equivalent compensation, among other remedies.

Most of these cases are still outstanding, in discovery proceedings and pending resolution. Although legal counsel believes that no liability is foreseen in the cases where the Bank is a defendant, it is still uncertain whether or not the courts will nullify the September 2018 loan sale agreements or assign liability to the Bank in other litigations presented. An eventual determination of nullity by the courts may cause the accompanying basic financial statements to be restated accordingly.

Contacting the Bank's Financial Management

This financial report is designed to provide a general overview of the Bank's finances for those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Economic Development Bank for Puerto Rico, P.O. Box 2134, San Juan, PR 00922-2134.

BASIC FINANCIAL STATEMENTS

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position (Deficit)

June 30, 2022

	EDB Operating Fund	EDB Capital Investment	CDBG-DR SBF Program	Eliminations	Total
ASSETS					
CURRENT ASSETS:					
Cash and due from banks	\$ 97,344,111	—	—	—	97,344,111
Interest bearing deposits	8,502,440	13,415,569	—	(13,415,569)	8,502,440
Cash and cash equivalents	105,846,551	13,415,569	—	(13,415,569)	105,846,551
Loans, net of allowance for loan losses of \$1,374,597	2,886,401	—	—	—	2,886,401
Accounts receivable - Department of Housing	—	—	7,174,095	—	7,174,095
Accrued interest receivable	95,855	671	—	(671)	95,855
Total current assets	108,828,807	13,416,240	7,174,095	(13,416,240)	116,002,902
NONCURRENT ASSETS:					
Investments	389,082	40,581,137	—	—	40,970,219
Loans, net of allowance for loan losses of \$3,575,490	9,147,286	—	—	—	9,147,286
Real estate available for sale	230,974	—	—	—	230,974
Other assets	187,202	—	—	—	187,202
Internal balances	(9,075,790)	11,387,457	(2,311,667)	—	—
Capital assets:					
Land	2,735,000	—	—	—	2,735,000
Building and improvements	12,343,590	—	—	—	12,343,590
Furniture and equipment	4,905,305	—	—	—	4,905,305
Less accumulated depreciation and amortization	(12,827,427)	—	—	—	(12,827,427)
Total capital assets	7,156,468	—	—	—	7,156,468
Total noncurrent assets	8,035,222	51,968,594	(2,311,667)	—	57,692,149
Total assets	116,864,029	65,384,834	4,862,428	(13,416,240)	173,695,051
Deferred outflows of resources:					
Pension related	8,106,671	—	—	—	8,106,671
Other post employment benefit related	35,104	—	—	—	35,104
Total deferred outflow of resources	8,141,775	—	—	—	8,141,775
Total assets and deferred outflows of resources	\$ 125,005,804	65,384,834	4,862,428	(13,416,240)	181,836,826
LIABILITIES					
CURRENT LIABILITIES:					
Time deposits	\$ 158,932,754	—	—	(13,415,569)	145,517,185
Accrued interest payable	41,108	—	—	(671)	40,437
Accounts payable and accrued liabilities	1,396,118	—	—	—	1,396,118
Accounts payable - grants	—	—	4,862,428	—	4,862,428
Note payable	843,025	—	—	—	843,025
Pension liability	1,411,688	—	—	—	1,411,688
Other post employment benefit liability	35,804	—	—	—	35,804
Other liabilities	1,123,187	—	—	—	1,123,187
Total current liabilities	163,783,684	—	4,862,428	(13,416,240)	155,229,872
NONCURRENT LIABILITIES:					
Note payable	2,844,885	—	—	—	2,844,885
Pension liability	27,392,490	—	—	—	27,392,490
Other post employment benefit liability	394,621	—	—	—	394,621
Other liabilities	748,533	—	—	—	748,533
Total noncurrent liabilities	31,380,529	—	—	—	31,380,529
Total liabilities	195,164,213	—	4,862,428	(13,416,240)	186,610,401
Deferred inflows of resources - pension related	1,198,504	—	—	—	1,198,504
NET POSITION (DEFICIT):					
Net investment in capital assets	3,468,558	—	—	—	3,468,558
Restricted for special loan programs	4,328,124	—	—	—	4,328,124
Unrestricted (deficit)	(79,153,595)	65,384,834	—	—	(13,768,761)
Total net position (deficit)	(71,356,913)	65,384,834	—	—	(5,972,079)
Total liabilities, deferred inflows of resources and net position (deficit)	\$ 125,005,804	65,384,834	4,862,428	(13,416,240)	181,836,826

The accompanying notes are an integral part of these basic financial statements.

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenue, Expenses and Changes in Net Position (Deficit)

For the Year Ended June 30, 2022

	EDB Operating Fund	EDB Capital Investment	CDBG-DR SBF Program	Eliminations	Total
OPERATING REVENUE:					
INTEREST INCOME:					
Loans	\$ 1,596,289	—	—	—	1,596,289
Investments	117,536	—	—	—	117,536
Deposits with other banks and commercial paper	58,804	20,475	—	(20,475)	58,804
Total interest income	1,772,629	20,475	—	(20,475)	1,772,629
NONINTEREST INCOME					
Net realized and unrealized gain on investments	1,108	2,990,655	—	—	2,991,763
Investment income	339	644,874	—	—	645,213
Grants revenue	—	—	67,493,150	—	67,493,150
Other income	661,280	—	—	(26,208)	635,072
Total noninterest income	662,727	3,635,529	67,493,150	(26,208)	71,765,198
Total operating revenue	2,435,356	3,656,004	67,493,150	(46,683)	73,537,827
OPERATING EXPENSE:					
Recovery of loan losses	(1,300,000)	—	—	—	(1,300,000)
INTEREST EXPENSE:					
Time deposits	255,283	—	—	(20,475)	234,808
Promissory note payable	272,514	—	—	—	272,514
Total interest expense	527,797	—	—	(20,475)	507,322
NONINTEREST EXPENSES:					
Salaries and employee benefits	2,291,178	—	2,593,512	—	4,884,690
Pension and other post employment benefits credit adjustments	2,865,589	—	—	—	2,865,589
Grants expenditures	—	—	64,654,049	—	64,654,049
Depreciation and amortization	413,653	—	—	—	413,653
Occupancy and related expenses	350,383	—	—	—	350,383
Professional fees	507,593	26,208	—	(26,208)	507,593
Advertising	73,726	—	—	—	73,726
Other	1,502,920	—	245,589	—	1,748,509
Total noninterest expenses	8,005,042	26,208	67,493,150	(26,208)	75,498,192
Total operating expenses	7,232,839	26,208	67,493,150	(46,683)	74,705,514
Net changes in net position (deficit)	(4,797,483)	3,629,796	—	—	(1,167,687)
TOTAL NET POSITION (DEFICIT), beginning of year	(66,559,430)	61,755,038	—	—	(4,804,392)
TOTAL NET POSITION (DEFICIT), end of year	\$ (71,356,913)	65,384,834	—	—	(5,972,079)

The accompanying notes are an integral part of these basic financial statements.

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows

For the Year Ended June 30, 2022

	EDB Operating Fund	EDB Capital Investment	CDBG-DR SBF Program	Eliminations	Total
Cash flows from operating activities:					
Cash payments for goods and services	\$ (2,891,942)	(26,209)	(245,589)	26,209	(3,137,531)
Cash payments to employees	(4,443,263)	—	(2,593,512)	—	(7,036,775)
Other operating income/(expenses)	516,535	644,875	67,493,150	(26,209)	68,628,351
Payment of interest	(556,009)	—	—	20,475	(535,534)
Grants expenditures	—	—	(64,654,049)	—	(64,654,049)
Cash received from principal collections on loans	3,301,627	—	—	—	3,301,627
Cash received from interest collections on loans	1,754,658	20,475	—	(20,475)	1,754,658
Cash disbursed for loan originations	(1,910,373)	—	—	—	(1,910,373)
Net cash (used in)/provided by operating activities	(4,228,767)	639,141	—	—	(3,589,626)
Cash flows from non-capital financing activities:					
Net increase/(decrease) in time deposits	11,543,126	—	—	(11,397,497)	145,629
Net cash provided by noncapital financing activities	11,543,126	—	—	(11,397,497)	145,629
Cash flows from capital and related financing activities:					
Acquisition of capital assets	(161,245)	—	—	—	(161,245)
Principal payment on note payable	(795,306)	—	—	—	(795,306)
Net cash used in capital and related financing activities	(956,551)	—	—	—	(956,551)
Cash flows from investing activities:					
Capital contribution to external investment pools	—	(1,700,000)	—	—	(1,700,000)
Principal collections and maturities of investments	67,598	12,458,356	—	—	12,525,954
Interest bearing deposits with other banks	—	(11,397,497)	—	11,397,497	—
Proceeds from sales of foreclosed assets	2,009,084	—	—	—	2,009,084
Net cash provided by investing activities	2,076,682	(639,141)	—	11,397,497	12,835,038
Net change in cash and cash equivalents	8,434,490	—	—	—	8,434,490
CASH AND CASH EQUIVALENTS, beginning of year	97,412,061	—	—	—	97,412,061
CASH AND CASH EQUIVALENTS, end of year	\$ 105,846,551	—	—	—	105,846,551

(Continue)

The accompanying notes are integral part of these basic financial statements.

Economic Development Bank for Puerto Rico
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Statement of Cash Flows

For the Year Ended June 30, 2022

	<u>EDB Operating Fund</u>	<u>EDB Capital Investment</u>	<u>CDBG-DR SBF Program</u>	<u>Eliminations</u>	<u>Total</u>
Reconciliation of operating loss to net cash used in operating activities:					
Operating (loss) income	\$ (4,797,483)	3,629,796	—	—	(1,167,687)
Adjustments to reconcile operating loss to net cash used in operating activities:					
Depreciation and amortization	413,653	—	—	—	413,653
Net realized and unrealized gain on investments	(1,108)	(2,990,655)	—	—	(2,991,763)
Recovery of loan losses	(1,300,000)	—	—	—	(1,300,000)
Gain on sale of foreclosed assets	(145,084)	—	—	—	(145,084)
Changes in assets and liabilities that increase (decrease) cash flows from operating activities:					
Interest receivable on loans	(17,971)	—	—	—	(17,971)
Other assets	112,455	—	—	—	112,455
Interest expense	(28,212)	—	—	—	(28,212)
Loans receivable	1,391,254	—	—	—	1,391,254
Total pension liability	1,311,148	—	—	—	1,311,148
Other liabilities	(1,167,419)	—	—	—	(1,167,419)
Net cash (used in) provided by operating activities	<u>\$ (4,228,767)</u>	<u>639,141</u>	<u>—</u>	<u>—</u>	<u>(3,589,626)</u>
Supplemental cash flows information and noncash transactions:					
Increase in fair value of investments	<u>\$ (1,108)</u>	<u>(2,990,655)</u>	<u>—</u>	<u>—</u>	<u>(2,991,763)</u>
Loans written-off	<u>\$ 239,924</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>239,924</u>

(Concluded)

The accompanying notes are an integral part of these basic financial statements.

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

For the Year Ended June 30, 2022

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Economic Development Bank for Puerto Rico (the Bank)** was created by the Puerto Rico Development Bank Act No. 22 of July 24, 1985, as amended, and constitutes a public corporation of the Commonwealth of Puerto Rico (the Commonwealth). The Bank is a component unit included in the Commonwealth's financial reporting entity and is a separate legal entity. The Bank promotes the development of the private sector of the economy of Puerto Rico. This is accomplished by making direct loans, loan guarantees, loan participations, and/or direct investments available to any person or business organization devoted to manufacturing, agriculture, trade, tourism, or other service enterprises, whose economic activity may have the effect of substituting imports, without this being understood as a limitation.

The Bank's operation consisted principally in granting commercial loans and capital investments to small businesses, receiving deposits from other governmental or commercial financial institutions, issuing notes and other debts, and investing in securities and other financial instruments, similar to a private commercial bank. All revenues, such as interest, gains, dividends, and fees related to these activities, are presented as operating income. All expenses related to these revenue activities, such as interest expense, provision for losses, and administrative expenses, are considered operating expenses. For financial statements presentation, operating revenues are segregated between interest income and noninterest income, and operating expenses between interest expenses, and noninterest expenses.

The Bank is not required to pay any taxes on any assets acquired or to be acquired for its operations or activities, or on the revenues received from any of its operations or activities.

In 2006, the Bank's board of directors created a component unit named Economic Development Bank Capital Investment (EDBCI). EDBCI is a blended component unit of the Bank, which is presented as another enterprise fund. The balances and transactions of EDBCI have been blended with the Bank in accordance with U.S. generally accepted accounting principles (GAAP) because, though legally separated, it was created and can be dissolved through resolutions of the Bank's board of directors. The board of directors of EDBCI is the same as that of the Bank. EDBCI operation consists only of supporting the Bank's mission in promoting the development of the private sector of the economy of Puerto Rico, investing in equity and other forms of capital of start-up, early, or later stage local enterprises or venture capital funds.

In October 2016, the Bank created a component unit named Economic Development Bank Insurance Agency (EDBIA). EDBIA is a blended component unit of the Bank. The balances and transactions of EDBIA have been blended with the Bank in accordance with GAAP because, though legally separated, it was created and can be dissolved through resolutions of the Bank's board of directors. The board of directors of EDBIA is the same as that of the Bank. EDBIA operation consists only of supporting the Bank's mission in promoting the development of the private sector of the economy of Puerto Rico. In February 2017, EDBIA received the broker certification to become the insurance agency of local insurance producers. A separate enterprise fund for EDBIA is not presented given the immateriality of its balances and activities.

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Notes to Basic Financial Statements

For the Year Ended June 30, 2022

In June 2020, the Bank pursuant to a subrecipient agreement signed in March 2020, started its participation in the Government of Puerto Rico Disaster Recovery Action Plan for the use of Community Development Block Grant-Disaster Recovery-Small Business Financing (CDBG-DR SBF Program) funds covering various years through 2032, awarded by the U.S Government in response to the impact of Hurricanes Irma and María. The Bank as subrecipient, is working on the small business financing program, which provides up to \$50,000 in grants to small businesses that incurred losses due to Hurricanes Irma and María in 2017. The program is aligned to eligible CDBG-DR SBF Program activities in the economic development and job creation or retention course of action from the Puerto Rico Recovery Plan. In July 2020, a separate fund for CDBG-DR SBF Program was created and presented as a blended component unit of the Bank, to present separated its balances and activities during the year. Refer to Note 13 to the basic financial statements.

The accounting policies followed by the Bank are in accordance with GAAP, as applicable to governmental entities as prescribed by the Governmental Accounting Standards Board (GASB). The activities of the Bank are accounted for in an enterprise fund. Accordingly, the Bank follows the accrual basis of accounting and the economic resources measurement focus. Revenue is recognized when earned, regardless of when received, and expenses are recognized when incurred, regardless of when paid. The most significant accounting policies follow:

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates include the allowance for loan losses and foreclosed assets, the valuation of investments, impairment of investments and capital assets, liability on loan guarantees, accruals for legal claims and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Cash and Cash Equivalents and Short-Term Investments – The Bank considers highly liquid investments with original maturities of three months or less from the date of acquisition to be cash equivalents.

Investments - The Bank follows GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This Statement establishes accounting and financial reporting standards for all investments held by governmental external investment pools. For most other governmental entities, it requires that most investments be reported at fair value in the Statement of Net Position (Deficit).

The governing board authorizes the Bank to invest in the following:

- U.S. government and agencies obligations
- Obligations of the Commonwealth, its agencies, municipalities, public corporations, and instrumentalities
- Certificates and time deposits
- Commercial paper
- Bankers' acceptance
- Federal funds

Economic Development Bank for Puerto Rico
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Notes to Basic Financial Statements

For the Year Ended June 30, 2022

- Securities purchased under agreements to resell
- Mortgage-backed and asset-backed securities
- Corporate notes
- External investment pools

The Bank's investment policies also establish limitations and other guidelines on amounts to be invested in the investment categories. Such policies provide the requirements in the institutions with which investment transactions can be entered into. In addition to the Assets and Liabilities Committee (ALCO), the Board of Directors of the Bank may approve, as necessary, other transactions that the Bank may enter into.

Investments in debt securities are presented at fair value. Money market investments and investment contracts with a remaining maturity at time of purchase of one year or less are presented at amortized cost. Changes in the fair value of investments are presented in net realized and unrealized gains (losses) on investments in the statement of revenue, expenses, and changes in net position (deficit). Fair value is determined based on quoted market prices.

Investments also include common and preferred stocks of various local enterprises that do not have readily determinable fair value as well as investment positions in external investment pools. The investments in common and preferred stocks are temporary and the Bank generally does not have the ability to exercise significant influence over the investees' operating and financial policies, and therefore, such investments are carried at the lower of cost or net realizable value based on management's evaluation of the financial condition of each investee. Because of uncertainties inherent in the estimation process, management's evaluation of the financial condition of the investees and the related assessment of net realizable value may change in the near term.

Investment positions in external investment pools are reported at the net asset value of the shares held by the Bank. Such net asset value represents the estimated fair value per share of the pools' underlying net assets. The financial statements of these pools include securities whose fair values have been estimated by the pools' managers in the absence of readily ascertainable market values. The Bank's external investment pools that are not registered with the Securities and Exchange Commission are supervised by the Commissioner of Financial Institutions, which is the governmental agency that regulates venture capital funds and the banking industry in Puerto Rico.

Fair Value Measurements - GASB Statement No. 72 *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: (i) the market approach, (ii) the cost approach, or (iii) the income approach. This Statement also establishes a hierarchy of inputs to valuation techniques used to measure fair value. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuations are observable. In determining the level of hierarchy in which the estimate is disclosed, the highest level, Level 1, is given to unadjusted quoted prices in active markets and the lowest level, Level 3, to unobservable inputs.

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Notes to Basic Financial Statements

For the Year Ended June 30, 2022

Level 1 – inputs whose values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs whose values are based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model derived valuations in which all significant inputs are observable.

Level 3 – inputs are unobservable inputs for asset or liability and may require a degree of professional judgment.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Bank's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each investment. Investments measured at Net Asset Value (NAV) as a practical expedient for fair value are not subject to level classification. Refer to Notes 4 and 9 to the basic financial statements for further details.

Loans - Loans are presented at the unpaid principal balance reduced by the allowance for loan losses, and any deferred fees or costs on originated loans. In accordance with the Bank's charge-off policy approved in February 2012, unsecured loans are charged off against the allowance for loans losses within 60 days after they have payments due over 120 days. For collateralized loans, charge-offs are recognized for the amount of collateral deficiency within 60 days after they have payments due over 180 days. Although one of the factors evaluated by management in making this assessment is the number of days past due, the policy also allows the Bank to charge-off loans when special circumstances arise and upon the approval of the corresponding level of authority. Recoveries of loans previously charged off are credited to the allowance for loan losses.

The accrual of interest on loans ceases when loans become past due 90 days or more and/or on those loans undergoing judicial or bankruptcy proceedings. Once a loan is placed on nonaccrual status, all accrued but uncollected interest is reversed from interest income. Interest on all nonaccrual loans is thereafter included in earnings only to the extent actually collected. Loans designated as non-accruing are not returned to an accrual status until interest and principal are received on a current basis and those factors indicative of doubtful collection cease to exist.

Collections received for nonaccrual loans are applied, for financial statement purposes, to principal owed. The change in payment application for nonaccrual loans is intended to reduce the recorded exposure to losses as well as the related required levels of the allowance for loan losses. Delinquency history and collection efforts are monitored in accordance to the full accrual amortization schedule of the loan.

The allowance for loan losses is maintained at a level believed adequate by management to absorb potential losses in the loan portfolio. Management's determination of the adequacy of the allowance for loan losses is based on an evaluation of the portfolio, past loan loss experience, economic conditions, volume growth, composition of the loan portfolio, and other relevant factors. Allowances for impaired loans are generally determined based on the present value of estimated cash flows, except for collateral dependent loans, which are estimated based on the fair value of collateral, less cost to sell, when applicable. Changes in the allowance for loan losses relating to impaired loans are charged or credited to the provision for loan losses. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the loan portfolio, and the related allowance may change in the near term.

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Notes to Basic Financial Statements

For the Year Ended June 30, 2022

Classification of Loans and Allowance for Loan Losses - The current portion of loans includes the active principal of loans with maturities of one year or less and past due over three months and/or those loans undergoing judicial or bankruptcy proceedings. Also, these include the estimated current portion of loans with maturity over one year. The resulting difference was reported as the noncurrent portion. The allowance for loan losses was allocated between current and noncurrent proportionally based on the loan classification.

Loan Guarantee Program - Guarantee fees on the loan guarantee program are recognized as income when the fees are collected. Such fees are estimated not to exceed related guarantee expenses. The liability for guaranteed obligations is based on management's evaluation of the potential loss on each guarantee, net of amounts recoverable from collateral and the share of loss of the participating banks and is included in other liabilities. Because of uncertainties inherent in the estimation process, management's estimate of the allowance for losses on loan guarantees, and the related accrual for losses on loan guarantees may change in the near term.

Real Estate Available for Sale - Real estate available for sale comprises properties acquired in satisfaction of loans. Properties acquired through foreclosure are transferred to real estate available for sale and recognized at the lower of fair value minus estimated costs to sell or loan's carrying value, establishing a new cost basis. Subsequent declines in the value of real estate available for sale are provided for when it is probable the cost will not be recovered and that a loss will be incurred. An allowance for losses on real estate available for sale is maintained for subsequent valuation adjustments on a specific property basis.

Capital Assets - Capital assets are defined by the Bank as assets with an individual initial cost of over \$500 and expected useful lives of over one year. Capital assets are stated at cost less accumulated depreciation and amortization. Depreciation is computed on the straight-line basis over the estimated useful lives of the depreciable assets, which have been determined to be 3 years for computer software, 5 years for all furniture and equipment, and 40 years for building and improvements. Expenditures for major improvements that extend the useful life of the asset are capitalized. Maintenance and repairs, which do not improve or extend the life of the respective assets are charged to expense as incurred.

Accounting for Compensated Absences - The employees of the Bank earn 24 days of vacation and 18 days of sick leave annually. Vacation may be accumulated up to a maximum of 60 days, respectively. In the event of employee resignation, an employee is paid for accumulated vacation days up to the maximum allowed (nothing is paid for accumulated sick leave days). An additional amount is accrued for certain salary related benefits associated with the payment of compensated absences. Such amounts are included in other liabilities in the accompanying financial statements.

Statement of Cash Flows - For purposes of reporting cash flows, cash includes cash on hand, amounts due from banks, items in process of collection and cash equivalents.

Deferred Outflows/ Inflows of Resources - In addition to assets, the Statement of Net Position (Deficit) reports a separate section for deferred outflows of resources. This separate financial statement element represents an increase in net position (a consumption of assets) applicable to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. On the Bank's financial statements there are two major captions that qualify for reporting in this category: (i) pension related items and (ii) other postemployment benefit related items. Of the pension related items (further disclosed in Note 17 to the basic financial statements), changes in proportion are recognized

Economic Development Bank for Puerto Rico
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Notes to Basic Financial Statements

For the Year Ended June 30, 2022

over the average of the expected remaining service lives of all plan members, which is 5 years for 2022. Pension benefit payments made subsequent to the measurement date will be recognized as a reduction of the total pension liability after the next measurement date. Of the other postemployment benefit related items (further disclosed in Note 18 to the basic financial statements), only other postemployment benefit payments made subsequent to the measurement date are presented as a deferred outflow item, which will be recognized as a reduction of the total other postemployment liability after the next measurement date.

In addition to liabilities, the Statement of Net Position (Deficit) reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position and resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. On the Bank's financial statements there is one major caption that qualifies for reporting in this category, which consists of pension related items. With respect to the pension related items (further disclosed in Note 17 to the basic financial statements), changes in assumptions and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants.

Accounting for Pension Costs - As further disclosed in Note 17 to the basic financial statements, effective July 1, 2017, a new "pay-as-you-go" (PayGo) system was enacted into law by Act No. 106 of 2017 (Act 106-2017), significantly reforming the defined benefit pension plan (the Plan) of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). Under the PayGo system, employers' contributions and other contributions ordered by special laws were all eliminated and substantially all assets of the Plan were liquidated and its proceeds transferred to the Commonwealth's General Fund for payment of pension benefits; therefore, since the enactment of Act 106-2017, the Commonwealth's General Fund is making direct payments to the pensioners and obtains reimbursement for those payments by the participating employers.

As a result of the implementation of the PayGo system, the Plan did no longer meet the criteria in paragraph 4 of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*. GASB Statement No. 73 maintains the "accrual basis" model under GASB Statement No. 68, where the Total Pension Liability is actuarially determined. GASB Statement No. 73 requires a liability for pension obligations, known as the Total Pension Liability, to be recognized on the balance sheets of participating employers. Changes in Total Pension Liability are immediately recognized as pension expenses. As Act 106-2017 eliminated all contribution requirements for the Plan and converted it into a PayGo system, the corresponding actuarial calculation of the total pension liability and related accounts changed to one based on benefit payments rather than contributions. As a result, the Bank recognized a Total Pension Liability (replacing the previously recognized Net Pension Liability and related accounts under the previous method) and pension expenses, accordingly. As the change to the PayGo system was caused by the impact of legislation not under the Commonwealth's management control and the actuarial calculation changed from one based on contributions to a new one based on benefit payments under the new PayGo system, the impact on all corresponding pension related accounts was accounted for prospectively. Further details on the accounting for pension costs and the impact of its adoption are disclosed in Note 17 to the basic financial statements.

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Notes to Basic Financial Statements

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Under the guidance of GASB Statement No. 73, the Commonwealth and its component units are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan. Other employers also participate in the Plan. Because certain employers that are component units of the Commonwealth, such as the Bank, prepare individual financial statements, a proportionate share of pension related amounts is determined for these employers. GASB Statement No. 73 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

Accounting for Postemployment Benefits Other than Pensions - The Bank accounts for postemployment benefit costs other than pensions (OPEB) under the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*, which also requires additional reporting and disclosures for OPEB benefits provided through the Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employees' Retirement Plan (ERS-OPEB).

GASB Statement No. 75 employs an "accrual basis" model, where the total OPEB obligation (actuarially determined) is compared to the plan net position and the difference represents the Net OPEB Liability (Total OPEB Liability for unfunded plans). Changes in the Net OPEB Liability (Total OPEB Liability for unfunded plans) are immediately recognized as OPEB expenses. As a result, the Bank recognized an OPEB liability and OPEB expenses, for the medical insurance benefits provided through the ERS-OPEB. Further details on the accounting for OPEB costs and the impact of its adoption are disclosed in Note 18 to the basic financial statements.

Recently Adopted Accounting Standards Update

On July 1, 2021, the Bank adopted the following new statements of financial accounting standards issued by the GASB:

GASB Statement No. 87, *Leases*. The statement establishes a uniform approach for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement applies to contracts that convey the right to use a non-financial asset in an exchange or exchange like transaction for a term exceeding 12 months. Examples of non-financial assets including buildings, land and equipment. Lessees are required to recognize a lease liability and an intangible right-to-use asset, and lessors are required to recognize a lease receivable and a deferred inflow of resources. The new leases standard also requires enhanced disclosure which include a general description of the leasing arrangement, the aggregated amount of resource inflows and outflows recognized from lease contracts, including those not included in the measurement of the lease liability and receivable, and the disclosure of the long-term effect of lease arrangements on a government's resources. On July 1, 2021, management evaluated the Bank's arrangements for operating leases related to office space as a lessor and determined that the adoption of GASB No. 87 did not have a material effect on the Bank's basic financial statements. Therefore, the Bank continues accounting for its leases under the former accounting guidance and lease payments related to office space are generally recorded as income using the straight-line method.

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GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The statement establishes accounting requirements for interest cost incurred before the end of a construction period and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period is not capitalized and included in the historical cost of a capital asset. The adoption of this statement had no impact on the Bank's financial statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The statement establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates (IBOR) such as London Interbank Offered Rate (LIBOR) for hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for certain hedging derivative instruments. The adoption of this statement had no impact on the Bank's financial statements.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The statement clarifies component unit criteria for a potential component unit in the absence of a governing board in determining financial accountability; limits the applicability of financial burden criteria in paragraph 7 of GASB Statement No. 84; and classifies Section 457 Deferred Compensation plans as either a pension plan or other employee benefit plan. The adoption of this statement had no impact on the Bank's financial statements.

GASB Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term Annual Comprehensive Financial Report and its acronym ACFR. The new term replaces Comprehensive Annual Financial Report and its acronym in generally accepted accounting principles for state and local governments. The adoption of this statement had no impact on the Bank's financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

The GASB has issued the following accounting pronouncements that have effective dates after June 30, 2022. Management is evaluating the impact that these statements will have on the Bank's basic financial statements.

GASB Statement No. 91, *Conduit Debt Obligations* (GASB Statement No. 91), which is effective for periods beginning after December 15, 2021 (as postponed by GASB Statement No. 95), provides a single method for government issuers to report conduit debt obligations and related commitments. GASB Statement No. 91 addresses the variation in practice by: clarifying what is a conduit debt obligation; eliminating the option for government issuers to recognize conduit debt obligations, thereby providing a single method of reporting; broadening the definition of conduit debt obligations to include those for which government issuers make related additional commitments, such as guarantees or moral obligation pledges, or voluntarily agree to make debt service payments or request an appropriation for such payments, if necessary; clarifying how government issuers should account for and report commitments they extend or voluntarily provide, and arrangements associated with conduit debt obligations, which often are characterized in practice as leases, but are not leases for financial reporting purposes; and enhancing note disclosures. Although government issuers will no longer report conduit debt obligations as liabilities, they may need to recognize a liability related to commitments they make or voluntarily provide associated with that conduit debt. GASB Statement No. 91 requires a government issuer to recognize a liability if qualitative factors indicate that is more likely than not that it will support one or more debt service payments for a conduit debt obligation.

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GASB Statement No. 94, *Public-Private and Public-Public Partnership and Availability Payment Arrangement* (GASB Statement No. 94), which is effective for fiscal years beginning after June 15, 2022 and all reporting periods, thereafter, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs).

A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs are service concession arrangements (SCA), in which the operator collects and is compensated by fees from third parties; the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services, and the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

Some PPPs may meet the definition of a lease, in which GASB Statement No. 87 should be followed, if the existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of a SCA.

The PPP term is defined as the period during which the operator has a noncancellable right to use an underlying PPP asset, plus, if applicable, certain periods if it is reasonably certain, based on all relevant factors, that the transferor or the operator either will exercise an option to extend the PPP or will not exercise an option to terminate the PPP.

The accounting for a PPP is generally that the transferor should recognize an underlying PPP asset as an asset in financial statements using full accrual method. There are instances where a receivable should be recorded rather than an underlying PPP asset. Revenue should be recognized by a transferor in a systematic and rational manner over the PPP term. Governmental fund revenue is recognized in a systematic and rational method over the life of the receivable when a receivable is recorded. If the government is the operator of the PPP, the full accrual method requires an intangible right to use asset be recorded. Certain limitations do apply.

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

GASB Statement No. 99, *Omnibus 2022*, which establishes or amends accounting and financial reporting requirements for specific issues related to 1) the transition from the London Interbank Offered Rate (LIBOR), the Supplemental Nutrition Assistance Program (SNAP) (formerly, food stamps), nonmonetary transactions, pledges of future revenues, the focus of government-wide financial statements, and terminology which is effective immediately and had not impact on the Bank's financial statements; 2) leases, public-public and public-private partnerships (PPPs), subscription based

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information technology arrangements (SBITAs) which is effective for fiscal years beginning after June 15, 2022 and all reporting periods, thereafter; and 3) financial guarantees and the classification and reporting of derivative instruments which is effective for fiscal years beginning after June 15, 2023 and all reporting periods, thereafter.

GASB Statement No. 100 Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62 (GASB Statement No. 100), which is effective for fiscal years beginning after June 15, 2023 and all reporting periods, thereafter, enhances accounting and financial reporting requirements for accounting changes and error corrections to provide understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period.

GASB Statement No. 101 Compensated Absences (GASB Statement No. 101), which is effective for fiscal years beginning after December 15, 2023, 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.

A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

2. GOING CONCERN

For many years the Bank and the Commonwealth faced a fiscal, economic and liquidity crisis, which resulted in significant governmental deficits, an economic recession that started in 2006, liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations that adversely affected their credit ratings and ability to obtain financing at reasonable interest rates. In addition to these factors, the investments held by the Bank declined in value and the Bank operated only on the interest income generated by its loan portfolio. This posed a difficult liquidity situation for the Bank because, due to the high default rate on its loan portfolio, its ability to raise cash through loan repayments was limited. Then, as a result and in looking for additional sources of liquidity,

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the Bank began executing in 2017 the strategy of monetizing most of its legacy loan portfolio to third parties. However, such sales, although providing some temporary liquidity relief, have also contributed to a significant reduction in its loan portfolio, therefore, extinguishing most of the interest income being generated by such loan base and jeopardizing the operational feasibility of the Bank. This combination of events also curtailed the ability of the Bank to honor and repay the deposits held at the Bank by its depositors.

Pursuant to PROMESA and the establishment of the Oversight Board on June 30, 2016, the United States Congress provided a mechanism to allow for the fiscal and economic discipline that ultimately resulted in the orderly restructuring of the Commonwealth obligations. After years of extensive litigation with creditors, on October 26, 2021, the Commonwealth enacted the Law to End the Bankruptcy of Puerto Rico (Law 53) to, among other things, approve the issuance of the New General Obligation Bonds and Contingent Value Instruments (CVIs) necessary to implement the restructuring transactions contemplated in the Seventh Amended Plan of Adjustment, subject to certain amendments that would preserve pension benefits. The Title III Court confirmed an amended version of the plan on January 18, 2022, and it became effective on March 15, 2022. On that date, the Commonwealth emerged from Title III of PROMESA.

As discussed in more detail in Management's Future Plans section, in 2023 the Bank was appointed as manager and administrator of the State Small Business Credit Initiative. Under this initiative the Bank will manage \$109 million approximately to be distributed to eligible participants through two programs, the Collateral Support Program and the Loan Participation Program.

On July 18, 2022, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) submitted to the Financial Oversight and Management Board for Puerto Rico an authorization request pursuant to Section 207 of PROMESA related to the Bank's proposed "Settlement Agreement" with Government Development Bank for Puerto Rico (GDB). In this agreement, the Bank will make a one-time payment to GDB in the amount of \$3,100,000 in full and final satisfaction of the outstanding EDB deposit amount of \$35,406,146 at June 30, 2021. This settlement agreement was approved by Financial Oversight and Management Board for Puerto Rico on September 21, 2022. As a result, the Bank signed on September 28, 2022 the "Settlement Agreement" with GDB and made the required payment of \$3,100,000 on the same date.

On July 17, 2023, the Financial Oversight and Management Board for Puerto Rico approved a settlement agreement between the Bank and various government entities over certain deposits at the Bank. Pursuant to the Proposed Debt Transaction, the Bank shall make (i) a one-time cash payment of \$9.7 million in full settlement and satisfaction of \$110.4 million in unsecured deposit claims across 17 government entities at a recovery rate of 8.75%, and (ii) a \$3.7 million principal payment (plus accrued interest) in satisfaction in full of a senior secured mortgage loan owed by the Bank to the GDB Debt Recovery Authority. Now the Bank is in the process of performing the settlement negotiations and approvals with all 17 deposit claimants. The Proposed Debt Transaction is intended to be the final step in the process of restructure the Bank financial liabilities and pave the way to achieve long-term financial stability.

Notwithstanding the circumstances existing on June 30, 2022, based on subsequent events, explained above, that improved the Bank's financial condition and addressed its liabilities, management does not believe there is substantial doubt about the Bank's ability to continue as a going concern as of the date of these basic financial statements.

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Management's Future Plans

Strategic Plan - The Bank is working on a strategic business plan for the next five years with new business strategies aimed at improving their operations. As part of their strategic business plan, on February 8, 2023 the Bank was approved an application for the participation in the State Small Business Credit Initiative (SSBCI). The SSBCI is a federal funds program, re-approved under the American Rescue Plan Act of 2021, that aims to empower small businesses to access capital needed to invest in job-creating opportunities as the country emerges from the pandemic. On February 8, 2023, the allocation agreement that establishes the terms and conditions was formalized by the U.S. Department of Treasury and the Commonwealth of Puerto Rico (Participating Jurisdiction). On March 10, 2023 an interagency agreement between the Bank and The Puerto Rico Department of Treasury was formalized. In this agreement the Bank was appointed as manager and administrator of the program and funds allocated to the Puerto Rico jurisdiction. Under this program, Puerto Rico was assigned up to \$109 million. Refer to Note 22 to the basic financial statements.

Other initiatives contemplated in the strategic business plan is a layered guarantee program. The Bank seeks to increase the guarantees that certain federal agencies offer, such as Small Business Administration (SBA), to increase the current approval rates and thus, the amounts of loans disbursed to the economy.

Government Sponsored Initiatives - The Bank is having a direct participation in the Government of Puerto Rico Disaster Recovery Action Plan for the use of CDBG-DR SBF Program funds, estimated in approximately \$10 billion (grand total for Puerto Rico), awarded by the U.S Government in response to the Hurricanes Irma and María. The Bank as a subrecipient, is working on the small business financing program, which provides up to \$50,000 grants to small businesses that incurred in losses due to Hurricanes Irma and María in 2017. The program is aligned to eligible CDBG-DR SBF Program activities in the economic development and job creation or retention course of action from the Puerto Rico Recovery Plan. The Bank will benefit by recovering costs involved in deploying the program. The Bank is evaluating other opportunities to define the Bank's role and future operations within the current economic and fiscal government environment.

The Bank has evaluated these conditions and determined that the strategic plan and government sponsored initiatives would help the Bank raise income and profitability. The Commonwealth's improved financial condition and how addressed its liabilities would also aid in the Bank's ability to continue as a going concern. The Bank believes that actions described above provide an opportunity for the Bank to continue as a going concern.

3. CASH AND CASH EQUIVALENTS

The Bank's policies for deposits placed with banks establish maximum exposure limits for each institution based on the institution capital, financial condition and credit rating assigned by nationally recognized rating agencies. At June 30, 2022, the Bank's cash and cash equivalents consist primarily of United States government securities with maturities of less than three months, Federal Deposit Insurance Corporation (FDIC) insured money markets and cash.

Custodial credit risk is the risk that in the event of a financial institution failure, the Bank will not be able to recover its deposits. The Commonwealth requires that public funds deposited in commercial banks

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in Puerto Rico must be fully collateralized for the amount deposited in excess of the federal depository insurance of \$250,000 with securities that are pledged with the Department of the Treasury. The Bank does not have a formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico.

The table presented below discloses the level of custodial credit risk assumed by the Bank at June 30, 2022.

Description	Carrying Amount	Depository Bank Balance	Amount Uninsured and Uncollateralized
Cash and due from banks	\$ 97,344,111	98,044,829	1,032,892
Interest-bearing deposits with banks	8,502,440	8,502,526	—
Total cash and cash equivalents	\$ 105,846,551	106,547,355	1,032,892

At June 30, 2022, the Bank had cash equivalents amounting to \$72,866,185.

4. INVESTMENTS

The Bank's investments held at June 30, 2022, are summarized in the following table:

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Municipal bond	\$ 389,082	18
External investment pools	40,581,137	N/A
Total fair value	\$ 40,970,219	

Credit Risk - Issuer credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Bank's investment policy limits long-term investment in corporate debt to the top three ratings issued by nationally recognized statistical rating organizations, and short-term investments in corporate debt to the top two ratings issued by nationally recognized statistical rating organizations.

Custodial Credit Risk - Custodial credit risk related to investments is the risk that, in the event of failure of the counterparty to a transaction, the Bank may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2022, the custody of the investments is held by the trust departments of commercial banks in the name of the Bank and the portfolios are managed by brokerage firms.

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The Bank was exposed to the following custodial credit risk for investments held at June 30, 2022:

Uninsured and registered, with securities held by the counterparty's trust department or agent in the Bank's name	\$ 389,082
Uninsured and unregistered, with securities held by the Bank	<u>40,581,137</u>
Total	<u>\$ 40,970,219</u>

Interest Rate Risk -In accordance with its investment policy, the Bank manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio generally to less than three years.

Investments in external investment pools and equity securities are not subject to the maximum maturity policy since they do not have a maturity date. These instruments are not sold on secondary markets and are not priced in any stock exchange, and as such, its fair value depends on the performance of the involved enterprises. The inherent risk in these investments is managed through credit analysis, periodic reviews of results of operations, and meetings with subject companies and investment pools managers.

At June 30, 2022, the Bank did not have variable rate interest investments outstanding.

The Bank, through EDBCI, also invests in venture capital through external investment pools and through direct investment in equity securities. The Bank's investments in external investment pools and equity securities are not rated by a nationally recognized statistical rating organization. The related credit risk is measured through credit analysis, periodic reviews of results of operations, and meetings with subject companies' management. In addition, an allowance for possible losses in venture capital investments is recorded as a measure of providing a fair value in the financial statements.

As of June 30, 2022, the venture capital balances consist of the following:

External investment pools	\$ 40,581,137
Equity investments	<u>4,974,000</u>
	45,555,137
Allowance for possible losses in venture capital investments	<u>(4,974,000)</u>
Fair value of venture capital investments	<u>\$ 40,581,137</u>

The investment strategy of the external investment pools is to seek companies in or outside Puerto Rico that require capital growth or seed capital. The investment recipients must have operations in Puerto Rico. The current investments on external investment pools are on different investment stages of their life cycle. Some of the funds continue evaluating new investment alternatives and others are in its sell-off stage.

In accordance with the partnership agreements for each of the external investment pools, the Bank's investments can only be redeemed upon distribution from fund managers; usually in the form of a sale of its holdings or dividends distributed. The assets held by the funds in sell-off stage should be liquidated within the next three years; whereas the assets held by investment stage funds will take from seven to ten years for liquidation, as expected per its respective partnership agreements. As of June 30, 2022,

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the Bank does not intend to sell or redeem investments in any external investment pool for an amount different to that presented in the financial statements.

Concentration of Credit Risk - The Bank places no limit on the amount it may invest in any one issuer as a percentage of the investment portfolio. As of June 30, 2022, 99% of the Bank's investments are in venture capital.

Sale of Investments - No sales of investments took place during the year ended June 30, 2022.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans outstanding at June 30, 2022 have maturities that range from 2022 to 2052 and interest rates that range from 2.00% to 12.25%.

The reconciliation of loans with the Statement of Net Position (Deficit) as of June 30, 2022 is as follows:

Current portion	\$ 2,886,401
Noncurrent portion	<u>9,147,286</u>
Total loans, net	<u>\$ 12,033,687</u>

Loans distribution among industry sectors as of June 30, 2022 is as follows:

Agricultural	\$ 397,099
Commercial	1,674,673
Services	5,735,575
Manufacturing	762,890
Tourism	<u>8,413,537</u>
Total Loans	16,983,774
Allowance for loans losses	<u>(4,950,087)</u>
Total loans, net	<u>\$ 12,033,687</u>

The Bank has defined impaired loans as all loans with interest and/or principal past due over 90 days or more and other loans for which, based on current information, it is probable that the debtor will be unable to pay according to the contractual terms of the loan agreement. The Bank generally measures impairment based upon the present value of a loan's expected future cash flows, except where foreclosure or liquidation is probable or when the primary source of repayment is provided by collateral. In these circumstances, impairment is measured based upon the fair value of the collateral less estimated selling and disposal costs. The present value of a loan's expected future cash flows is calculated using the loan's effective interest rate based on the original contractual terms.

Cash payments received on impaired loans are recorded in accordance with the contractual terms of the loan. The principal portion of the payments is used to reduce the principal balance of the loan; the interest portion is recognized as interest income. When management believes that collectability of principal is doubtful, the interest portion may be applied to principal.

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At June 30, 2022, loan delinquency by industry sector was as follows:

	<u>0 – 30 Days</u>	<u>31 – 60 Days</u>	<u>61 – 90 Days</u>	<u>91+ Days</u>	<u>Outstanding Balance</u>
Agricultural	\$ 173,874	24,327	—	198,898	397,099
Commercial	1,531,589	16,829	22,609	103,646	1,674,673
Services	5,525,923	—	—	209,652	5,735,575
Manufacturing	214,291	6,525	—	542,074	762,890
Tourism	8,413,537	—	—	—	8,413,537
Total	<u>\$ 15,859,214</u>	<u>47,681</u>	<u>22,609</u>	<u>1,054,270</u>	<u>16,983,774</u>

The following is a summary of information on loans considered to be impaired in accordance with FASB-ASC subtopic 310-35-35 Receivables, as of June 30, 2022 and the related interest income for the year then ended:

Recorded investment in impaired loans not requiring an allowance for loan losses	\$ —
Recorded investment in impaired loans requiring an allowance for loan losses	12,066,413
Total recorded investment on impaired loans	<u>\$ 12,066,413</u>
Related valuation allowance	<u>\$ 4,608,449</u>
Average recorded investment on impaired loans	<u>\$ 9,838,000</u>
Interest income recognized	<u>\$ 1,296,584</u>

At June 30, 2022, loans on which the accrual of interest has been discontinued (cash basis loans), due to delinquency over 90 days and/or due to restructurings, amounted to \$3,774,515 (\$1,054,270 over 90 days and \$2,720,245 restructured loans). The additional interest income that would have been recorded if these loans had performed in accordance with their original terms is estimated at approximately \$348,600 during 2022. There were no other loans which the accrual of interest has been discontinued and of which terms have been extended that are not included in non-performing assets.

The balance of nonaccrual loans by industry sector at June 30, 2022, were as follows:

Agricultural	\$ 198,897
Commercial	103,646
Services	2,801,361
Manufacturing	542,074
Tourism	128,537
Total	<u>\$ 3,774,515</u>

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The balance of loans classified as troubled debt restructured by industry sector and the related effect in the allowance for loan losses at June 30, 2022 is as follows:

	<u>Principal</u>	<u>Allowance</u>
Agricultural	\$ —	—
Commercial	86,625	22,796
Services	3,210,849	1,358,632
Manufacturing	<u>514,454</u>	<u>514,454</u>
Total	<u>\$ 3,811,928</u>	<u>1,895,882</u>

The following table present the troubled debt restructuring modified during the year ended June 30, 2022:

	<u>Premodification</u>	<u>Postmodification</u>
Outstanding recorded investment	\$ 559,747	564,032
Number of contracts	1	1
Weighted average rate	8.00%	6.00%
Weighted average term (months)	96	54

Of the total troubled debt restructurings during 2022 no contracts defaulted after their modifications were processed.

The Bank maintains an allowance for loan losses at a level that management considers adequate to provide for probable losses based upon an evaluation of known and inherent risks. The Bank's methodology for estimating the allowance for loan losses includes the consideration of factors such as economic conditions, portfolio risk characteristics, prior loss experience, and results of periodic credit reviews of individual loans. While management uses available information estimating probable loan losses, future additions to the allowance may be required based on factors beyond the Bank's control. As of June 30, 2022, management established an allowance for loan losses based upon the risk characteristics of the loans outstanding and the payment history of loans.

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The following table presents the changes and the balance in the allowance for loan losses and the recorded investment in gross loans by industry sector and based on impairment method for the year ended June 30, 2022:

	Agricultural	Commercial	Services	Manufacturing	Tourism	Total
Allowance for loan losses:						
Beginning balance	\$ 284,692	295,875	1,246,659	603,984	2,715,381	5,146,591
Provision for loan losses	62,318	(219,755)	(1,083,505)	(85,173)	26,115	(1,300,000)
Loans charged-off as uncollectible	(192,483)	(9,609)	(25,560)	—	(12,272)	(239,924)
Recoveries	7,942	1,512	1,321,507	11,959	500	1,343,420
Ending balance	162,469	68,023	1,459,101	530,770	2,729,724	4,950,087
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	50,021	—	1,343,974	514,454	2,700,000	4,608,449
Collectively evaluated for impairment	112,448	68,023	115,127	16,316	29,724	341,638
Ending allowance	162,469	68,023	1,459,101	530,770	2,729,724	4,950,087
Loans:						
Individually evaluated for impairment	186,088	—	3,415,871	514,454	7,950,000	12,066,413
Collectively evaluated for impairment	211,011	1,674,673	2,319,704	248,436	463,537	4,917,361
Total loans balance	\$ 397,099	1,674,673	5,735,575	762,890	8,413,537	16,983,774

Allocations of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

In September 2018, the Bank sold various loans with a carrying value of approximately \$32.6 million, net of related allowance for loan losses of approximately \$49 million, which included an impairment adjustment related to this sale of approximately \$37.4 million made as of June 30, 2019, to properly reflect the carrying value based on the actual sale in the June 30, 2019 financial statements. This transaction has been subjected to numerous litigations questioning its validity. The majority of the remedies being requested are seeking to declare the loan sale null and consequently return all consideration received by the Bank, return all the loans sold to the buyers or arrive at an equivalent compensation, among other remedies. Most of these cases are still outstanding, in discovery proceedings and pending resolution. Refer to Note 15 to the basic financial statements for more details.

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6. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions / Reclassifications</u>	<u>Ending Balance</u>
Land	\$ 2,735,000	—	—	2,735,000
Building and improvements	12,229,465	114,125	—	12,343,590
Furniture and equipment	4,858,185	47,120	—	4,905,305
Total cost	19,822,650	161,245	—	19,983,895
Less accumulated depreciation and amortization:				
Building and improvements	(7,757,025)	(322,871)	—	(8,079,896)
Furniture and equipment	(4,656,749)	(90,782)	—	(4,747,531)
Total accumulated depreciation and amortization	(12,413,774)	(413,653)	—	(12,827,427)
Capital assets, net	\$ 7,408,876	(252,408)	—	7,156,468

The Bank's principal premises are partially rented to various lessees under lease terms expiring at various future dates. Rent revenue amounting to approximately \$468,100 was recorded as other income in the accompanying statement of revenue, expenses, and changes in net position for the year ended June 30, 2022. On July 1, 2021, management evaluated the Bank's arrangements for operating leases related to office space as a lessor and determined that the adoption of GASB No. 87 did not have a material effect on the Bank's basic financial statements and continue accounting for these leases under the former accounting guidance. Therefore, lease payments related to office space are generally recorded as income using the straight-line method.

At June 30, 2022, future minimum rental income is as follows:

2023	\$ 185,600
2024	156,100
2025	22,800
	<u>\$ 364,500</u>

7. REAL ESTATE AVAILABLE FOR SALE

Activity for real estate available for sale during the year ended June 30, 2022 was as follows:

Beginning balance	\$ 2,094,974
Additions	—
Sales	<u>(1,864,000)</u>
Ending balance	<u>\$ 230,974</u>

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8. OTHER ASSETS

As of June 30, 2022 other assets are mainly composed of the following:

Rent receivable	\$ 1,478
Other prepaid expenses	67,490
Other	<u>118,234</u>
Total other assets	<u>\$ 187,202</u>

9. FAIR VALUE MEASUREMENTS

The Bank follows the guidance of GASB Statement No. 72 *Fair Value Measurements and Application*. This guidance requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. This guidance establishes fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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The assets or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2022:

- *External Investment Pools:* Valued at net asset value (NAV) of units held. The NAV is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liability. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV.
- *Municipal Bond:* Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote, if available.
- *Impaired Loans:* are evaluated and valued at the time the loan is identified as impaired, using the present value of expected cash flows (if used, such amounts are not included in the following tables), the loan's observable market price or the fair value of the collateral (less cost to sell) if the loans are collateral dependent. Market value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. The value of the real estate collateral is determined based on appraisal by qualified licensed appraisers hired by the Bank.
- *Real Estate Available for Sale:* are adjusted to fair value upon transfer of the loans to real estate available for sale. Subsequently, real estate available for sale are carried at the lower of carrying value or fair value. The estimated fair value for real estate available for sale included in Level 2 is determined by independent market-based appraisals and other available market information. Discounts applied to appraisals have predominantly been, estimated costs to sell or other reductions based on market expectations or an executed sales contract. If fair value of the collateral deteriorates subsequent to initial recognition, the Bank records the real estate available for sale as a nonrecurring Level 2 adjustment. Valuation techniques are consistent with those techniques applied in prior periods.

The preceding methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Bank believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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The following table set forth the Bank's assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2022:

	<u>June 30, 2022</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Municipal bonds	\$ <u>389,082</u>	<u>—</u>	<u>389,082</u>	<u>—</u>
Investments measured at NAV:				
External investment pools:				
Guayacán Private Equity Funds	\$ 34,081,344			
Venture Capital Fund	5,991,694			
Other	<u>508,099</u>			
Total investments	\$ <u>40,581,137</u>			

<u>External Investment Pools</u>				
<u>June 30, 2022</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>
Guayacán Private Equity Funds	\$ 34,081,344	2,198,078	N/A	N/A
Venture Capital Fund	5,991,694	—	N/A	N/A
Other	<u>508,099</u>	<u>—</u>	N/A	N/A
	\$ <u>40,581,137</u>	<u>2,198,078</u>		

The following table set forth the Bank's assets and liabilities that were accounted for at fair value on a nonrecurring basis at June 30, 2022:

	<u>June 30, 2022</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Impaired loans	\$ 12,066,413	—	—	12,066,413
Real estate available for sale	<u>230,974</u>	<u>—</u>	<u>230,974</u>	<u>—</u>
	\$ <u>12,297,387</u>	<u>—</u>	<u>230,974</u>	<u>12,066,413</u>

The debt securities classified in Level 2 of the fair value hierarchy are valued using inputs other than quoted prices under Level 1. Investments measured at Net Asset Value (NAV) as a practical expedient for fair value are not subject to level classification.

The Bank's accounting policy is to recognize transfer between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers between levels for the year ended June 30, 2022.

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10. TIME DEPOSITS

Time deposits of \$145,517,185 at June 30, 2022, consist of deposits with fixed maturity dates (not exceeding 12 months) received from other governmental institutions. Governmental time deposits (Commonwealth and its component units) are exempt by law from the collateral requirement applicable to commercial financial institutions, which are depositors of public funds.

Time deposits in denominations of \$100,000 or more amounted to \$145,317,691 at June 30, 2022.

The principal depositors of time deposits of the Bank and representing approximately 80% of the total time deposits balance at June 30, 2022 were the following: (1) Puerto Rico Housing Finance Authority, \$67.5 million or 46%, (2) Government Development Bank or GDB, \$35.07 million or 24%, (3) Puerto Rico Industrial Development Company, \$15.2 million or 10%.

Subsequently and effective on September 28, 2022, the Bank signed a settlement agreement with GDB to make a one-time payment of \$3,100,000 in full and final satisfaction of the outstanding deposit amount of \$35,071,017 at June 30, 2022. Refer to Note 22 to the basic financial statements.

Management of the Bank and the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) are working on a plan that will provide for the extinguishment of the Bank's debts related to all deposits held by the Bank as of June 30, 2022. This initiative will result in a significant improvement of the Bank's financial position and a fresh start to continue as a going concern beyond the periods of the U.S. Government grants. Refer to Notes 2 and 22 to the basic financial statements for further details.

11. NOTES PAYABLE

The note payable with an outstanding balance of \$3,687,910 as of June 30, 2022, is due to the Government Development Bank of Puerto Rico GDB Debt Recovery Authority (GDB-DRA) (collateralized by a real estate mortgage) bears interest at the rate of 6% per annum, pays interest semiannually in June and December, and principal is paid each June. The note matures on June 1, 2026 and provides for annual payments of \$1,064,000 including interest. The Bank has complied with the terms and conditions of this note payable with GDB-DRA.

Note payable activity for the year ended June 30, 2022 was as follows:

	Beginning Balance	Additions	Principal Payment	Ending Balance	Due Within One Year
Note payable to GDB-DRA	\$ 4,483,216	—	(795,306)	3,687,910	843,025

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The maturities and interest payments of the note payable for each of the next four fiscal years are as follow:

Years ending June 30,	<u>Principal</u>	<u>Interest</u>
2023	\$ 843,025	217,059
2024	893,606	166,225
2025	947,223	112,341
2026	<u>1,004,056</u>	<u>55,223</u>
Total	<u>\$ 3,687,910</u>	<u>550,848</u>

On June 1, 2023, the Bank made a payment of \$3,798,597 in full satisfaction of note payable and accrued interest on such date. Refer to Note 22 to the basic financial statements.

12. OTHER LIABILITIES

The activity for other liabilities during 2022 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Less Due Within One Year</u>	<u>Noncurrent Liabilities</u>
Compensated absences	\$ 645,825	—	(28,583)	617,242	245,910	371,332
Legal Claims	416,055	—	—	416,055	416,055	—
Early retirement program liability	1,407,484	—	(569,061)	838,423	461,222	377,201
Total	<u>\$ 2,469,364</u>	<u>—</u>	<u>(597,644)</u>	<u>1,871,720</u>	<u>1,123,187</u>	<u>748,533</u>

13. NET POSITION

The Bank's net position invested in capital assets and restricted as of June 30, 2022 is composed of the following:

Net investment in capital assets:	
Capital assets	\$ 19,983,895
Accumulated depreciation and amortization	(12,827,427)
Related GDB note payable	<u>(3,687,910)</u>
Total	<u>\$ 3,468,558</u>
Restricted for special loan programs:	
Day Care Centers Loan Fund	<u>\$ 4,328,124</u>

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The Commonwealth approved Law No. 212 of August 29, 2000, as amended, which creates the Day Care Centers Loan Fund, for the purpose of financing the development of day care centers for children, multiple activity centers for elderly persons, and long-term care institutions. The Bank is responsible for the administration of the fund. At June 30, 2022, the outstanding principal of loans granted under the terms of the Day Care Centers Loan Fund amounted to \$130,195, and are included in loans, net in the accompanying statement of net position.

Net restricted assets for the special loan programs as of June 30, 2022 consists of the following:

Cash and due from banks	\$ 4,322,867
Loans	130,195
Other assets	<u>931</u>
Total restricted assets	4,453,993
Accounts payable and other liabilities	<u>125,869</u>
Total restricted net assets	<u><u>\$ 4,328,124</u></u>

CDBG-DR SBF Program

Pursuant to the subrecipient agreement between the Bank and the PRDH signed on March 22, 2020, the Bank has a direct participation in the Government of Puerto Rico Disaster Recovery Action Plan for the use of CDBG-DR SBF Program funds awarded by the U.S Government in response to the Hurricanes Irma and María. The Bank as a subrecipient, is working on the small business financing program, which provides up to \$50,000 grants to small businesses that incurred in losses due to Hurricanes Irma and María in 2017. The program is aligned to eligible CDBG-DR SBF Program activities in the economic development and job creation or retention course of action from the Puerto Rico Recovery Plan. The subrecipient agreement budget provides for a designation of \$180 million (increased from \$25 million after four amendments) for a period ending on March 22, 2024. According to the subrecipient agreement the Bank disburse the grant to eligible participants, and then submits reimbursement application to PRDH. The agreement provides for the billing of direct and indirect costs related to the administration and maintenance of the program.

The Program is subject to a general monitoring Plan. In case of the identification of a material noncompliance incident by the participant during the monitoring process, the noncompliant participant could be subject to the reimbursement of the grant. In 2022, the Bank did not receive reimbursement of funds related to any noncompliance incident by a participant. Subsequently, and to the date of the basic financial statements, the Bank completed the recovery process from participants amounting to approximately \$250,000. As of June 30, 2022, the Bank is evaluating instances in which noncompliance from participants may be identified. Any amount reimbursed by a participant as part of the monitoring process is collected by the Bank and reimbursed to the Puerto Rico Department of Treasury.

The Bank will benefit by recovering costs involved in deploying the program. During the year ended June 30, 2022, the Bank received \$67.5 million in grants for the program and incurred in expenses amounting to \$64.7 million for eligible participants of the program. Direct and indirect costs charged to this fund amounted to approximately \$2.6 million and \$246,000, respectively. The funds are subject to financial and compliance audits in accordance with provisions of the *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) or to compliance audits by U.S. Department of

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Housing, the latter has the authority to determine liabilities as well as to limit, suspend, or terminate the federal assistance.

Effective May 3, 2021, with Amendment A, the subrecipient agreement was amended to increase the designated amount to \$53.9 million. Subsequently with Amendment B, effective November 1, 2021, and Amendment C, effective March 22, 2022, jointly with other amendments, the designated amount was increased to \$130 million, including program grants and program delivery cost. On December 1, 2022, Amendment D increased the designated amounts to \$180 million. The effective date of the agreement was extended up to March 22, 2024. Refer to Note 22 to the basic financial statements.

14. INTERAGENCY AGREEMENTS AND RELATED PARTY TRANSACTIONS

Interagency Agreements

The Bank has entered into interagency agreements with various government agencies. Such agreements provide for the deposit of funds in the Bank to be used as collateral for the different loan programs designed to benefit socially and economically disadvantaged families as well as small and medium-sized entrepreneurs in the different economic sectors. Loans are granted based on the requirements established by such governmental agencies and the Bank is responsible for the administration of the loan portfolio.

As previously disclosed, pursuant to the subrecipient agreement between the Bank and the PRDH signed on March 22, 2020, the Bank has a direct participation in the Government of Puerto Rico Disaster Recovery Action Plan for the use of CDBG-DR SBF Program funds awarded by the U.S. Government in response to the Hurricanes Irma and María. The Bank received from the PRDH \$67.5 million in grants for the program during year ended June 30, 2022. As of June 30, 2022, the accounts receivable from PRDH amounted to \$7.1 million for reimbursement of grants disbursed to participants and direct and indirect costs incurred. Refer to Note 22 to the basic financial statements.

On June 30, 2021, the Bank entered into an interagency agreement with the Economic Development and Commerce Department (a governmental unit of the Commonwealth). Such agreement provides for a collateral deposit held in the Bank for \$985,632 as a guarantee for loans to young entrepreneurs for a maximum of \$10,000 per loan under the "Programa Juvempresas". At June 30, 2022, the Bank held loans amounting to approximately \$50,000 under this program.

The Bank and the governmental agencies participating in the interagency agreements described above are jointly liable for any litigation that may arise in connection with the administration of such loan programs. At June 30, 2022, there was no pending or threatened litigation under such programs.

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Related Party Transactions

The Bank as a member of the Commonwealth enters into transactions with different government agencies. At June 30, 2022, the Bank held deposits from the following government agencies:

Economic Development and Commerce Department	\$ 191,466
Energy Affairs Administration	2,998,776
GDB Debt Recovery Authority	39,249,759
Puerto Rico Film Commission	184,057
Puerto Rico Highway Authority	5,950,982
Puerto Rico Housing Finance Authority	67,476,722
Puerto Rico Industrial Development	15,251,292
Puerto Rico National Parks Company	6,993,277
Puerto Rico Ports Authority	544,289
Social Economic Development Administration	653,824
Funds from Economic Development and Commerce Department for "Programa Juvempresas"	985,632
Inactive Programs Guarantees from Other Agencies	5,037,109
	<u>\$ 145,517,185</u>

On July 17, 2023, the Financial Oversight and Management Board for Puerto Rico approved a settlement agreement with various public instrumentalities over the deposits held by the Bank. Refer to Notes 2 and 22 to the basic financial statements.

At June 30, 2022, the Bank had one investment outstanding for \$389,082 from the GDB Debt Recovery Authority. In addition, the Bank has a note payable due to the same agency for \$3,687,910 at June 30, 2022. This note payable was paid in full by the Bank on June 1, 2023. Refer to Note 22 to the basic financial statements.

In 2022, the Bank made a payment of \$25,000 to the Office of the Administration and Transformation of Human Resources for annual training of employees of the Bank. In addition, the Bank paid \$355,000 to the Office of the Inspector General of Puerto Rico for budgeted services received.

Pursuant to the CDBG-DR SBF subrecipient agreement, the Bank has an accounts receivable at June 30, 2022 from the Department of Housing of \$7,174,095 and received funds from the same government agency for \$67,493,150.

15. COMMITMENTS AND CONTINGENCIES

Litigation

The loan sale executed by the Bank during the year ended June 30, 2019, described also in Note 5 to the basic financial statements, has been subjected to numerous litigations originated by impacted borrowers and by the Bank itself, claiming for the most part, among other remedies, the annulment of such sale contracts.

With respect to the loan sales executed in 2019, former borrowers and the Bank itself initiated separate litigations against the ultimate buyers, as well as the intermediary advisor contracted by the Bank's management then, alleging that such advisor failed to abide by applicable laws in the sale process,

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among other claims. The majority of the remedies being requested are seeking to declare the loan sale null and consequently return all consideration received by the Bank, return all the loans sold to the buyers or arrive at an equivalent compensation, among other remedies.

Most of these cases are still outstanding, in discovery proceedings and pending resolution. Although legal counsel believes that no liability is foreseen in the cases where the Bank is a defendant, it is still uncertain whether or not the courts will nullify the loan sale agreements or assign liability to the Bank in other litigations presented. An eventual determination of nullity by the courts may cause the accompanying basic financial statements to be restated accordingly.

At June 30, 2022, the Bank is also defendant in various lawsuits arising from the ordinary course of business and not related to the loan sale transactions. Management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, resulting from such lawsuits would not be material in relation to the Bank's financial position and results of operations. Because of the uncertainties inherent in the evaluation of pending or threatened litigation, the Bank's ultimate liability under such claims may be significantly different from management's current estimate.

Other Risks

The Bank is exposed to various risks of loss related to torts, theft, casualty, errors and omissions, and other losses for which the Bank carries commercial insurance. Settled claims have not exceeded insurance coverage in any of the past three fiscal years. Also, the Bank obtains workers' compensation coverage from another component unit of the Commonwealth.

16. SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT AND MARKET RISK

Loans

The Bank's business activities are with customers located in Puerto Rico. The Bank's loan transactions are all directed toward small and medium size businesses in all sectors of Puerto Rico's economy. However, at June 30, 2022 the Bank had two loans amounting to \$10,526,597 that represented 62% of the loan portfolio.

Deposits

Total deposits at June 30, 2022 amounted to \$145,517,185 of which 84% represents deposits maintained in the Bank by three government agencies.

17. RETIREMENT PLAN

Plan Description

The Defined Benefit Pension Plan for Participants of the Employees' Retirement System of the Commonwealth was created pursuant to Act No. 447 on May 15, 1951, as amended (Act No. 447) to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities. Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017) the Plan was administered by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System). Effective July 1, 2017, all employer contributions were eliminated pursuant to

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Act No. 106-2017 and the Commonwealth implemented a “pay-as-you-go” (PayGo) system for the payment of pensions. Also pursuant to Act No. 106-2017, the System was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits.

Pension Benefits

The benefits provided to the Plan participants are established by Commonwealth law and may be amended by the Legislature with the Governor’s approval, or by court decision.

Certain plan provisions are different for the three groups of members who entered the Plan prior to July 1, 2013 as described below:

- Members of Act No. 447-1951 are generally those members hired before April 1, 1990 (contributory, defined benefit program).
- Members of Act No. 1-1990 are generally those members hired on or after April 1, 1990, and on or before December 31, 1999 (together with Act No. 447 participants, the Defined Benefit Program).
- Members of Act No. 305-1999 (Act No. 305-1999 or System 2000) are generally those members hired on or after January 1, 2000, and on or before June 30, 2013 (defined contribution program).

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, became members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3 of April 4, 2013 (Act No. 3 of 2013) froze all retirement benefits accrued through June 30, 2013 under the defined benefit program and, thereafter, all future benefits accrued under the defined contribution formula used for the System 2000 program participants.

(a) Service Retirement Eligibility Requirements

- (1) *Eligibility for Act No. 447 Members*-Act No. 447-1951 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of credited service; (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service; (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 55 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447-1951 members who would attain 30 years of credited service by December 31, 2013, would be eligible to retire at any time.

Act No. 447-1951 members who were not eligible to retire as of June 30, 2013, and did not attain 30 years of credited service by December 31, 2013, are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

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

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In addition to the requirements in the table above, Act No. 447-1951 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013, are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

- (2) *Eligibility for Act No. 1 Members* - Act No. 1-1990 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with 10 years of credited service, (3) for Public Officers in High Risk Positions, any age with 30 years of credited service, and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1-1990 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1-1990 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

- (3) *Eligibility for System 2000 Members* - System 2000 members in high risk positions and attainment of age 60 who were eligible to retire as of June 30, continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000, members could retire upon attainment of age 55.

System 2000 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of age 55 for public officers in high risk positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

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

- (4) *Eligibility for Members Hired after June 30, 2013*-Attainment of age 58 if a public officer in a high-risk position and attainment of age 67 otherwise.

(b) Compulsory Retirement

All Act No. 447-1951 and Act No. 1-1990 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of credited service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

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(c) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account was \$10,000 or less, it would have been paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement benefit is not available.

- (1) *Accrued Benefit as of June 30, 2013 for Act No. 447-1951 Members* - The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447-1951 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Mayors, the highest compensation, as defined, for Act. No. 447-1951 members, determined as of June 30, 2013.

If the Act No. 447-1951 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit was recalculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600.

If the Act No. 447-1951 member had less than 30 years of credited service as of June 30, 2013, and attained 30 years of credited service by December 31, 2013, the accrued benefit equaled 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is recalculated at SSRA as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600. Member contributions received from Act No. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013, and ending upon the attainment of 30 years of credited service were considered pre-July 1, 2013, contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447-1951 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is recalculated at SSRA as 1% of average compensation up to \$6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to \$6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

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For Act No. 447-1951 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

- (2) *Accrued Benefit as of June 30, 2013 for Act No. 1-1990 Members* - The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1-1990 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1-1990 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1-1990 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act No. 1-1990, Mayors with at least 8 years of credited service as a Mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(d) Special Benefits

(1) Minimum Benefits

- Past Ad hoc Increases

The legislature, from time to time, increased pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983.

- Minimum Benefits for Members who Retired before July 1, 2013 (Act No. 156- 2003, Act No. 35 of 2007, and Act No. 3-2013).

The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is \$500 per month effective July 1, 2013 (\$400 per month effective July 1, 2007 and \$300 per month up to June 30, 2007).

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(2) Coordination Plan Minimum Benefit

A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, was not less than the benefit payable prior to SSRA.

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

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

(4) *Special "Bonus" Benefits*

- Christmas Bonus (Act No. 144-2005, as Amended by Act No. 3-2013)

An annual bonus of \$200 for each retiree, beneficiary, and disabled member has historically been paid in December provided the member retired prior to July 1, 2013.

- Medication Bonus (Act No. 155-2003, as Amended by Act No. 3-2013)

An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

(e) Early Retirement Programs

The Bank extended to its employees a voluntary early retirement program. During the year ended June 30, 2017, a program was approved by the Bank's Board of Directors based on provisions established on Act No. 211, which was enacted on December 8, 2015. Act No. 211 provides that eligible employees may retire from employment with the Bank in exchange for an early pension and other benefits. Act No. 211 only applied to employees with twenty years or more participating in ERS created pursuant to Act No. 447 of 1951 and have not reached 61 years of age.

The Act No. 211 provides that the employee will receive an annuity equivalent to 60% of the average compensation, as defined, as of December 31, 2015 and until the participating member attained 61 years old, which is the age the employee will become part of the Retirement System. The Bank is responsible for the payment of the employer contribution to the Social Security and Medicare, based on the 60% of the average compensation as of December 31, 2015. Also, is responsible for the payment of the related employee and employer contributions to the Retirement System based on the 100% of average salary as of December 31, 2015, for amounts which guarantees a 50% minimum compensation to eligible employee of its average compensation as of

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June 30, 2013. The participating employee will also receive the benefits of health insurance for a period not more than two years, and until the employee reaches 61 years old.

Total cost related to this early termination benefits amounted to approximately \$5.5 million. As of June 30, 2022, the total liability related to these termination benefits was approximately \$838,400. Payments of such voluntary termination plans are expected to be made until June 30, 2027. The Bank's contributions to the early retirement programs during the year ended June 30, 2022 amounted to \$569,061. The amounts represented 100% for the required contribution for the corresponding year.

Bank's Proportionate share of Pension Liability and Actuarial Information

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

The Bank's proportionate share of the total pension liability of the ERS and the proportion percentage of the aggregate total pension liability of ERS allocated to the Bank as of June 30, 2022 (the measurement date was June 30, 2021) was \$28,804,178 and 0.10596%, respectively.

The Bank's proportion of ERS's total pension liability was based on the ratio of the Bank's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date.

(1) Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Discount Rate

The discount rate for June 30, 2021 was 2.16%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (Go) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2021 actuarial valuations were as follows:

- Pre-retirement Mortality- For general employees not covered under Act No. 127-1958, PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected to reflect MP-2021 on a generational basis. For members covered under Act No. 127-1958, the PubS-2010 employee mortality rates are assumed for males and females, projected using MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

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100% of deaths while in active service are assumed to be occupational for members covered under Act 127-1958.

- **Post-retirement Healthy Mortality-** Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-10 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.
- **Post-retirement Disabled Mortality-** Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvements. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using MP-2020 on a generational basis. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
- **Post-retirement Beneficiary Mortality-** Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Other Assumptions

- Actuarial cost method: Entry age normal
- Inflation rate: Not applicable
- Salary increases: 3.0% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014 and the current general economy.

(2) Sensitivity of the Bank's Proportion of the Total Pension Liability and Changes in Discount Rate

The following table presents the Bank's proportionate share of the total pension liability for ERS calculated using the discount rate of 2.16%, as well as what the Bank's proportionate share of the net pension liability would be if it were calculated using a discount rate of 1% point lower (1.16%) or 1% point higher (3.16%) than the current rate (based on a proportion percentage of 0.105960% of the aggregate total pension liability of the ERS allocated to the Bank as of June 30, 2021 (measurement date):

	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
The Bank's proportionate share of total pension liability	\$ 32,910,306	28,804,178	25,477,410

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Bank's Proportionate Share of Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources from Pension Activities

The pension expense recognized by the Bank for the year ended June 30, 2022, related to the ERS amounted to \$2,865,589.

Deferred outflows and deferred inflows of resources from pension activities reported in the Bank's statement of net position as of June 30, 2022 are as follow:

Deferred Outflows of Resources

Changes in proportion	\$ 6,694,983
Bank's Pay Go pension benefits payments made subsequent to the measurement date	<u>1,411,688</u>
	<u>\$ 8,106,671</u>

Deferred Inflows of Resources

Changes in assumptions	\$ 340,366
Differences between expected and actual experience in measuring total pension liability	<u>858,138</u>
	<u>\$ 1,198,504</u>

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

Years ending June 30,	Total deferred outflows of resources	Total deferred inflows of resources	Net amount of deferred outflows and inflows of resources
2022	\$ 2,450,389	(399,501)	2,050,888
2023	2,450,388	(399,501)	2,050,887
2024	<u>1,794,206</u>	<u>(399,502)</u>	<u>1,394,704</u>
	<u>\$ 6,694,983</u>	<u>(1,198,504)</u>	<u>5,496,479</u>

Deferred outflows of resources related to pension benefit payments made by the Bank subsequent to the measurement date which amounted to \$1,411,688 as of June 30, 2022, will be recognized as a reduction of the net pension liability in the year ended June 30, 2023. This amount is not included in the table above.

Additional information on the ERS is provided in its standalone financial statements for the year ended June 30, 2021, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940 2004.

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18. OTHER POSTEMPLOYMENT BENEFITS

The Bank participates in the ERS-OPEB plan of the Commonwealth. The ERS-OPEB is an unfunded defined benefit other postemployment plan that is administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75. Under the guidance of GASB Statement No. 75, the Commonwealth and its component units are considered to be one employer and are classified for financial reporting purposes as a single-employer defined benefit OPEB plan. Because certain employers that are component units of the Commonwealth, such as the Bank, prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers.

GASB Statement No. 75 requires that the primary government and its component units that provide OPEB benefits through the same defined benefit OPEB plan, recognize their proportionate share of the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense (benefit). The employer allocation percentage presented in the schedule of OPEB amounts by employer are based on the ratio of each participating entity's actual benefit payments to the total actual benefit payments paid by all participating entities during the year ending on the measurement date. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of OPEB amounts by employer may result in immaterial differences.

This ERS-OPEB was created under Act No. 95-1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS-OPEB covers substantially all full-time employees of (1) the Primary Government and (2) those component units of the Commonwealth not having their own postemployment benefit plans. For ERS-OPEB, Commonwealth employees became plan members upon their date of employment. Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age. Act No. 3-2013 eliminated this healthcare benefit to ERS-OPEB members retired after June 30, 2013.

The ERS-OPEB covers a payment of up to \$100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013. The ERS-OPEB is financed by the Commonwealth through legislative appropriations. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Plan members were eligible for benefits upon reaching the applicable retirement age.

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

Bank's Proportionate share of OPEB Liability and Actuarial Information

The Bank's proportionate share of the total OPEB liability of the ERS-OPEB and the proportion percentage of the aggregate total OPEB liability of the ERS allocated to the Bank as of June 30, 2022 (measurement date as of June 30, 2021) was \$430,425 and 0.05393%, respectively.

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

(a) Actuarial Assumptions

Discount Rate

The discount rate for June 30, 2021 was 2.16%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

Pre-retirement Mortality

For general employees not covered under Act No. 127-1958, PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

Post-retirement Mortality:

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality:

Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Beneficiary Mortality:

Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational

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basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

(b) Sensitivity of the Total OPEB Liability to Changes in Discount Rate

The following table presents the Bank's proportionate share of the OPEB liability at June 30, 2022 (measurement date June 30, 2021) for ERS-OPEB calculated using the discount rate of 2.16%, as well as what the Bank's proportionate share of the OPEB liability if it were calculated using a discount rate of 1% point lower (1.16%) or 1% point higher (3.16%) than the current rate:

	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
The Bank's proportionate share of total OPEB liability	\$ 472,467	430,425	394,625

Bank's Proportionate Share of OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

OPEB credit adjustment recognized by the Bank for the year ended June 30, 2022 related to ERS-OPEB amounted to approximately \$22,400.

Because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year. However, a deferred outflow has been recognized only for the amount of the benefit payments made by the Bank subsequent to the measurement date, which amounted to \$35,104 as of June 30, 2022, which will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2023.

Additional information on the ERS-OPEB is provided on its standalone Schedules of Employer Allocations and Schedules of OPEB Amounts by Employer for the year ended June 30, 2021, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

19. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business, the Bank is a party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and to provide additional funding for outstanding investments in venture capital. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the accompanying statements of net position.

These off-balance-sheet risks are managed and monitored in manners similar to those used for on-balance-sheet risks. The Bank's exposures to credit losses for lending commitments are represented by the contractual amount of such transactions. The notional amounts for other off-balance-sheet risks express the dollar volume of the transactions, but the credit risk might be lower.

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At June 30, 2022, the off-balance-sheet risks consisted of the following:

Financial instruments whose credit is represented by
contractual amounts:

Commitments to invest in venture capital	\$ <u>2,198,078</u>
Commitments to extend credit	\$ <u>1,242,000</u>

Financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing financial guarantees is essentially the same as that involved in extending loan facilities to customers. At June 30, 2022, there are no financial guarantees outstanding.

Commitments to provide additional funding for outstanding venture capital are based on the partnership agreement for each respective external investment pool. The current investments on external investment pools are on different investment stages of their life cycle. As a result, required additional funding is obtained from distributions received from other external investment pools.

Commitments to extend credit are agreements to lend to a customer if there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the counterparty for the total amount of the commitment. Collateral held varies but may include real estate, inventory, equipment and income-producing commercial properties.

At June 30, 2022, the Bank did not have a reserve outstanding for potential losses associated with unfunded loan commitments.

20. OTHER NON-INTEREST INCOME

Other non-interest income for the year ended June 20, 2022 consists of the following:

Rental income (Note 6)	\$ 468,087
Gain on sale of real estate available for sale	145,084
Miscellaneous income	<u>21,901</u>
Total	\$ <u>635,072</u>

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21. OTHER NONINTEREST EXPENSES

Other noninterest expenses for the year ended June 30, 2022 consist of the following:

Special disbursements - Office of the Inspector General of PR budget	\$ 355,000
Insurance	306,114
Repairs and maintenance	247,357
Electricity	418,393
Operations temporary support	71,190
Uncollectible loans expenses	68,260
Water	55,769
Bank charges	38,584
Computer programs licensing	36,756
Telephone	30,337
Dues and subscriptions	33,209
Office supplies	22,106
Investment operations	3,851
Postage	4,564
Vehicles	4,353
Reimbursement of expenses to employees	4,079
Miscellaneous	48,587
Total	<u>\$ 1,748,509</u>

22. SUBSEQUENT EVENTS

Subsequent events were evaluated through September 29, 2023, to determine if any event should either be recognized or disclosed in the 2022 basic financial statements. Management believes that subsequent events disclosed below are intrinsically related to the basic financial statements of the Bank. Subsequent events included have been disclosed elsewhere in the basic financial statements, but management believes they require specific mentioning based on their relevance and materiality as a whole.

State Small Business Credit Initiative

In February 2023, the Bank's application for the participation in the State Small Business Credit Initiative (SSBCI) was approved. The SSBCI is a federal funds program, re-approved under the American Rescue Plan Act of 2021, that aims to empower small businesses to access capital needed to invest in job-creating opportunities as the country emerges from the pandemic. On February 8, 2023, the allocation agreement that establishes the terms and conditions was formalized by the U.S. Department of Treasury and the Commonwealth of Puerto Rico (Participating Jurisdiction). On March 10, 2023, an interagency agreement between the Bank and The Puerto Rico Department of Treasury was formalized. In this agreement the Bank was appointed as manager and administrator of the program and funds allocated to the Puerto Rico jurisdiction.

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On March 23, 2023, \$29.9 million were received by the Puerto Rico Department of Treasury, representing the first of three tranches of SSBCI funds allocated to Puerto Rico. These funds will be transferred to the Bank as approved transaction with entrepreneurs are committed, becoming part of the Bank's capital. As of September 20, 2023, \$5.6 million in SSBCI funds have been committed in loan participation transactions.

Subrecipient Agreement with the Puerto Rico Department of Housing

On March 22, 2020, the Bank signed a subrecipient agreement with the Puerto Rico Department of Housing (PRDH). The PRDH designed a Small Business Financing Program to provide recovery grants to small businesses and microenterprises and recovery or expansion loans for more established small businesses with the funds awarded by the U.S. Government in response to Hurricanes Irma and María. The approved plan allocated \$225 million to this program for the use of CDBG-DR SBF Program funds to the PRDH. This subrecipient agreement designated \$25 million to the Bank to serve as underwriter, servicer, and compliance manager for the program in partnership with the PRDH.

On May 3, 2021, the Bank signed Amendment A to the agreement for the increase of the designated amount from \$25 million to \$53.9 million. Subsequently, on November 10, 2021 the Bank signed Amendment B with PRDH that increased the amount designated to the Bank to \$130 million. The Amendment C to the subrecipient agreement was signed on March 22, 2022 to extend the performance period of the agreement for forty-eight additional months ending on March 22, 2024. On December 1, 2022, the Bank signed Amendment D to the subrecipient agreement to increase the total designated amount to \$180 million.

Time Deposits Settlements

On July 18, 2022, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) submitted to the Financial Oversight and Management Board for Puerto Rico an authorization request pursuant to Section 207 of PROMESA related to the Bank's proposed "Settlement Agreement" with Government Development Bank for Puerto Rico (GDB). In this agreement, the Bank will make a one-time payment to GDB in the amount of \$3,100,000 in full and final satisfaction of the outstanding Bank's deposit amount of \$35,406,146 at June 30, 2021. This settlement agreement was approved by Financial Oversight and Management Board for Puerto Rico on September 21, 2022. As a result, the Bank signed on September 28, 2022 the "Settlement Agreement" with GDB and made the required payment of \$3,100,00 on the same date.

Furthermore, on April 3, 2023, the AAFAF submitted to the Financial Oversight and Management Board for Puerto Rico (FOMB) a memorandum for the approval of a settlement agreement with various public instrumentalities over deposits held by the Bank. The Bank requested a one-time payment of up to \$9,661,825 or 8.75% of total amounts owed under each deposit claim as full settlement and satisfaction of the underlying obligation. The deposit settlement would positively impact the Bank's capital by a projected \$100.8 million adequately capitalizing the Bank. The settlement agreement was approved on July 17, 2023 by the FOMB and the Bank is in the process of performing settlement negotiations and approvals with the deposit claimants. As of September 20, 2023, settlement agreements have been signed and executed with depositors for a total of \$109 million of the total deposits of \$110 million outstanding as of June 30, 2023.

Note Payable to GDB-DRA

On June 1, 2023, the Bank made a payment of \$3,798,597 to GDB-DRA for payment in full of the secured debt owed to them.

REQUIRED SUPPLEMENTARY INFORMATION

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Required Supplementary Information:
Schedule of Proportionate Share of Total Pension Liability

For the Year Ended June 30, 2022

	2022*	2021*	2020*	2019*	2018*
Proportion of Total Pension Liability	0.10596%	0.09917%	0.09392%	0.08302%	0.07707%
Proportionate Share of Total Pension Liability	\$ 28,804,178	27,837,754	23,330,959	20,330,023	21,963,579
Covered - Employee Payroll	—	—	—	—	—
Proportionate Share of Total Pension Liability as Percentage of Covered- Employee Payroll	N/A	N/A	N/A	N/A	N/A

- * The amounts presented have a measurement date of the previous year end.
- * Currently there are no active participants in this plan. Therefore, the covered payroll disclosure is omitted.

This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See accompanying independent auditors' report.

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Required Supplementary Information:
Schedule of Proportionate Share of Total OPEB Liability

For the Year Ended June 30, 2022

	2022*	2021*	2020*	2019*	2018*	2017*
Proportion of total OPEB liability	0.05393%	0.05583%	0.51780%	0.05194%	0.05333%	0.05199%
Proportionate Share of total OPEB liability (asset)	\$ 430,425	488,296	430,970	437,442	490,879	616,100
Covered - Employee Payroll	—	—	—	—	—	—
Proportionate share of total OPEB liability (asset) as a percentage of its covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A

* The amounts presented have a measurement date of the previous year end.

* Currently there are no active participants in this plan. Therefore, the covered payroll disclosure is omitted.

This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See accompanying independent auditors' report.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Economic Development Bank for Puerto Rico:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Economic Development Bank for Puerto Rico (the Bank), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Bank's basic financial statements and have issued our report thereon dated September 29, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bank's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bank's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify deficiencies in internal control described in the accompanying schedule of findings and questioned costs as items **2022-001**, **2022-002** and **2022-003** that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bank's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items **2022-002** and **2022-003**.

The Bank's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Bank's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Bank's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bank's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



San Juan, Puerto Rico
September 29, 2023

Certified Public Accountants
License No. 95 expires on December 1, 2023
Stamp No. E536152 of the Puerto Rico Society of CPAs
was affixed to the record copy of this report.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2022

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal Assistant Listing Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development/Puerto Rico Department of Housing:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii:			
Small Business Financing Program	14.228	RWDKTD6RBCR9	\$ <u>67,493,150</u>

See notes to schedule of expenditures of federal awards.

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2022

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Economic Development Bank for Puerto Rico (the Bank), a Component Unit of the Commonwealth of Puerto Rico, under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Bank, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is presented using the basis of accounting which is described in Note 1 to the basic financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. INDIRECT COST RATE

The Bank has elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance for the CDBG-DR SBF Program fund.

4. FINANCING PROGRAM

The Bank participates as subrecipient in the Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii: Small Business Financing Program.

	Total Federal Award June 30, 2022
Federal expenditures under this program	\$ 67,493,150

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of
Economic Development Bank for Puerto Rico:

Report on Compliance for Each Major Federal Program***Opinion***

We have audited the Economic Development Bank for Puerto Rico (the Bank) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Bank's major federal programs for the year ended June 30, 2022. The Bank's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Bank complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Bank and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Bank's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Bank's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Bank's compliance based on our audit. 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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect

material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Bank's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Bank's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Bank's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items **2022-004** to **2022-007**. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Bank's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Bank's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.


A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **2022-004** and **2022-005** to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item **2022-007** to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Bank's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Bank's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



San Juan, Puerto Rico
September 29, 2023

Certified Public Accountants
License No. 95 expires on December 1, 2023.
Stamp No. E536153 of the Puerto Rico Society of CPAs
was affixed to the record copy of this report.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

Section I-Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Significant deficiencies identified? yes X no
- Material weakness identified? X yes none reported

Noncompliance that is material to financial statements noted?

 yes X no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? X yes no
- Material weakness identified? X yes none reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required
to be reported in accordance with
2 CFR section 200.516(a) ?

 X yes no

Identification of Major Programs

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development/Puerto Rico Department of Housing: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii:			
Small Business Financing Program	14.228	RWDKTD6RBCR9	\$ <u>67,493,150</u>

Auditee qualify as low-risk auditee?

 yes X no

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

Section II-Financial Statements Findings

FINDING NO. 2022-001: MONTHLY CASH ACCOUNTS RECONCILIATIONS

Repeated Finding: Yes

Criteria:

Monthly cash account reconciliation process is the primary internal control procedure relating to the Bank's cash accounts. In order to make the financial reports generated by the accounting system as meaningful as possible, the Bank should reconcile the general ledger accounts for cash, to supporting documentation on a monthly basis. A cash reconciliation that reconciles from the bank balance to the general ledger balance should be prepared to determine that all cash transactions have been recorded properly and to discover any possible bank errors. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations. These reconciliations and adjustments will ensure meaningful and accurate financial statements.

Condition:

During fiscal year 2020, cash account reconciliations were prepared, however, the accounts were not completely reconciled during the months from March 2020 to end of fiscal years 2020, 2021 and part of 2022. As of June 30, 2022, there were unreconciled amounts in two (2) accounts. Although unreconciled amount may appear not to be material to the overall financial position of the Bank, it may obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent. Unreconciled amounts should be investigated and not be allowed to carry over from month to month. Management has achieved significant progress reducing the dollar amount and quantity of unreconciled items and continue working to resolve this matter in the near term.

Cause:

The lack of timely reconciliation of cash accounts resulted in an ineffective and inefficient financial statements closing process. This matter caused additional time and effort to the Bank in the detection and then, the correction of errors, on a timely matter.

Effect:

There were numerous unidentified reconciled items accumulated during the unreconciled months that needed additional time to subsequently complete the reconciliations, to ensure proper identification and accounting of all reconciling items. This resulted in a material weakness in the internal control related to cash.

Recommendation:

A cash reconciliation, if effectively carried out, constitutes a partial audit of cash receipts and disbursements for the period of the reconciliation. To be effective, the reconciliations should be prepared on a monthly basis to provide additional control over cash accounts. In this way, potential errors or problems can be identified and corrected promptly, necessary adjustments can be posted on a timely basis, while underlying facts are still relevant, and supporting documents can be made available. Therefore, we recommend that the Bank perform monthly cash reconciliations within 15 to 30 days of the month-end and that reconciling items are resolved within 45 to 60 days from the date that they are identified. That will ensure the timely identification and resolution of errors and will ensure that general ledger balances are accurate and properly supported.

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

Views of Responsible Officials and Planned Corrective Action:

Management agrees with the finding. The delay in the preparation of the cash reconciliations was caused by the inability of the finance personnel to work at the Bank during the Covid-19 curfew established by the Governor of Puerto Rico in March 2020 in conjunction with the understaffing of the accounting department. Management is working toward updating all cash accounts reconciliations, and is taking further proactive actions to establish other methods of remote access to ascertain continuity of the performance of these controls in situations when personnel is unable to visit the premises of the Bank. Also, the Bank is working toward recruiting additional personnel for the accounting department.

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

FINDING NO. 2022-002:

PROGRAM REPORTS AND ACCOUNTING RECORDS

Repeated Finding:

Yes

Criteria:

As more fully described in finding 2022-005, the subrecipient agreement between the Bank and the Puerto Rico Department of Housing (PRDOH), establishes in the Terms and Conditions *Part IV. Performance, Monitoring and Reporting, Section B. Reporting*, that the Bank as Subrecipient shall submit monthly progress reports to the PRDOH, on the form and with the content to be specified and required by the PRDOH. Also, the CDBG-DR Financial Policy of the Puerto Rico Department of Housing establishes that the Bank as subrecipient is responsible for ensuring that separate accounting are maintained for CDBG-DR funds in its internal accounting system and records.

Condition:

As described in finding 2022-005, for the year ended June 30, 2022, we compared the amount of grants awarded as per the Administrative and Performance Reports submitted to the PRDOH with the amount reported in the Schedule of Expenditures and Federal Awards, and noted that the Bank did not implement procedures to validate and / or reconcile the amounts as presented in the Administrative and Performance Reports with the balances as per the Bank's accounting records.

Cause:

The observations noted in finding 2022-005 appear to be largely due to the effect of the lack of monthly presentation of transactions of CDBG-DR Fund transactions in the general ledger and related reconciliations of general ledger with subsidiaries and related program reports.

Effect:

Refer to finding 2022-005 for the effect of this observation.

Recommendation:

Refer to finding 2022-005 for the recommendations for the observations associated with this finding.

Views of Responsible Officials and Planned Corrective Action:

Refer to finding 2022-005 for the views of responsible officials and planned corrective action associated with this finding.

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

FINDING NO. 2022-003

GRANT AWARDS DISBURSEMENTS

Repeated Finding:

No

Criteria:

The subrecipient agreement between the Bank and the Puerto Rico Department of Housing (PRDOH), establishes in the Terms and Conditions that the Bank as Subrecipient shall comply with applicable PRDOH's policies and guidelines as established in Program Guidelines and their amendments, if any, which made an integral part of the subrecipient agreement.

Condition:

As described in finding 2022-004. We noted that in two (2) cases, representing 1.65% of the total sample, the Business Applicants did not support physical damages nor economic losses and consequently do not qualify for the grant award. Total awarded grants to these business applicants amounted in the aggregate to \$66,308.

From a total of 213 awarded grants for which closeout procedures were completed during the year ended June 30, 2022, in the amount of \$9,522,108, we selected twenty-five (25) cases, in the total amount of \$1,228,590, and noted in one (1) case, representing a 4% of the total sample, the required three (3) quotes were not obtained from the Business Applicant in the aggregate amount of \$39,433.

During our audit procedures, we got knowledge that one (1) Business Applicant obtained two grant awards in the aggregate amount of \$96,630, under two different applications.

Cause:

Management has not consistently applied the procedures contained in the guidelines for the grants disbursements as fully described in finding 2022-04.

Effect:

Refer to finding 2022-004 for the effect of this observation.

Recommendation:

Refer to finding 2022-004 for the recommendations for the observations associated with this finding.

Views of Responsible Officials and Planned Corrective Action:

Refer to finding 2022-004 for the views of responsible officials and planned corrective action associated with this finding.

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

Section III-Federal Award Findings and Questioned Costs

FINDING NO. 2022-004

GRANT AWARDS DISBURSEMENTS

Federal Agency:

U.S. Department of Housing and Urban Development

Federal Program:

Federal Financial Assistance Listing 14.228
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

Federal Award No:

B-18-DP-72-0001

Compliance Requirement:

Activities Allowed or Unallowed
Allowable Costs / Cost Principles

Questioned Costs:

\$203,521

Repeated Finding:

No

Criteria:

The subrecipient agreement between the Bank and the Puerto Rico Department of Housing (PRDOH), establishes in the Terms and Conditions the following:

Part III. Scope of Work, Section A. Subrecipient Management Responsibilities, Number 2, that all services shall be made in accordance with PRDOH guidelines, HUD guidelines and regulations, and other applicable state and federal laws and regulations.

Part X. Compliance with Federal Statutes, Regulations and the Terms and Conditions of the Federal Award and Additional PRDOH Requirements:

- *Section A. General Compliance* - that the Bank as Subrecipient shall also comply with applicable PRDOH's policies and guidelines as established in Program Guidelines and their amendments, if any, which made an integral part of the subrecipient agreement.
- *Section H. Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* - that the Bank as Subrecipient, shall comply with the applicable provisions in 2 C.F.R. part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 2 C.F.R. part 200.

2 C.F.R. part 200.303 establishes that a non-Federal entity must:

- 2 C.F.R. 200.303 (a) - Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.
- 2 C.F.R. 200.303 (d) - Take prompt action when instances of noncompliance are identified in audit findings.

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

The CDBG-DR Program Guidelines in its *Part 12, Determining the Recovery Grant Award Amount, Section 12.3 Equipment and Furniture*, that in order to determine the amount for which a business is eligible for equipment and furniture expenses, the Business Applicant must provide three (3) quotes for each piece of equipment, machinery or furniture requested in the application.

The CDBG-DR Program Guidelines establishes in its *Part 8 Eligibility, Section 8.2 Ineligible Businesses*, that establishments whose sales of alcohol are fifty percent (50%) or more of total sales are ineligible to receive a Small Business Finance (SBF) Program Recovery Grant.

Conditions and Context:

From a total of 1,484 SBF Program Recovery Grants (the grants) awarded to business applicants during the year ended June 30, 2022, in the amount of \$64,654,049, we performed various compliance tests and noted the following situations:

- During our audit procedures, we got knowledge that one (1) Business Applicant obtained two (2) grant awards in the aggregate amount of \$96,630, under two different applications.
- We selected a sample of 121 grants awarded in the total amount of \$5,301,329, to verify if the Business Applicant qualifies for the grant award under physical damages or economic losses, as required by the program's guidelines. We noted that in two (2) cases, representing 1.65% of the total sample, the Business Applicants did not support physical damages nor economic losses and consequently do not qualify for the grant award. Total grants awarded to these business applicants amounted in the aggregate to \$66,308.
- We selected a sample of sixty-six (66) grants awarded as follows: twenty-seven (27) grants awarded for working capital purposes and thirty-nine (39) grants awarded for the purchase of equipment, in the total amount of \$2,839,563 and noted the following situations:
 - For the grants awarded for equipment, we reviewed the supporting documentation for required quotes and noted that in thirteen (13) cases, or 33%, some quotes provided by the Business Applicants did not have a date and in one (1) case, or 0.03%, the quotes provided by the Business Applicant did not have a date nor supplier name.
 - We recomputed the amount of the grant awarded, and noted that in three (3) cases, representing 5% of the total sample, the amount of award was computed incorrectly. The amount of over payment in the aggregate was \$1,150.
 - We noted in one (1) case, representing 2% of the total sample, that the Bank did not require to the Business Applicant evidence about the percent (%) that represents the sales of alcohol of the total Business' sales.

From a total of 213 grants awarded for which closeout procedures were completed during the year ended June 30, 2022, in the amount of \$9,522,108, we selected twenty-five (25) cases, in the total amount of \$1,178,590, and noted in one (1) case, representing a 4% of the total sample, the required three (3) quotes were not obtained from the Business Applicant in the aggregate amount of \$39,433.

Cause:

Management has not consistently applied the procedures contained in the guidelines for the grants disbursements.

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

The Bank uses Canopy as Grant Management System of Record for the grants. Canopy contains all fields necessary to complete the procedures in relation to application, eligibility review and determination, award coordination and closeout. This program does not provide for the rejection of duplicated cases. Also, the Bank has not implemented control procedures that allow management to identify any duplicated payment to a Business Applicant.

Effect:

The Bank did not comply with activities allowed or unallowed and allowable cost / cost principles requirements, which could lead to funds disallowance. Without effective controls in place in the area of grants disbursements, Business Applicants may have received amount of grants for which they were not eligible or that are not be adequately documented conforming the program guidelines and federal requirements. Consequently, we considered that the conditions detailed above are material weaknesses in internal control over compliance.

Recommendation:

We recommend the Bank establishes procedures to ensure the fully compliance of activities allowed or unallowed and allowable costs / cost principles requirements.

Views of Responsible Officials and Planned Corrective Action:

The Bank concurs with this finding. All resources that work the CDBG-DR Small Business Financing (SBF) project have been trained to perform their role according to the Program Guidelines, SOP's and regulations. The cases identified with deficiencies, as part of the Single Audit 2021-2022 in the Intake, Underwriting and Expenditure Review & Closeout stages will be used as examples to prevent this situation from occurring in future cases and establish additional Team Lead quality control (QC). Additionally, recapture (repayment by the Grantee of any Grant amount received) of awarded and disbursed funds will apply when there's failure to comply with the SBF Program Guidelines.

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

FINDING NO. 2022-005

PROGRAM REPORTS AND ACCOUNTING RECORDS

Federal Agency:

U.S. Department of Housing and Urban Development

Federal Program:

Federal Financial Assistance Listing 14.228
Community Development Block Grants/State's Program and
Non-Entitlement Grants in Hawaii

Federal Award No:

B-18-DP-72-0001

Compliance Requirement:

Reporting

Questioned Costs:

None

Repeated Finding:

Yes

Criteria:

The subrecipient agreement between the Bank and the Puerto Rico Department of Housing (PRDOH), establishes in the Terms and Conditions *Part IV. Performance, Monitoring and Reporting, Section B. Reporting*, that the Bank as Subrecipient shall submit regular monthly progress reports to the PRDOH, on the form and with the content to be specified and required by the PRDOH.

Moreover, the subrecipient agreement between the Bank and the PRDOH, establishes in the Terms and Conditions *Section Part III-Scope of Work, sub-section A. (2)*, that all services shall be made in accordance with PRDOH guidelines, HUD guidelines and regulations, and other applicable state and federal laws and regulations.

The CDBG-DR Financial Policy of the Puerto Rico Department of Housing, (the Financial Policy), in its *Part 7 Accounting Records and Systems, Section 7.1.2 Subrecipient Accounting Records*, establishes that the Bank as subrecipient is responsible for ensuring that separate accounting are maintained for CDBG-DR funds in its internal accounting system and records. These records should, to the extent possible, be developed to be consistent with PRDOH CDBG-DR general accounting and recordkeeping policies. Also, the Financial Policy in its *Part 13 Reconciliations*, establishes that the Bank as subrecipient, must have procedures in place to reconcile accounts and reports by comparing revenues and expenditures against disbursements for CDBG-DR funded activities. The subrecipient must:

- Maintain in its accounting records the amounts budgeted for eligible activities.
- Compare actual obligations and expenditures to date against planned obligations and expenditures: and
- Report deviations from budget and program plans and request approval for budget and program plan revisions.

Reconciliations are performed on a monthly and quarterly basis to ensure that the accounting records and banking systems are complete and accurate. The Accounting Manager shall approve all adjustment transactions.

The Code of Federal Regulations, 2 C.F.R., Part 200, Subpart D, Section 200.302 (b) (2), establishes that the financial management system of each non-Federal entity must provide for accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.328 and 200.329.

Economic Development Bank for Puerto Rico
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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

Condition and Context:

- *Reporting*

For the year ended June 30, 2022, we compared the amount of grants awarded as per the Administrative and Performance Reports submitted to the PRDOH with the amount reported in the Schedule of Expenditures and Federal Awards, and noted that the Bank did not implement procedures to validate and / or reconcile the amounts as presented in the Administrative and Performance Reports with the balances as per the Bank's accounting records.

- *Accounting Records*

In relation to the CDBG-DR Fund, although disbursements are recorded in a separate fund, the Bank does not present, on a monthly basis, the revenues, expenses, assets, and liabilities in the Bank's general ledger. Instead, the Bank is recording the transactions as revenues, expenses, assets, and liabilities related to the CDBG-DR fund at year end. The CDBG-DR fund activity is monitored in another system that is maintained parallel to the Bank's general ledger. This additional system is used for reporting process but is not monitored and reconciled jointly with the Bank's general ledger. Entity level controls related to monthly approvals, reconciliations, actual versus budget comparisons, and other financial reporting controls are performed in another system that does not make automatic interface with the Bank's general ledger.

Cause:

The management of the Bank has not implemented effective procedures that permit the proper reconciliation of amount of grants awarded per accounting records with the amounts disclosed in the Administrative and Performance Reports.

Effect:

The absence of proper controls in the areas of program reports and accounting records, causes the Bank to fall in noncompliance with federal reporting requirements and the terms and conditions as established in the subrecipient agreement. This matter may result in material differences or errors that could not be detected and resolved on a timely basis and consequently we considered that above conditions are material weaknesses in internal control over compliance.

Recommendation:

The Bank should ensure that adequate procedures and controls are in place to ensure that the awarded grants per accounting records are reconciled and agreed to the balances as disclosed in the Administrative and Performance Reports. Evidence of such reconciliations must be maintained as support for the reconciliation procedures performed.

Views of Responsible Officials and Planned Corrective Action:

The Bank concurs with this finding. The presentation of the CDBG-DR fund was caused by the significant time and effort that requires the accounting of the new fund and the understaffing of the accounting department. Management is making arrangements to modify accounting system and procedures to ascertain all transactions related to the CDBG-DR Fund is presented in the Bank's general ledger on a monthly basis. The new reporting format will be implemented by September 2023. Also, the Bank is working toward recruiting additional personnel for the accounting department.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

FINDING NO. 2022-006

ENVIRONMENTAL REVIEWS

Federal Agency:

U.S. Department of Housing and Urban Development

Federal Program:

Federal Financial Assistance Listing 14.228
Community Development Block Grants/State's Program and
Non-Entitlement Grants in Hawaii

Federal Award No:

B-18-DP-72-0001

Compliance Requirement:

Special Tests and Provisions

Questioned Costs:

None

Repeated Finding:

Yes

Criteria:

The subrecipient agreement between the Bank and the Puerto Rico Department of Housing (PRDOH), establishes in the Terms and Conditions Section *Part III-Scope of Work, sub-section A. (2)*, that all services shall be made in accordance with PRDOH guidelines, HUD guidelines and regulations, and other applicable state and federal laws and regulations.

The 24 C.F.R. Part 58, National Environmental Policy Act (NEPA) establishes the requirements that subrecipients must follow in carrying out all HUD environmental review requirements.

Condition and Context:

From a total of 1,484 SBF Program Recovery Grants (the grants) awarded to business applicants during the year ended June 30, 2022, in the amount of \$64,654,049, we selected a sample of sixty-six (66) grants awarded, in the total amount of \$2,839,563, to verify compliance with environmental reviews requirements and noted that in one (1) case, representing 2% of the sample, the Environmental Review Report was signed by the Business Applicant after the Grant Award Agreement's date.

Cause:

Management has not consistently applied monitoring procedures to ensure that required documents were properly obtained.

Effect:

The absence of proper monitoring over required documentation causes the Bank to fall in noncompliance with federal requirements and the terms and conditions as established in the subrecipient agreement.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

Recommendation:

Management must establish internal controls that permit the promptly detection of any non-compliance of documentation requirements to avoid falling in noncompliance with federal requirements and the terms and conditions as established in the subrecipient agreement.

Views of Responsible Officials and Planned Corrective Action:

Management agrees with the finding.

The Environmental Review (ER) is a document required by the federal government. However, the SRA signed on March 22, 2020, Exhibit A - Scope of Work, did not designate a role in terms of the ER to the Bank. It was with the signing of amendment A to the SRA on May 3, 2021, assigned a limited responsibility to the EDB for the ER. As indicated in the section below, the EDB only needs to obtain the required information.

4.6 Environmental Review

4.6.1 Obtain all information required for Grant Manager and PRDOH to be able to conduct an appropriate environmental review. Such information may be location coordinates, cadaster number, and or mapping location.

The ER is prepared, signed, and uploaded in Canopy by the Environmental Review Team (ER T) contracted by the Puerto Rico Department of Housing (PRDOH). In addition, they are responsible for completing the information in the ER and Award Coordination TAB. It is the ERT who is designated to prepare the ER.

In the audit CDBGDR-IA-SBF-21-09-03 of December 16, 2021, carried out by the internal audit office of the DV, the EDB worked in coordination with them to correct the cases identified that were missing the ER. The BDE provided the ERT with the necessary information for the CEST or CENST to be completed, and correctly classified the ERs that were associated in Canopy under an incorrect classification.

Likewise, the EDB worked on an action plan with the PRDOH and Horne of Puerto Rico to identify and work on any closed case without the ER.

Based on the instructions sent by the DV on August 17, 2021, the BDE ensures that, prior to closing a case the ER is uploaded and the fields of Environmental Status and the Environmental Review Updated are completed. Canopy must indicate the Environmental Review Completed and the date of the preparation of the report.

The DV and Horne of Puerto Rico, established in Canopy the necessary controls to prevent a case from being closed without having the ER, therefore, until the fields of Environmental Status and Updated are not completed the status of the case cannot change from Pending Award Coordination to Pending Award Signing.

It should be noted that in the sample of 26 cases in the audit process of the Single Audit 2021, in the nine (9) cases indicated, the ER was prepared after the signing of the grant agreement, but in none of the cases were eligibility problems detected regarding this requirement.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

It should be noted that in the sample of 66 cases in the audit process of the Single Audit 2022, in one (1) case indicated, the ER was prepared after the signing of the grant agreement, but not eligibility problem detected regarding this requirement.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

FINDING NO. 2022-007

SINGLE AUDIT REPORT

<u>Federal Agency:</u>	U.S. Department of Housing and Urban Development
<u>Federal Program:</u>	Federal Financial Assistance Listing 14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
<u>Federal Award No:</u>	B-18-DP-72-0001
<u>Compliance Requirement:</u>	Special Tests and Provisions
<u>Questioned Costs:</u>	None
<u>Repeated Finding:</u>	Yes

Criteria:

The subrecipient agreement between the Bank and the Puerto Rico Department of Housing (PRDOH), establishes in the Terms and Conditions *Part X. Compliance with Federal Statutes, Regulations and the Terms and Conditions of the Federal Award and Additional PRDOH Requirements, Section P. Single Audit*, that the Subrecipient must be audited as required by 2 C.F.R. part 200, subpart F when it is expected that the Subrecipient's Federal awards expended during the respectively fiscal year equaled or exceeded the threshold set forth in section 200.501 Audit Requirements.

The 2 C.F.R 200.501 (a) establishes that non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part.

The 2 C.F.R 200.512 (a) (1) establishes that the audit must be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. If the due date fall on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.

Condition and Context:

The Single Audit Report of the Bank for the fiscal year ended June 30, 2022, was not submitted on or before March 31, 2023, as required by the Uniform Guidance. The Single Audit related to such period was completed after the 9 months deadline.

Cause:

Information to complete the financial statements audit procedures was not available within the required period.

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For the Year Ended June 30, 2022

Effect:

Noncompliance with the above-mentioned requirements could lead to administrative actions by the grantor, representing a significant deficiency in internal control over compliance.

Recommendation:

Data collection form and single audit package shall be submitted within the required due date.

Views of Responsible Officials and Planned Corrective Action:

Management agrees with the finding.

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Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2022

Finding Reference Number	Finding Description	Finding Current Status
2021-001	The Bank cash accounts reconciliations were not completely reconciled during the months from March 2020 to end of fiscal years 2020, 2021 and part of 2022.	Not corrected
2021-002	Reports required in the subrecipient agreement between the Bank and the Puerto Rico Department of Housing were not timely submitted and contained inaccuracies.	Not corrected
2021-003	Environmental reviews required in the subrecipient agreement between the Bank and the Puerto Rico Department of Housing were signed by the Awarded Applicant after the Grant Award Agreement's date.	Not corrected
2021-004	Data collection form and single audit report were not submitted in a timely manner as required by the Uniform Guidance.	Not corrected