

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

Single Audit Package

June 30, 2023

(With Independent Auditors' Report Thereon)

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

Table of Contents

June 30, 2023

	Pages
Independent Auditors' Report	1-3
Management's Discussion and Analysis (Unaudited)	4-10
Basic Financial Statements:	
Statement of Net Position (Deficit)	11
Statement of Revenues, Expenses and Changes in Net Position (Deficit)	12
Statement of Cash Flows	13-14
Notes to Basic Financial Statements	15-54
Required Supplementary Information:	
Schedule of Proportionate Share of Total Pension Liability	55
Schedule of Proportionate Share of Total OPEB Liability	56
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	57-58
Schedule of Expenditures of Federal Awards	59
Notes to Schedule of Expenditures of Federal Awards	60
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	61-63
Schedule of Findings and Questioned Costs	64-80
Summary Schedule of Prior Audit Findings	81

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, 2023 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, 2023, 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.

Subsequent Events

As further discussed in Note 22 to the basic financial statements, on March 22, 2024 the subrecipient agreement for the Small Business Financing Program (SBFP) increased the total designed amount for grants to \$285 million and extended the performance period up to September 22, 2025. Furthermore, in fiscal year 2024, the Bank settled its time deposits amounting to \$110.4 million for \$9.7 million. Therefore, resulting in a gain on troubled debt restructuring of \$100.7 million. On February 9, 2024, the Bank was awarded \$3.9 million from the U.S. Department of Treasury as part of the SSBCI Technical Assistance Grant Program. 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 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.

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 schedule of proportionate share of total pension liability and related ratios and schedule of proportionate share of total other postemployment benefit liability in pages 55 and 56 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 59-60, 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 August 21, 2024 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
August 21, 2024

Certified Public Accountants
License No. 95 expires on December 1, 2026.
Stamp No. E536427 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, 2023

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, 2023 and 2022, 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 (PRDOH) 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 increased by approximately \$35.7 million, as a result of the net operating income including SSBCI program revenue of \$4.8 million and gain on troubled debt restructuring of \$32 million.
- Total interest income amounted to approximately \$4.5 million, an increase of approximately \$2.8 million over the prior year's results; while total non-interest income amounted to approximately \$36.4 million, an increase of approximately \$32.1 million over the prior year non-interest income of approximately \$4.3 million.
- The Bank, as subrecipient of CDBG-DR SBF Program funds was awarded approximately \$82.7 million in 2023 to be disbursed as grants to eligible small businesses affected in 2017 by Hurricanes Irma and María, an increase of approximately \$15.2 million over prior year amount of \$67.5 million.

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, 2023

Comparison of 2023 and 2022 Assets, Liabilities, and Net Position

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

Net Position	2023	2022	Increase/(Decrease)	
			Amount	Percentage
Assets:				
Current assets	\$ 145,095	116,003	29,092	25.1%
Noncurrent assets	56,238	57,692	(1,454)	-2.5%
Deferred outflows of resources	11,898	8,142	3,756	46.1%
Total assets and deferred outflows of resources	\$ 213,231	181,837	31,394	17.3%
Liabilities:				
Current liabilities	\$ 148,410	155,230	(6,820)	-4.4%
Noncurrent liabilities	31,839	31,381	458	1.5%
Deferred inflow of resources	3,237	1,198	2,039	170.2%
Total liabilities and deferred inflows of resources	183,486	187,809	(4,323)	-2.3%
Net Position:				
Net investment in capital assets	7,106	3,469	3,637	104.8%
Restricted for special loan programs	9,111	4,328	4,783	110.5%
Unrestricted	13,528	(13,769)	27,297	198.2%
Net Position	29,745	(5,972)	35,717	598.1%
Total liabilities, deferred inflows and net position	\$ 213,231	181,837	31,394	17.3%

At June 30, 2023, the Bank's total assets and deferred outflows of resources were approximately \$213.2 million (\$69.2 million from EDBC) compared to \$181.8 million at June 30, 2022 (\$65.4 million from EDBC). The increase of \$31.4 million represents 17% of the 2022 total assets balance. Total loan portfolio increased by 5.8% when compared to balances as of June 30, 2022. Loan disbursements increased from \$1.9 million in 2022 to \$3.9 million in 2023, while principal collected on loans decreased from \$3.5 million (includes \$1.3 million of recoveries from prior year loans charged-off) for fiscal year 2022 to \$2.9 million for fiscal year 2023. The related allowance for loan losses increased by \$44,400 or 0.9% of the 2022 balance. The net loan portfolio increased by \$937,500.

At June 30, 2023, the Bank's total liabilities and deferred inflows of resources were \$183.5 million compared to \$187.8 million at June 30, 2022. The decrease of \$4.3 million represents 2.3% of the 2022 total liabilities. Total time deposits were \$110.4 million as of June 30, 2023. Time deposits consist totally of certificates of deposit of public funds from other governmental institutions. Total time deposits decreased by \$35.1 million. The Bank recognized \$25.2 million in program funds received in advance for SSBCI program. Refer to Note 11 to the basic financial statements for further details on SSBCI Program.

As of year-end, the notes payable balance was fully repaid, which reflects a decrease of approximately \$3.7 million during fiscal year 2023.

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, 2023

The Bank had net position of \$29.7 million at June 30, 2023, an increase of \$35.7 million or 598.1% when compared to June 30, 2022. The increase results from net operating income including SSBCI program revenue of \$4.8 million and gain on troubled debt restructuring of \$32 million.

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

Comparison of 2023 and 2022 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	2023	2022	Increase/(Decrease)	
			Amount	Percentage
Interest Income:				
Interest income from loans	\$ 1,151	1,596	(445)	-27.9%
Interest income from investments and deposits	3,388	177	3,211	1814.1%
Total interest income	4,539	1,773	2,766	156.0%
Noninterest income	36,431	4,272	32,159	752.8%
Total operating revenue	40,970	6,045	34,925	577.8%
Operating expenses:				
Interest expense	303	507	(204)	-40.2%
Provision (recovery) for loan losses	—	(1,300)	1,300	100.0%
Noninterest expenses	12,204	10,844	1,360	12.5%
Total operating expenses	12,507	10,051	2,456	24.4%
Nonoperating revenue / (expenses):				
Grants revenue - CDBG-DR	82,690	67,493	15,197	22.5%
Grants expenditures	(80,195)	(64,654)	(15,541)	24.0%
Program revenue SSBCI	4,759	—	4,759	100.0%
	7,254	2,839	4,415	155.5%
Net changes in net position	\$ 35,717	(1,167)	36,884	3160.6%

For the year ended June 30, 2023, the Bank presents a net income or net change in net position of \$35.7 million when compared to the net loss of \$1.2 million for the year ended June 30, 2022. The increase in operating income resulted from the net effect of the following:

a. Interest Income

Total interest income increased by approximately \$2.7 million, from \$1.8 million in 2022 to \$4.5 million in 2023. This increase in interest income was mainly due to the increase in interest rates throughout the year ended June 30, 2023, and the related income generated from excess cash invested in Treasury Bills and certificates of deposit.

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, 2023

b. Noninterest Income

Noninterest income increased by approximately \$32.1 million, from a \$4.3 million in fiscal year 2022 to \$36.4 million in 2023. The increase is mainly due to a \$32 million realized gain in the discounted cancellation of a \$35.1 million time deposit for a 8.8% balance payment or \$3.1 million.

c. Provision for Loan Losses

There was no provision for loan losses recorded during 2023, while there was a recovery of loan losses of \$1.3 million during the fiscal year ended June 30, 2022.

d. Interest Expense

Total interest expense decreased by 40.2% or approximately \$204,000, from \$507,000 in 2022 to \$303,000 in 2023. This decrease in interest expense resulted from reduced balances and lack of adjustment in interest rates, despite the market rates increases throughout 2023.

e. Noninterest Expenses

Noninterest expenses increased by approximately \$1.36 million or 13% during fiscal year 2023. This increase in noninterest expenses resulted from the net effect of the following:

- The pension and other postemployment benefits show an increase of \$760,500, from approximately \$2.9 million in 2022 to \$3.6 million in 2023. This is mainly due to the additional pension benefits accumulated during year ended June 30, 2023, and other changes in actuarial assumptions. Refer to Notes 17 and 18 to the basic financial statements.
- Salaries and employee benefits increased by 20% or \$952,000, from approximately \$4.9 million in 2022 to approximately \$5.8 million in 2023. This is mainly due to increase in payroll of approximately \$951,800.
- Professional fees increased by 28.8% or \$146,100, from approximately \$507,600 in 2022 to approximately \$653,700 in 2023.
- Occupancy and related expenses (including depreciation and amortization) increased by 8.7% or \$66,100, from approximately \$764,000 in 2022 to approximately \$830,100 in 2023.
- Advertising expense increased by 238% or \$175,600, from approximately \$73,700 in 2022 to approximately \$249,300 in 2023.
- All other noninterest expenses decreased by 43.6% or \$741,000, from approximately \$1.7 million in 2022 to approximately \$1 million in 2023.

f. Nonoperating Revenue/ (Expenses)

Nonoperating Revenue/ (Expenses) reflect an increase of \$4.42 million in comparison to the prior year. The grant revenue from the CDBG-DR SBF Program received during fiscal year ended June 30, 2023 of \$82.7 million, a \$15.2 million increase when compared to 2022. CDBG-DR SBF Program Grant

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, 2023

expenditures during the year ended on June 30, 2023 of \$80.2 million. An increase of \$15.5 million or 24% in comparison to \$64.7 million in 2022.

The Bank recognized during fiscal year ended June 30, 2023, SSBCI program revenue of \$4.8 million.

Analysis of the Overall Financial Position and Results of Operations

The average balance of funds available from deposits and the related investments reflect a decrease when comparing 2023 to 2022, mainly due to the reduction in cash flows from principal collections on investment maturities of \$6.5 million. When compared with fiscal year 2022, cash and cash equivalents decreased 0.6% or \$563,000, from \$105.9 million in 2022 to \$105.3 million in 2023.

On the liabilities side, time deposits balances from other governmental and financial institutions decreased \$35.1 million or 24.1%, mainly due to the discounted cancellation of a \$35.1 million time deposit for a 8.8% balance payment or \$3.1 million. Interest rates increased significantly throughout fiscal year 2023, while they remained low during 2022.

During the fiscal years 2023 and 2022, \$74,000 and \$1,343,420 were recovered in previously charged off loans, respectively.

Discussion of Significant Capital Assets and Long-Term Debt Activity

During fiscal year 2023, approximately \$382,000 in capital assets were acquired and \$3,000 were retired. As of year-end, the note payable was fully repaid, which reflected a repayment of approximately \$3.7 million during fiscal year 2023. Additional information about capital assets and long-term debt activity is presented in Notes 5 and 10 to the basic financial statements, respectively.

Currently Known Facts

Bank's Financial Condition

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

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, 2023

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 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 full satisfaction of a senior secured mortgage loan owed by the Bank to the GDB Debt Recovery Authority. The Bank completed the payment of the mortgage loan on June 1, 2023. Refer to Note 10 to the basic financial statements. Subsequent to the closing of the year, the Bank signed multiple settlement agreements with all the government entities with outstanding time deposits in the portfolio. Refer to Notes 9 and 22 to the 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.

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.

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, 2023

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 in 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 and with the approval of the Federal Oversight and Management Board, in order to cancel them against a payment for a discounted amount. During year ended June 30, 2023 the Bank recorded a gain on troubled debt restructuring of \$32 million. Subsequently the bank generated a gain on troubled debt restructuring of \$100.7 million related to additional time deposits settled. Refer to Note 22 to the basic financial statements.

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 4 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 loan sales executed during year 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, 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, 2023

ASSETS	EDB Operating Fund	EDB Capital Investment	CDBG-DR SBF Program	Eliminations	Total
CURRENT ASSETS:					
Cash and due from banks	\$ 88,217,390	—	—	—	88,217,390
Interest bearing deposits	17,066,175	29,363,768	—	(29,363,768)	17,066,175
Cash and cash equivalents	105,283,565	29,363,768	—	(29,363,768)	105,283,565
Loans, net of allowance for loan losses of \$1,673,861	4,222,446	—	—	—	4,222,446
Accounts receivable - Puerto Rico Department of Housing	—	—	10,212,822	—	10,212,822
Accounts receivable - Commonwealth	25,234,627	—	—	—	25,234,627
Accrued interest receivable	141,370	1,550	—	(1,550)	141,370
Total current assets	134,882,008	29,365,318	10,212,822	(29,365,318)	145,094,830
NONCURRENT ASSETS:					
Investments	329,598	39,804,669	—	—	40,134,267
Loans, net of allowance for loan losses of \$3,320,652	8,748,759	—	—	—	8,748,759
Real estate available for sale	110,974	—	—	—	110,974
Other assets	138,088	—	—	—	138,088
Internal balances	1,503,372	20,328	(1,523,700)	—	—
Depreciable assets, net	7,106,137	—	—	—	7,106,137
Total noncurrent assets	17,936,928	39,824,997	(1,523,700)	—	56,238,225
Total assets	152,818,936	69,190,315	8,689,122	(29,365,318)	201,333,055
Deferred outflows of resources:					
Pension related	11,862,394	—	—	—	11,862,394
Other post employment benefit related	35,804	—	—	—	35,804
Total deferred outflow of resources	11,898,198	—	—	—	11,898,198
Total assets and deferred outflows of resources	\$ 164,717,134	69,190,315	8,689,122	(29,365,318)	213,231,253
LIABILITIES					
CURRENT LIABILITIES:					
Time deposits	\$ 139,763,631	—	—	(29,363,768)	110,399,863
Accrued interest payable	21,027	—	—	(1,550)	19,477
Accounts payable and accrued liabilities	1,809,175	—	6,724	—	1,815,899
Accounts payable - grants	—	—	8,682,398	—	8,682,398
Program funds received in advance	25,234,627	—	—	—	25,234,627
Pension liability	1,688,538	—	—	—	1,688,538
Other post employment benefit liability	32,124	—	—	—	32,124
Other liabilities	537,430	—	—	—	537,430
Total current liabilities	169,086,552	—	8,689,122	(29,365,318)	148,410,356
NONCURRENT LIABILITIES:					
Pension liability	30,723,812	—	—	—	30,723,812
Other post employment benefit liability	415,052	—	—	—	415,052
Other liabilities	700,055	—	—	—	700,055
Total noncurrent liabilities	31,838,919	—	—	—	31,838,919
Total liabilities	200,925,471	—	8,689,122	(29,365,318)	180,249,275
Deferred inflows of resources - pension related	3,237,107	—	—	—	3,237,107
NET POSITION (DEFICIT):					
Invested in capital assets	7,106,137	—	—	—	7,106,137
Restricted for special loan programs	9,110,834	—	—	—	9,110,834
Unrestricted (deficit)	(55,662,415)	69,190,315	—	—	13,527,900
Total net position (deficit)	(39,445,444)	69,190,315	—	—	29,744,871
Total liabilities, deferred inflows of resources and net position (deficit)	\$ 164,717,134	69,190,315	8,689,122	(29,365,318)	213,231,253

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, 2023

	EDB Operating Fund	EDB Capital Investment	CDBG-DR SBF Program	Eliminations	Total
OPERATING REVENUE:					
INTEREST INCOME:					
Loans	\$ 1,150,874	—	—	—	1,150,874
Investments and interest bearing deposits	3,388,171	17,104	—	(17,104)	3,388,171
Total interest income	4,539,045	17,104	—	(17,104)	4,539,045
NONINTEREST INCOME					
Gain on troubled debt restructuring	31,970,236	—	—	—	31,970,236
Net realized and unrealized gain on investments	—	3,770,488	—	—	3,770,488
Investment income	—	42,632	—	—	42,632
Other income	672,201	—	—	(24,743)	647,458
Total noninterest income	32,642,437	3,813,120	—	(24,743)	36,430,814
Total operating revenue	37,181,482	3,830,224	—	(41,847)	40,969,859
OPERATING EXPENSES:					
INTEREST EXPENSE:					
Time deposits	121,839	—	—	(17,104)	104,735
Promissory note payable	198,859	—	—	—	198,859
Total interest expense	320,698	—	—	(17,104)	303,594
NONINTEREST EXPENSES:					
Salaries and employee benefits	3,341,666	—	—	—	3,341,666
Pension and other post employment benefits	3,626,126	—	—	—	3,626,126
Depreciation and amortization	432,397	—	—	—	432,397
Occupancy and related expenses	397,751	—	—	—	397,751
Professional fees	653,670	24,743	—	(24,743)	653,670
Advertising	249,264	—	—	—	249,264
Other	1,007,507	—	—	—	1,007,507
Total noninterest expenses	9,708,381	24,743	—	(24,743)	9,708,381
Total operating expenses	10,029,079	24,743	—	(41,847)	10,011,975
OPERATING INCOME	\$ 27,152,403	3,805,481	—	—	30,957,884
NONOPERATING REVENUES (EXPENSES)					
Grants revenue-CDBG-DR SBF Program	—	—	82,690,179	—	82,690,179
Grants expenditures-CDBG-DR SBF Program	—	—	(80,195,314)	—	(80,195,314)
Salaries-CDBG-DR SBF Program	—	—	(2,494,865)	—	(2,494,865)
Program revenue-SSBCI	4,759,066	—	—	—	4,759,066
Total nonoperating revenues (expenses)	4,759,066	—	—	—	4,759,066
Net changes in net position (deficit)	31,911,469	3,805,481	—	—	35,716,950
TOTAL NET POSITION (DEFICIT), beginning of year	(71,356,913)	65,384,834	—	—	(5,972,079)
TOTAL NET POSITION (DEFICIT), end of year	\$ (39,445,444)	69,190,315	—	—	29,744,871

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, 2023

	EDB Operating Fund	EDB Capital Investment	CDBG-DR SBF Program	Eliminations	Total
Cash flows from operating activities:					
Payments for goods and services	\$ (1,846,021)	(24,743)	6,724	24,743	(1,839,297)
Payments to employees	(5,694,924)	—	—	—	(5,694,924)
Collections for other operating income/(expenses)	639,751	42,632	—	(24,743)	657,640
Principal repayments of loans	2,930,419	—	—	—	2,930,419
Loan originations	(3,867,937)	—	—	—	(3,867,937)
Collections of interest on loans	1,085,857	—	—	—	1,085,857
Internal funds	(10,579,162)	11,367,129	(787,967)	—	—
Net cash (used in) provided by operating activities	(17,332,017)	11,385,018	(781,243)	—	(6,728,242)
Cash flows from non-capital financing activities:					
Cash received for CDBG-DR SBF Program	—	—	79,651,452	—	79,651,452
Cash disbursements for CDBG-DR SBF Program	—	—	(76,375,344)	—	(76,375,344)
Payments to employees CDBG-DR SBF Program	—	—	(2,494,865)	—	(2,494,865)
Cash received for SSBCI Program	4,759,066	—	—	—	4,759,066
Net increase/(decrease) in time deposits	(3,147,086)	—	—	—	(3,147,086)
Interest paid on time deposits	(124,224)	—	—	16,225	(107,999)
Net cash provided by noncapital financing activities	1,487,756	—	781,243	16,225	2,285,224
Cash flows from capital and related financing activities:					
Acquisition of capital assets	(262,066)	—	—	—	(262,066)
Principal payment on promissory note payable	(3,687,910)	—	—	—	(3,687,910)
Interest paid on promissory note payable	(176,393)	—	—	—	(176,393)
Net cash used in capital and related financing activities	(4,126,369)	—	—	—	(4,126,369)
Cash flows from investing activities:					
Acquisition of investments	—	(1,427,536)	—	—	(1,427,536)
Principal collections and maturities on investments	59,484	5,974,492	—	—	6,033,976
Interest bearing deposits with other banks	15,948,199	(15,948,199)	—	—	—
Collections of interest and dividend income on investments	3,367,511	16,225	—	(16,225)	3,367,511
Proceeds from sale of real estate available for sale	32,450	—	—	—	32,450
Net cash provided by (used in) investing activities	19,407,644	(11,385,018)	—	(16,225)	8,006,401
Net decrease in cash and cash equivalents	(562,986)	—	—	—	(562,986)
CASH AND CASH EQUIVALENTS, beginning of year	105,846,551	—	—	—	105,846,551
CASH AND CASH EQUIVALENTS, end of year	\$ 105,283,565	—	—	—	105,283,565

(Continued)

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, 2023

	EDB Operating Fund	EDB Capital Investment	CDBG-DR SBF Program	Eliminations	Total
Reconciliation of operating income to net cash (used in) provided by operating activities:					
Operating income / (loss)	\$ 27,152,403	3,805,481	—	—	30,957,884
Adjustments to reconcile operating income to net cash (used in) provided by operating activities:					
Depreciation and amortization	432,397	—	—	—	432,397
Net realized and unrealized loss on investments	—	(3,770,488)	—	—	(3,770,488)
Gain on troubled debt restructuring	(31,970,236)	—	—	—	(31,970,236)
Gain on sale of real estate available for sale	(32,450)	—	—	—	(32,450)
Changes in assets and liabilities and deferred outflows and inflows of resources that increase (decrease) cash flows from operating activities:					
Loans receivable	(937,518)	—	—	—	(937,518)
Accrued interest receivable	(3,413,026)	—	—	—	(3,413,026)
Other assets	49,113	—	—	—	49,113
Internal balances	(10,579,162)	11,367,129	(787,967)	—	—
Deferred outflows of resources-Pension	(3,755,723)	—	—	—	(3,755,723)
Deferred outflows of resources-OPEB	(700)	—	—	—	(700)
Accrued interest payable	280,536	(17,104)	—	—	263,432
Accounts payable and accrued liabilities	413,058	—	6,724	—	419,782
Pension liability	3,608,172	—	—	—	3,608,172
Other post employment benefit liability	16,751	—	—	—	16,751
Other liabilities	(634,235)	—	—	—	(634,235)
Deferred inflows of resources-pension related	2,038,603	—	—	—	2,038,603
Net cash (used in) provided by operating activities	<u>\$ (17,332,017)</u>	<u>11,385,018</u>	<u>(781,243)</u>	<u>—</u>	<u>(6,728,242)</u>
Supplemental cash flows information and noncash transactions:					
Increase in fair value of investments	<u>\$ —</u>	<u>(3,770,488)</u>	<u>—</u>	<u>—</u>	<u>(3,770,488)</u>
Loans written-off	<u>\$ 29,537</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>29,537</u>
Transfer from real estate available for sale to capital assets	<u>\$ 120,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>120,000</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, 2023

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.

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, 2023

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. Subsequently grants under this program were increased 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. 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 Notes 13 and 22 to the basic financial statements.

In February 2023, the Bank's application for 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. The Puerto Rico Treasury Department was appointed as the custodian of the funds.

On March 23, 2023, \$29.9 million was 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 transactions with entrepreneurs are committed, becoming part of the Bank's program revenues. As of June 30, 2023, \$4.8 million in SSBCI funds have been committed in loan participation transactions. Funds not committed as of June 30, 2023 are presented as program funds received in advance as a liability in the accompanying Statement of Net Position (Deficit).

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.

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, 2023

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
- 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.

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, 2023

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.

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 3 and 8 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.

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, 2023

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.

Transfers of Financial Assets and Participating Interests - Transfers of an entire financial asset or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

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.

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, 2023

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.

Program Funds Received in Advance - Program funds received in advance of eligibility requirements, under program awards from the U.S. Department of Treasury, are recorded as a liability until the eligible program expenditures are incurred, at which time the program revenue is recognized.

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 over the average of the expected remaining service lives of all plan members, which is 5 years for 2023. 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. For the other postemployment benefit

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, 2023

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.

Classification of Net Position – The Bank's net position is classified as follows:

- Invested in capital assets - consist of capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to the acquisition, construction, or improvement of those assets, if any.
- Restricted for special loan programs - is the net position that is legally or contractually obligated to be spent in accordance with restrictions imposed by external parties for a specific loan program.
- Unrestricted - is the net position that is not subject to externally imposed restrictions governing its use. While unrestricted net position may be designated for specific purposes by action of management, they are available for use, at the discretion of the Bank to meet current expenses for any purpose.

Classification of Revenues-The Bank has classified its revenues as either interest or noninterest revenues. Interest revenues include operating activities of the Bank derived from lending or investment activity that are considered exchange transactions. Noninterest revenues include all other revenues of the Bank derived from nonoperating activity or nonexchange transactions. Noninterest revenues include activities related to capital contributions, federal grants and other revenue sources.

Pension - 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

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, 2023

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.

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 a 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.

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.

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, 2023

Recently Adopted Accounting Standards Updates

On July 1, 2022, the Bank adopted the following new statements of financial accounting standards issued by the GASB:

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset-an intangible asset- and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than the subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The adoption of this statement did not have a material impact on the Bank's basic financial statements. As a result, the Bank continues accounting for these arrangements under the former accounting guidance.

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

GASB Statement No. 94, *Public-Private and Public-Public Partnership and Availability Payment Arrangement*. This statement addresses issues related to public-private and public-public partnership arrangements (PPPs). It establishes definitions for PPPs and availability payment arrangements and provides uniform guidance for governments to report assets and liabilities related to PPPs consistently. The adoption of this statement had no impact on the Bank's basic financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

The GASB has issued the following accounting pronouncements that have effective dates after June 30, 2023. Management is evaluating the impact that these statements will have on the Bank's basic financial statements.

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 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.

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, 2023

GASB Statement No. 100 *Accounting Changes and Error Corrections*—an amendment of GASB Statement No. 62, 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*, 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. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 102 *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 103 *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

Financial Accounting Standards Board (FASB), Accounting Standard Update (ASU) 2016-13 *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments* as modified by subsequently issued ASUs 2018-19, 2019-04, 2019-05, 2019-11, 2020-02 and 2022-02. This ASU requires estimating all expected credit losses for certain types of financial instruments,

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, 2023

including trade receivables, held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. This ASU is effective for non-public entities for fiscal years beginning after December 31, 2022.

2. 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, 2023, 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 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, 2023.

Description	Carrying Amount	Depository Bank Balance	Amount Uninsured and Uncollateralized
Cash and due from banks	\$ 88,217,390	88,442,554	—
Interest-bearing deposits with banks	17,066,175	17,066,175	—
Total cash and cash equivalents	\$ 105,283,565	105,508,729	—

At June 30, 2023, the Bank had cash equivalents amounting to \$76,136,570.

3. INVESTMENTS

The Bank's investments held at June 30, 2023, are summarized in the following table:

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Municipal bond	\$ 329,598	17
External investment pools	39,804,669	N/A
Total fair value	\$ 40,134,267	

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.

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, 2023

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, 2023, 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.

The Bank was exposed to the following custodial credit risk for investments held at June 30, 2023:

Uninsured and registered, with securities held by the counterparty's trust department or agent in the Bank's name	\$ 329,598
Uninsured and unregistered, with securities held by the Bank	<u>39,804,669</u>
Total	<u>\$ 40,134,267</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, 2023, 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, 2023, the venture capital balances consist of the following:

External investment pools	\$ 39,804,669
Equity investments	<u>4,974,000</u>
	44,778,669
Allowance for possible losses in venture capital investments	<u>(4,974,000)</u>
Fair value of venture capital investments	<u>\$ 39,804,669</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.

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, 2023

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, 2023, 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, 2023, 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, 2023.

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans outstanding at June 30, 2023 have maturities that range from 2023 to 2052 and interest rates that range from 2.00% to 15.75%.

The reconciliation of loans with the Statement of Net Position (Deficit) as of June 30, 2023 is as follows:

Current portion	\$ 4,222,446
Noncurrent portion	<u>8,748,759</u>
Total loans, net	<u>\$ 12,971,205</u>

Loans distribution among industry sectors as of June 30, 2023 is as follows:

Agricultural	\$ 318,424
Commercial	1,777,613
Services	6,618,409
Manufacturing	1,694,564
Tourism	<u>7,556,708</u>
Total Loans	17,965,718
Allowance for loans losses	<u>(4,994,513)</u>
Total loans, net	<u>\$ 12,971,205</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.

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, 2023

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.

At June 30, 2023, 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	\$ 305,934	9,547	2,943	—	318,424
Commercial	1,166,379	—	204,784	406,450	1,777,613
Services	6,492,643	8,752	6,880	110,134	6,618,409
Manufacturing	1,146,534	—	—	548,030	1,694,564
Tourism	7,556,708	—	—	—	7,556,708
Total	<u>\$ 16,668,198</u>	<u>18,299</u>	<u>214,607</u>	<u>1,064,614</u>	<u>17,965,718</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, 2023 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	<u>11,202,778</u>
Total recorded investment on impaired loans	<u>\$ 11,202,778</u>
Related valuation allowance	<u>\$ 4,576,255</u>
Average recorded investment on impaired loans	<u>\$ 12,142,000</u>
Interest income recognized	<u>\$ 580,763</u>

At June 30, 2023, 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 \$3,922,008 (\$1,064,614 over 90 days and \$2,857,394 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 \$152,346 during 2023. 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.

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, 2023

The balance of nonaccrual loans by industry sector at June 30, 2023, were as follows:

Agricultural	\$ 187,588
Commercial	406,450
Services	2,670,313
Manufacturing	548,030
Tourism	<u>109,627</u>
Total	<u>\$ 3,922,008</u>

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, 2023 is as follows:

	<u>Principal</u>	<u>Allowance</u>
Commercial	\$ 106,281	25,569
Services	3,456,681	1,329,041
Manufacturing	<u>514,454</u>	<u>514,454</u>
Total	<u>\$ 4,077,416</u>	<u>1,869,064</u>

The following table presents the troubled debt restructuring modified during the year ended June 30, 2023:

	<u>Premodification</u>	<u>Postmodification</u>
Outstanding recorded investment	\$ 19,656	21,478
Number of contracts	1	1
Weighted average rate	6.99%	6.99%
Weighted average term (months)	—	2

Of the total troubled debt restructurings during 2023 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, 2023, management established an allowance for loan losses based upon the risk characteristics of the loans outstanding and the payment history of loans.

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, 2023

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, 2023:

	<u>Agricultural</u>	<u>Commercial</u>	<u>Services</u>	<u>Manufacturing</u>	<u>Tourism</u>	<u>Total</u>
Allowance for loan losses:						
Beginning balance	\$ 162,469	68,023	1,459,101	530,770	2,729,724	4,950,087
Provision (recovery) for loan losses	(79,736)	67,371	(75,745)	25,710	62,400	—
Loans charged-off as uncollectible	—	—	(29,537)	—	—	(29,537)
Recoveries	3,516	2,765	67,682	—	—	73,963
Ending balance	86,249	138,159	1,421,501	556,480	2,792,124	4,994,513
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	51,522	—	1,310,279	514,454	2,700,000	4,576,255
Collectively evaluated for impairment	34,727	138,159	111,222	42,026	92,124	418,258
Ending allowance	86,249	138,159	1,421,501	556,480	2,792,124	4,994,513
Loans:						
Individually evaluated for impairment	187,588	—	3,382,177	514,454	7,118,559	11,202,778
Collectively evaluated for impairment	130,836	1,777,613	3,236,232	1,180,110	438,149	6,762,940
Total loans balance	\$ 318,424	1,777,613	6,618,409	1,694,564	7,556,708	17,965,718

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. Several of these cases are still outstanding, in discovery proceedings and pending resolution. Refer to Note 15 to the basic financial statements for more details.

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2023 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	12,343,590	237,435	120,000	12,701,025
Furniture and equipment	4,905,305	24,631	—	4,929,936
Total cost	19,983,895	262,066	120,000	20,365,961
Less accumulated depreciation and amortization:				
Building and improvements	(8,079,896)	(351,340)	—	(8,431,236)
Furniture and equipment	(4,747,531)	(81,057)	—	(4,828,588)
Total accumulated depreciation and amortization	(12,827,427)	(432,397)	—	(13,259,824)
Capital assets, net	\$ 7,156,468	(170,331)	120,000	7,106,137

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, 2023

The Bank's principal premises are partially rented to various lessees under lease terms expiring at various future dates. Rent revenue amounting to approximately \$572,000 was recorded as other income in the accompanying statement of revenue, expenses, and changes in net position for the year ended June 30, 2023. On July 1, 2021, management evaluated the Bank's arrangements for operating leases related to office space as a lessor under GASB Statement No. 87 which requires the lessor to recognize a lease receivable and a deferred inflow of resources. The Bank determined that the adoption of GASB Statement No. 87 did not have a material effect on the Bank's basic financial statements and continues accounting for these arrangements 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, 2023, future minimum rental income is as follows:

2024	\$	601,600
2025		78,300
2026		57,500
2027		56,000
2028		<u>56,800</u>
	\$	<u><u>850,200</u></u>

6. REAL ESTATE AVAILABLE FOR SALE

Activity for real estate available for sale during the year ended June 30, 2023 was as follows:

Beginning balance	\$	230,974
Additions		—
Transfer to capital assets		(120,000)
Sales		<u>—</u>
Ending balance	\$	<u><u>110,974</u></u>

The Bank realized a gain of \$32,450 on sale of real estate available for sale for properties with book value fully reserved.

7. OTHER ASSETS

As of June 30, 2023 other assets are mainly composed of the following:

Rent receivable	\$	11,169
Other prepaid expenses		81,587
Other		<u>45,332</u>
Total other assets	\$	<u><u>138,088</u></u>

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, 2023

8. 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 Bank 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.

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, 2023:

- *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.

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, 2023

- *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.

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, 2023:

	<u>June 30, 2023</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Municipal bonds	\$ 329,598	—	329,598	—
Investments measured at NAV:				
External investment pools:				
Guayacán Private Equity Funds	\$ 33,044,057			
Venture Capital Fund	6,368,943			
Other	391,669			
Total investments	\$ 39,804,669			

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, 2023

<u>External Investment Pools</u>				
<u>June 30, 2023</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	\$ 33,044,057	761,007	N/A	N/A
Venture Capital Fund	6,368,943	—	N/A	N/A
Other	391,669	—	N/A	N/A
	<u>\$ 39,804,669</u>	<u>761,007</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, 2023:

	<u>June 30, 2023</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Impaired loans	\$ 11,202,778	—	—	11,202,778
Real estate available for sale	110,974	—	110,974	—
	<u>\$ 11,313,752</u>	<u>—</u>	<u>110,974</u>	<u>11,202,778</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, 2023.

9. TIME DEPOSITS

Time deposits of \$110,399,863 at June 30, 2023, 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 \$110,200,169 at June 30, 2023.

The principal depositors of time deposits of the Bank and representing approximately 82% of the total time deposits balance at June 30, 2023 were the following: (1) Puerto Rico Housing Finance Authority, \$67.4 million or 61%, (2) Puerto Rico Industrial Development Company, \$15.3 million or 14%, (3) Puerto Rico Department of Natural and Environmental Resources, \$7.2 million or 7%.

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

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, 2023

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 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. The transaction was accounted in accordance with GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance* that establishes that a restructuring of a debt be accounted as a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. As a result of this settlement agreement the Bank recorded a gain on troubled debt restructuring of \$31,970,236 which is presented as noninterest income in the accompanying statement of revenue, expenses and changes in net position.

Subsequently and effective between August 23, 2023 through September 27, 2023, the Bank signed multiple settlement agreements with all the government entities with outstanding time deposits in portfolio to make a one-time payment for 8.75% of total amounts owed to each entity. In 2024, the Bank made payments amounting to \$9,661,825 in full and final satisfaction of the outstanding deposits at June 30, 2023 of \$110,399,863. This initiative resulted in a significant improvement of the Bank's financial position and a fresh start to continue strengthening its financial condition. Refer to Note 22 to the basic financial statements for further details.

10. NOTE PAYABLE

On June 1, 2023, the Bank made a payment to the Government Development Bank of Puerto Rico GDB Recovery Authority (GDB-DRA) of \$3,687,910 in full satisfaction of the note payable collateralized with the real estate mortgage. The note payable bear interest at a 6% per annum and the Bank paid \$176,393 in interest for the year ended June 30, 2023.

Note payable activity for the year ended June 30, 2023 was as follows:

	Beginning Balance	Additions	Principal Payment	Ending Balance	Due Within One Year
Note payable to GDB-DRA	\$ 3,687,910	—	(3,687,910)	—	—

11. PROGRAM FUNDS RECEIVED IN ADVANCE

In February 2023, the Bank's application for participation in the SSBCI was approved. The SSBCI is a federal funds program, re-approved under the American Rescue Plan Act of 2021, to support small businesses and entrepreneurship in communities across the United States by providing capital and technical assistance to promote small business stability, growth, and success.

SSBCI includes two programs: the Capital Program and the Technical Assistance (TA) Grant Program. Under the Capital Program, participating jurisdictions implement credit and equity/venture capital programs to provide capital to small businesses. Under the TA Grant Program, the funds are used to support programs that provide legal, accounting, or financial advisory services to qualifying small businesses.

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, 2023

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. The Commonwealth was awarded \$109,373,069 as part of the Capital Program to be received by the Puerto Rico Treasury Department as the authorized recipient for the Commonwealth under this award. 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.

Each jurisdiction that is approved for participation in SSBCI will receive its allocation of main capital funds in three disbursements. As a precondition to receipt of the second and third disbursements, the jurisdiction must, among other things, certify to the U.S. Department of Treasury that the jurisdiction has expended, transferred, or obligated 80% or more of the prior disbursement of allocated funds to or for the account of one or more approved programs that have delivered loans or investments to eligible businesses. The Puerto Rico Department of Treasury was appointed as custodian of the funds received. Program funds received in advance not yet committed are presented as a liability in the accompanying statement of net position (deficit) until a new credit commitment is formalized.

On March 23, 2023, \$29,993,693 was 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 when the funds have been committed, pledged, or otherwise promised in writing. As of June 30, 2023, \$4,759,066 in SSBCI funds have been committed in loan participation transactions.

The activity of SSBCI funds for the year ended June 30, 2023 is as follows:

Total Capital Program Award	\$ 109,373,069
Less: Funds received by the Puerto Rico Treasury Department	<u>(29,993,693)</u>
Capital Program Award Remaining Balance	<u>\$ 79,379,376</u>
	<u>Awarded</u>
Funds received by the Puerto Rico Treasury Department as custodian	\$ 29,993,693
Less: Funds committed at June 30, 2023	<u>(4,759,066)</u>
Program funds received in advance not yet committed	<u>\$ 25,234,627</u>

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, 2023

12. OTHER LIABILITIES

The activity for other liabilities during 2023 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Less Due Within One Year	Noncurrent Liabilities
Compensated absences	\$ 617,242	—	(31,416)	585,826	236,465	349,361
Legal Claims	416,055	—	(316,055)	100,000	100,000	—
Early retirement program liability	838,423	—	(286,764)	551,659	200,965	350,694
Total	\$ 1,871,720	—	(634,235)	1,237,485	537,430	700,055

13. NET POSITION

The Bank's net position invested in capital assets and restricted as of June 30, 2023 is composed of the following:

Invested in capital assets:	
Capital assets	\$ 20,365,961
Accumulated depreciation and amortization	(13,259,824)
Total	\$ 7,106,137
Restricted for special loan programs:	
Day Care Centers Loan Fund	\$ 4,348,294
State Small Business Credit Initiative	4,762,540
Total	\$ 9,110,834

Day Care Center Fund

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, 2023, the outstanding principal of loans granted under the terms of the Day Care Centers Loan Fund amounted to \$240,685, and are included in loans, net in the accompanying statement of net position.

SSBCI Program

In February 2023, the Bank's application for the participation in the 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 (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.

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, 2023

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 transactions with entrepreneurs are committed, becoming part of the Bank's capital. As of June 30, 2023, \$4.8 million in SSBCI funds have been committed in loan participation transactions.

Net restricted assets for the special loan programs as of June 30, 2023 consist of the following:

Cash and due from banks	\$ 4,328,024
Loans	450,906
Other assets	<u>30,053,555</u>
Total restricted assets	34,832,485
Accounts payable and other liabilities	<u>25,721,651</u>
Total restricted net assets	<u>\$ 9,110,834</u>

CDBG-DR SBF Program

Pursuant to the subrecipient agreement between the Bank and the Puerto Rico Department of Housing (PRDOH) 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 in 2017. The Bank, as a subrecipient, supports small business and microenterprise recovery through the funding of recovery grants up to a maximum of \$150,000 to cover working capital and equipment. 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 \$285 million (increased from \$25 million after six amendments) for a period ending on September 22, 2025. According to the subrecipient agreement the Bank disburses the grant to eligible participants, and then submits reimbursement application to PRDOH. 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 2023, the Bank received reimbursement of funds related to noncompliance incidents by participants amounting to \$300,052, from this amount the Bank had \$6,724 pending to be remitted to PRDOH at the closing of the year.

The Bank will benefit by recovering the costs involved in deploying the program. During the year ended June 30, 2023, the Bank received \$83 million in grants for the program and incurred expenses amounting to \$80.2 million for eligible participants of the program. Direct costs charged to this fund amounted to approximately \$2.5 million. No indirect costs were charged to this fund in 2023. 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 Housing, the latter has the authority to determine liabilities as well as to limit, suspend, or terminate the federal assistance.

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, 2023

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 10, 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. On June 13, 2023, Amendment E was signed which increased the total authorized budget to \$255 million. Finally, on March 22, 2024, Amendment F was signed increasing the authorized budget to \$285 million and extending the performance period up to September 22, 2025. 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 PRDOH 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 PRDOH \$83 million in grants for the program during year ended June 30, 2023. As of June 30, 2023, the accounts receivable from PRDOH amounted to \$10.2 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 \$986,629 as a guarantee for loans to young entrepreneurs for a maximum of \$10,000 per loan under the "Programa Juvempresas". At June 30, 2023, the Bank held loans amounting to approximately \$26,236 under this program.

On March 10, 2023, an interagency agreement between the Bank and the Puerto Rico Department of Treasury was formalized in relation to funds awarded for SSBCI. In this agreement the Bank was appointed as manager and administrator of the program and funds allocated to the Puerto Rico jurisdiction. Refer to Notes 11 and 13 to the basic financial statements.

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, 2023, there was no pending or threatened litigation under such programs.

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, 2023

Related Party Transactions

The Bank as a member of the Commonwealth enters into transactions with different government agencies. At June 30, 2023, the Bank held deposits from the following government agencies:

Economic Development and Commerce Department	\$ 191,659
Energy Affairs Administration	3,003,301
GDB Debt Recovery Authority	4,182,968
Puerto Rico Film Commission	184,243
Puerto Rico Highway Authority	5,956,970
Puerto Rico Housing Finance Authority	67,385,413
Puerto Rico Industrial Development	15,266,718
Puerto Rico National Parks Company	7,000,426
Puerto Rico Ports Authority	544,840
Social Economic Development Administration	654,485
Funds from Economic Development and Commerce Department for "Programa Juvenmpresas"	986,629
Inactive Programs Guarantees from Other Agencies	<u>5,042,211</u>
	<u>\$ 110,399,863</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 9 and 22 to the basic financial statements.

At June 30, 2023, the Bank had one investment outstanding for \$329,598 from the GDB Debt Recovery Authority.

In 2023, 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.

Pursuant to the CDBG-DR SBF subrecipient agreement, the Bank has accounts receivable at June 30, 2023, from the PRDOH of \$10,212,822 and received funds from the same government agency for \$82,690,179.

At June 30, 2023, the Bank had a receivable balance of \$25,234,627 from the Commonwealth related to funds received by the Puerto Rico Treasury Department for SSBCI program. The Bank received in 2023 funds from the Puerto Rico Treasury Department amounting to \$4,759,066 related to this program.

15. COMMITMENTS AND CONTINGENCIES

Litigation

The loan sale executed by the Bank during the year ended June 30, 2019, described also in Note 4 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

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, 2023

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.

At June 30, 2023, most of these cases have been dismissed or stayed by plaintiff. 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, 2023, 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, 2023 the Bank had two loans amounting to \$9,671,858 that represented 54% of the loan portfolio.

Deposits

Total deposits at June 30, 2023 amounted to \$110,399,863 of which 82% represents deposits maintained in the Bank by three government agencies. Refer to Notes 9 and 22 to the basic financial statements.

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

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, 2023

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 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.

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, 2023

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.

<u>Date of Birth</u>	<u>Attained Age as of June 30, 2013</u>	<u>Retirement Eligibility Age</u>
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

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.

<u>Date of Birth</u>	<u>Attained Age as of June 30, 2013</u>	<u>Retirement Eligibility Age</u>
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.

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, 2023

(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.

(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

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, 2023

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.

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).

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, 2023

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).

(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 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

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, 2023

guarantees a 50% minimum compensation to eligible employee of its average compensation as of 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, 2023, the total liability related to these termination benefits was approximately \$551,658. 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, 2023 amounted to \$286,766. 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, 2022 actuarial measurement data was used for the pension benefits financial reporting recognition as of and for the fiscal year ended June 30, 2023.

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, 2023 (the measurement date was June 30, 2022) was \$32,412,350 and 0.14631%, 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, 2022 was 3.54%. 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, 2022 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.

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

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, 2023

- 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 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, 2022 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 3.54%, 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 (2.54%) or 1% point higher (4.54%) than the current rate (based on a proportion percentage of 0.146310% of the aggregate total pension liability of the ERS allocated to the Bank as of June 30, 2022 (measurement date):

	<u>1% Decrease (2.54%)</u>	<u>Current Discount Rate (3.54%)</u>	<u>1% Increase (4.54%)</u>
The Bank's proportionate share of total pension liability	\$ 36,269,224	32,412,350	29,204,203

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, 2023

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, 2023, related to the ERS amounted to \$3,610,075.

Deferred outflows and deferred inflows of resources from pension activities reported in the Bank's statement of net position as of June 30, 2023 are as follow:

Deferred Outflows of Resources

Changes in proportion	\$ 10,173,856
Bank's Pay Go pension benefits payments made subsequent to the measurement date	<u>1,688,538</u>
	<u>\$ 11,862,394</u>

Deferred Inflows of Resources

Changes in assumptions	\$ 2,549,851
Differences between expected and actual experience in measuring total pension liability	<u>687,256</u>
	<u>\$ 3,237,107</u>

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2023 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
2023	\$ 6,860,596	(1,618,554)	5,242,042
2024	<u>3,313,260</u>	<u>(1,618,553)</u>	<u>1,694,707</u>
	<u>\$ 10,173,856</u>	<u>(3,237,107)</u>	<u>6,936,749</u>

Deferred outflows of resources related to pension benefit payments made by the Bank subsequent to the measurement date which amounted to \$1,688,538 as of June 30, 2023, will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. 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, 2022, 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.

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-

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, 2023

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, 2022 actuarial measurement data was used for the OPEB financial reporting recognition as of and for the fiscal year ended June 30, 2023.

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, 2023 (measurement date as of June 30, 2022) was \$447,176 and 0.06429%, respectively.

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, 2022 was 3.54%. 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.

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, 2023

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 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, 2023 (measurement date June 30, 2022) for ERS-OPEB calculated using the discount rate of 3.54%, as well as what the Banks's proportionate share of the OPEB liability if it were calculated using a discount rate of 1% point lower (2.54%) or 1% point higher (4.54%) than the current rate:

	<u>1% Decrease (2.54%)</u>	<u>Current Discount Rate (3.54%)</u>	<u>1% Increase (4.54%)</u>
The Bank's proportionate share of total OPEB liability	\$ 486,761	447,176	413,197

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, 2023

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

OPEB expense recognized by the Bank for the year ended June 30, 2023 related to ERS-OPEB amounted to \$16,051.

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 \$35,804 as of June 30, 2023, which will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2024.

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, 2022, 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. At June 30, 2023, 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>761,007</u>
Commitments to extend credit	\$ <u>4,998,325</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, 2023, 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.

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, 2023

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, 2023, the Bank did not have a reserve outstanding for potential losses associated with unfunded loan commitments.

20. OTHER NONINTEREST INCOME

Other noninterest income for the year ended June 30, 2023 consists of the following:

Rental income (Note 5)	\$ 571,949
Gain on sale of real estate available for sale	32,450
Miscellaneous income	<u>43,059</u>
Total	<u>\$ 647,458</u>

21. OTHER NONINTEREST EXPENSES

Other noninterest expenses for the year ended June 30, 2023 consist of the following:

Electricity	\$ 480,772
Insurance	270,186
Repairs and maintenance	156,220
Operations temporary support	87,969
Uncollectible loans expenses	63,261
Computer programs licensing	50,510
Water	48,435
Telephone	27,133
Special disbursements - OATRH	25,000
Dues and subscriptions	24,957
Office supplies	23,842
Reimbursement of expenses to employees	10,624
Investment operations	8,004
Vehicles	6,503
Postage	5,924
Bank charges	2,303
Release of reserve for legal claims	(316,055)
Miscellaneous	<u>31,919</u>
Total	<u>\$ 1,007,507</u>

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, 2023

22. SUBSEQUENT EVENTS

Subsequent events were evaluated through August 21, 2024, to determine if any event should either be recognized or disclosed in the 2023 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.

Subrecipient Agreement with the PRDOH

On March 22, 2020, the Bank signed a subrecipient agreement with the PRDOH. The PRDOH 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. This subrecipient agreement designated \$25 million to the Bank to serve as underwriter, servicer, and compliance manager for the program in partnership with the PRDOH.

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 10, 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. On June 13, 2023, Amendment E was signed which increased the total authorized budget to \$255 million. Finally, on March 22, 2024, Amendment F was signed increasing the authorized budget to \$285 million and extending the performance period up to September 22, 2025.

Time Deposits Settlement

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 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 \$100.7 million adequately capitalizing the Bank. The settlement agreement was approved on July 17, 2023 by the FOMB. The Bank signed multiple settlement agreements with government entities with outstanding balances in time deposits between August 23, 2023 and September 27, 2023 and made payments amounting to \$9,661,825.

State Small Business Credit Initiative (SSBCI)

On February 9, 2024, the Bank was awarded \$3,885,940 from the U.S. Department of Treasury as part of the SSBCI Technical Assistance Grant Program. The SSBCI Technical Assistance Grant program provides financial assistance to eligible recipients to carry out technical assistance plans, under which eligible recipients will provide legal, accounting, and financial advisory services to small businesses and business enterprises owned and controlled by socially and economically disadvantaged individuals.

REQUIRED SUPPLEMENTARY INFORMATION

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

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

For the Year Ended June 30, 2023

	2023*	2022*	2021*	2020*	2019*	2018*
Proportion of Total Pension Liability	0.14631%	0.10596%	0.09917%	0.09392%	0.08302%	0.07707%
Proportionate Share of Total Pension Liability	\$ 32,412,350	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	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, 2023

	2023*	2022*	2021*	2020*	2019*	2018*
Proportion of total OPEB liability	0.06429%	0.05393%	0.05583%	0.51780%	0.05194%	0.05333%
Proportionate Share of total OPEB liability (asset)	\$ 447,176	430,425	488,296	430,970	437,442	490,879
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, 2023, and the related notes to the financial statements, which collectively comprise the Bank's basic financial statements and have issued our report thereon dated August 21, 2024.

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.

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. However, as described in the accompanying schedule of finding and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of finding and questioned costs as items **2023-001** and **2023-002** to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of finding and questioned costs as item **2023-003** to be significant deficiency.

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 **2023-004** and **2023-005**.

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
August 21, 2024

Certified Public Accountants
License No. 95 expires on December 1, 2026.
Stamp No. E536428 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, 2023

Federal Grantor/Pass-through Grantor/ Program Title	Federal Assistant Listing Number	Pass-through Entity Identifying Number	Expenditures
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>82,690,179</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, 2023

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, 2023. 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 not 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 expenditures June 30, 2023
Federal expenditures under this program	\$ <u>82,690,179</u>

**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, 2023. 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, 2023.

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 instance of noncompliance which is 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 **2023-004 to 2023-007**. 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item **2023-006** to be a material weakness.

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 items **2023-004**, **2023-005** and **2023-007** 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
August 21, 2024

Certified Public Accountants
License No. 95 expires on December 1, 2026.
Stamp No. E536429 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, 2023

Section I-Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Significant deficiencies identified? X yes 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>82,690,179</u>
Auditee qualify as low-risk auditee?		<u> </u> yes <u> X </u> 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, 2023

Section II-Financial Statements Findings

FINDING NO. 2023-001: 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 our examination for fiscal year 2020, we noted the cash account reconciliations were not being prepared on a timely basis. Even though improvement has been noted, the situation continues to be present as of June 30, 2023. We noted there were unreconciled amounts in two (2) cash accounts. Even if unreconciled amounts 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. As a result of investigation of two reconciling items in June 2023, the Bank identified two duplicated grant disbursements made in 2020 and 2021.

Unreconciled amounts should be investigated and not be allowed to be carried over from month to month. Management has achieved significant progress reducing the dollar amount and quantity of unreconciled items and continues 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

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, 2023

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. This procedure will ensure the timely identification and resolution of errors and will ensure that general ledger balances are accurate and properly supported.

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. Since then, the Bank has hired additional personnel for the accounting department. Currently all cash accounts are being reconciled on a monthly basis and outstanding items and/or discrepancies, if any, are corrected in the next period.

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, 2023

FINDING NO. 2023-002: PROGRAM REPORTS AND ACCOUNTING RECORDS

Repeated Finding: Yes

Criteria:

As more fully described in finding 2023-006, 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 PRDOH establishes that the Bank as subrecipient is responsible for ensuring that separate accounting is maintained for CDBG-DR funds in its internal accounting system and records.

Condition:

As described in finding 2023-006, for the year ended June 30, 2023, 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 a difference of \$14,966,519 that was not reconciled.

We consider 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 2023-006 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 2023-006 for the effect of this observation.

Recommendation:

Refer to finding 2023-006 for the recommendation for the observations associated with this finding.

Views of Responsible Officials and Planned Corrective Action:

Refer to finding 2023-006 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, 2023

FINDING NO. 2023-003

GRANT AWARDS REVIEW

Repeated Finding:

Yes

Criteria:

As more fully described in finding 2023-004, 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 2023-004, during our examination, we performed different audit testing to validate compliance with criteria described above. From a total of 1,600 SBF Program Recovery Grants (the grants) awarded to business applicants during the year ended June 30, 2023, in the amount of \$80,195,314, we performed a grant award test to validate various compliance requirements for the grant. We selected a sample of sixty-one (61) grants awarded as follows: eighteen (18) awarded for working capital purposes, thirty-four (34) awarded for working capital and equipment and nine (9) grants awarded for the purchase of equipment, in the total amount of \$2,896,504.

In addition, we performed a closeout test to validate procedures surrounding expenditure review and closeout of the grant. We selected a sample of sixty-one (61) cases, in the total amount of \$2,942,184 from a total of 317 grants awarded amounting to \$15,294,128 for which closeout procedures were completed during the year ended June 30, 2023.

As more fully described in finding 2023-004, we noted the following:

- *Amount Awarded Computed Incorrectly*
- *Duplicated Grant Disbursements*
- *Incorrect Data in Grant Management System of Record for the Grants*

Cause:

Management has not consistently applied procedures as described in the Bank's policies for underwriting, duplication of benefits, expenditure review and closeout as more fully described in finding 2023-004.

Effect:

Refer to finding 2023-004 for the effect of this observation.

Recommendation:

Refer to finding 2023-004 for the recommendation for the observations associated with this finding.

Views of Responsible Officials and Planned Corrective Action:

Refer to finding 2023-004 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, 2023

Section III-Federal Award Findings and Questioned Costs

FINDING NO. 2023-004

GRANT AWARDS REVIEW

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:

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 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, 2023

Conditions and Context:

During our examination, we performed different audit testing to validate compliance with criteria described above. From a total of 1,600 SBF Program Recovery Grants (the grants) awarded to business applicants during the year ended June 30, 2023, in the amount of \$80,195,314, we performed a grant award test to validate various compliance requirements for the grant. We selected a sample of sixty-one (61) grants awarded as follows: eighteen (18) awarded for working capital purposes, thirty-four (34) awarded for working capital and equipment and nine (9) grants awarded for the purchase of equipment, in the total amount of \$2,896,504.

In addition, we performed a closeout test to validate procedures surrounding closeout of the grant. We selected a sample of sixty-one (61) cases, in the total amount of \$2,942,184 from a total of 317 grants awarded amounting to \$15,294,128 for which closeout procedures were completed during the year ended June 30, 2023.

Amount Awarded Computed Incorrectly

Based on the results of our examination, we noted the following instances where the amount of the award was computed incorrectly:

- As a result of our grant award testing, we noted the following:
 - We recomputed the amount of the grant awarded and noted that in one (1) case, representing 2% of the total sample, the amount of the award was computed incorrectly. The amount of over payment to the Business Applicant amounted to \$308.
- As a result of our closeout procedures testing, we noted the following:
 - In one (1) case, representing 2% of the total sample, the amount of award was computed incorrectly. The amount of over payment to the Business Applicant amounted to \$3,283.

Missing Documents in Grant Management System of Record for the Grants

Based on the results of our examination, we noted the following instances where documents were missing in the Grant Management System of Record for the Grants (Canopy) or the document had missing information.

- As a result of our grant award testing, we noted the following:
 - For the grants awarded for equipment, we reviewed the supporting documentation for required quotes and noted that in fourteen (14) cases, or 23%, the quotes provided by the Business Applicants did not have a date.
- As a result of our closeout procedures testing, we noted the following:
 - For three (3) cases, representing 5% of total sample, the grant award agreement in the documents presented in Canopy was not dully signed. Total awarded grants to these business applicants amounted to \$150,000. As a result of our observation, management uploaded to Canopy the signed grant award agreements.

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, 2023

- As a result of other audit testing (additional sample of 31 cases), we noted the following:
 - For one (1) case, representing 3% of total sample, the grant award agreement was not located on file. The document was found in the grant award extension file.
 - For two (2) cases, representing 6% of the total sample, certain documentation related to the benefits received was not located in the file. Documents were found in the grant award extension file.

Duplicated Grant Disbursements

As a result of other audit procedures, we noted two duplicated grant disbursements made by the Bank as follows:

- On June 14, 2023, the Bank identified a duplicated grant disbursement made for \$50,000 to one Business Applicant. The grant was disbursed by the Bank two times, on July 15, 2021 and July 20, 2021. The expenditure reimbursement by PRDOH was not duplicated since the funds were properly billed to PRDOH. The Bank, once the incident was identified, made the necessary arrangements and was able to recover the duplicated amount completely.
- On June 26, 2023, the Bank identified a duplicated grant disbursement for \$49,271 made to two different bank accounts. Due to an inadvertent error when processing the disbursement on June 28, 2020, the grant was disbursed to an incorrect account and then was later disbursed to the correct bank account. The investigation of the first disbursement was not completed by the Bank at the time of processing the second disbursement for the grant. The expenditure of the grant reimbursed by the PRDOH was not duplicated since the funds were billed properly to PRDOH. The Bank has not been able to recover the duplicated amount completely.

Incorrect Data in Grant Management System of Record for the Grants

As a result of our audit procedures, we noted several instances where the information in the Grant Management System of Record was inaccurate. The situations noted were as follows:

- While reviewing the report provided for closeout procedures, we noted differences in four (4) cases for the grant amount as per the grant award agreement and the amount included in the closeout report. The differences amounted to \$112,390 and were due to cases with a grant award extension application where the Grant Management System of Record replaced the first award information with the second award.
- As a result of our closeout procedures testing, we noted the following situations:
 - For twelve (12) cases, representing 20% of total sample, we could not validate the eligibility review start date. The data disclosed in this field on the first application was the date of the grant award extension.
 - In one (1) case, representing 2% of total sample, we could not obtain certain information from the Award Coordination Section in the Grant Management System of Record in relation to the application evaluated (first application) due to system problem that replaced information with the data for the extension award application for additional funds.

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, 2023

- For five (5) cases, representing 8% of total sample, the approved grant amount as per Grant Management System of Record, does not agree with the amount disclosed in the corresponding grant award agreement nor in the grant award report provided for audit purposes due to replacement of data with information for extension award application.
- In one (1) case, representing 2% of total sample, the approved grant amount as per the Grant Award Agreement does not agree with the amount in the Grant Award Report provided for audit purposes due to replacement of information with second award application in extension for additional funds.
- As a result of other audit procedures (additional sample of 31 cases), we noted that, for grants with a request for extension, the information between both applications was not properly identified to present the data related to the first application separated to the data of the second application:
 - For five cases (5), representing 16% of the total sample, we could not validate the Duplication of Benefits (DOB) status updated date. The data disclosed in this field on the first application was from the grant award extension and not for the grant being evaluated.
 - For two cases (2), representing 6% of the total sample, some data from the DOB Section in the Grant Management System of Record was not related to the first application. The data disclosed on the first application was from the grant award extension.
 - For one case (1), representing 3% of the total sample, the approved grant amount as per Grant Management System of Record did not agree with the amount disclosed in the corresponding Grant Award Agreement nor in the Closeout Report provided for audit purposes. The information in the Grant Management System of Record reflected data from the grant award extension instead of data related to the first application.

Cause:

Management has not consistently applied procedures as described in the Bank's policies for underwriting, duplication of benefits, expenditure review and closeout to ensure compliance with requirements.

In addition, for applications with grant award extension, the Bank requested the program administrator to duplicate files to avoid entering basic information for the same application. This matter caused the information between both applications to be mixed between first application and grant award extension.

Effect:

The Bank did not comply with monitoring procedures of work performed as detailed in the policies and procedures to ensure amounts awarded incorrectly, missing documents in Grant Management System of Record and duplicated grant disbursements are promptly identified and corrected. This resulted in a significant deficiency in internal controls of grant award process.

In addition, the Bank needs to ensure as part of the closeout procedures that information included in the file belongs to the case being evaluated and any change in the information that does not agree with the application is properly investigated and corrected with the appropriate supporting documentation. Any change for the application needs to be properly documented in the notes for the case to ensure proper audit trail for any subsequent review.

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, 2023

Recommendation:

Management must establish internal controls that permit the proper detection of any instance of non-compliance with policies and procedures established for the underwriting, duplication of benefits, expenditure review and closeout of the grant. By doing so, the Bank will 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 amendment in the Subrecipient Agreement to increase the grant awards from \$50,000 to \$150,000 resulted in new information provided by customers replacing in the Award Management Application's, (Canopy), old information used in the original grant award. The bank established new procedures/requirements to avoid duplicate disbursements and/or confirm customers' bank accounts before processing transactions. All resources working on the CDBG-DR Small Business Financing (SBF) project have been trained to perform their role in accordance with the Program Guidelines, SOPs, and regulations. Cases identified with deficiencies, as part of the 2023 Single Audit at the Grant Awarding and Closing Stages, will be used as examples to prevent this situation from repeating in the future and to establish additional quality control (QC) by Team Leaders. In addition, recapture (repayment of any grant amount received by the grantee), of funds awarded and disbursed will apply when the SBF Program Guidelines are not met.

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, 2023

FINDING NO. 2023-005

DUPLICATION OF BENEFITS

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:

Allowable Costs / Cost Principles

Questioned Costs:

\$150,000

Repeated Finding:

No

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 *Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act)*, as amended, 42 U.S.C. § 5121 et seq., prohibits any person, business concern, or other entity from receiving federal funds for any part of such loss as to which it has received financial assistance under any other program, from private insurance, charitable assistance, or any other source. As such, PRDOH must consider disaster recovery aid received by or available to SBF Program Business Applicants and determine if any assistance is duplicative.

Condition and Context:

We performed a closeout test to validate procedures surrounding the expenditure review and closeout of the grants. We selected a sample of sixty-one (61) cases for detail testing in the total amount of \$2,942,184 from a total of 317 grants awarded amounting to \$15,294,128 for which closeout procedures were completed during the year ended June 30, 2023.

For one (1) case out of the sixty-one (61) cases examined, representing 2% of the sample, we noted the case was identified with a duplication of benefits (DOB) in the system. Upon further review, we noted the Business Applicant received a grant from another government agency for working capital in the amount of \$276,203 that was not disclosed by the Business Applicant at the time the grant was approved. The documents supporting the grant were provided by the Business Applicant during the expenditure review and closeout procedures. This grant, when considered in the calculation for DOB for the grant approved of \$150,000, created a duplicative assistance. As a result, due to failure to receive additional grant information from the Business Applicant, there was no unmet need at the time the grant was approved.

The expenditure review and closeout procedures for the grant were completed and confirmation of compliance was sent to the Business Applicant although the system showed a DOB in the review. No explanation was found in the notes with the evaluation to determine the benefits were not duplicated. In

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, 2023

addition, the DOB in the system was later removed by request to the system administrator without the proper analysis and supporting documentation for the change requested.

Cause:

Management has not consistently applied procedures as described in the “Duplication of Benefits Policy” to ensure all duplicative assistance is properly evaluated.

Effect:

The absence of proper monitoring over established policies and procedures causes the Bank to fall in noncompliance with federal requirements and the terms and conditions as established in the subrecipient agreement. This resulted in a significant deficiency in internal controls over duplication of benefits evaluation.

Recommendation:

Management must establish internal controls that permit the prompt detection of any instance of non-compliance with documentation requirements. By doing so, the Bank will 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 Bank established additional procedures to avoid duplication of benefits before completing the closeout phase of each grant. All resources working on the CDBG-DR Small Business Financing (SBF) project have been trained to perform their role in accordance with the Program Guidelines, SOPs, and regulations.

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, 2023

FINDING NO. 2023-006

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 PRDOH, (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 is 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.

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
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

Condition and Context:

- *Monthly Reporting*

The Bank uses the Grant Compliance Portal (GCP) to submit Administrative and Performance Reports to the PRDOH. The GCP is a performance reporting system created for PRDOH to monitor regular monthly progress by the subrecipient for administrative and performance activities.

The GCP is independent of other systems used for the underwriting, approval, closeout and billing of the grants to PRDOH. As such, requires the manual input of the information monthly. Once the Bank completes the information in the GCP, it is reviewed by PRDOH. Review notes related to the performance of the Bank are added before finalizing the report. The signed report by all the points of contact is kept by the Bank as evidence of compliance with the submission of the Administrative and Performance Reports by the due date.

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 as of June 30, 2023. We noted a difference of \$14,966,519 due to grants awarded in February 2023 and March 2023 that were not reflected in the Administrative and Performance Reports. This caused a discrepancy in the cumulative actual total amount of grants awarded for the year that impacts the results in the monitoring of performance by PRDOH.

The Bank needs to reconcile the figures with the accounting system to confirm the information for the period is properly reflected in the Administrative and Performance Reports before the submission of the report to ensure the monitoring performed by PRDOH is based on correct and reliable information.

- *Accounting Records and Reconciliations*

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 the 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 internal control procedures that permit the proper reconciliation of the amount of grants awarded per accounting records with the amounts disclosed in the Administrative and Performance Reports.

Effect:

The absence of proper internal 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

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, 2023

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 consider that the above conditions are material weaknesses in internal control over compliance.

Recommendation:

The Bank should ensure, specifically to the CDBG-DR Fund, that adequate procedures and internal controls related to monthly review, reconciliation and approval are in place to ensure that proper monthly accounting is maintained and 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:

Management agrees with the facts presented by the auditor. Nonetheless, we do not agree that there's an absence of proper internal controls in the areas of program reports and accounting records.

The EDB, as Subrecipient, performs the closings of CDBG-DR SBF Grants and enters each transaction's information in a system provided by the CDBG-DR SBF Recipient and its Consultants. The Administrative and Performance Reports, referred to by the auditor, are automatically generated by the Award Management system and other systems provided by the Recipient to us. The difference reflected between the Bank's records and the Administrative and Performance Reports results from a system's bug that is solely under the control of the Recipient and its Consultants. The differences herein indicated were informed to the Recipient and its Consultants to be corrected.

The EDB record properly reflects the correct figures presented to the auditor in the Schedule of Expenditures and Federal Awards as of June 30, 2023.

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 are presented in the Bank's general ledger on a monthly basis. Also, the Bank has recruited 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, 2023

FINDING NO. 2023-007

SINGLE AUDIT REPORT

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 *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 respective 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, 2023, was not submitted on or before March 31, 2024, 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.

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, 2023

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.

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

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2023

Finding Reference Number	Finding Description	Finding Current Status
2022-001	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
2022-002	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
2022-003	Exception noted related to amount awarded computed incorrectly, duplicated grant disbursement, failure to provide evidence of economic losses for approval of grant and missing documents in Grant Management System of Record for the Grants.	Corrected
2022-004	Refer to finding 2022-003.	Corrected
2022-005	Differences noted between grants awarded per Administrative and Performance Reports and per the Schedule of Expenditures and Federal Awards, and although disbursements are recorded in a separate fund, the Bank does not present revenues, expenses, assets and liabilities in its General Ledger.	Not corrected
2022-006	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.	Corrected
2022-007	Data collection form and single audit report were not submitted in a timely manner as required by the Uniform Guidance.	Not corrected