

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

Single Audit Package

June 30, 2024

(With Independent Auditors' Report Thereon)

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

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June 30, 2024

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Independent Auditors' Report

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

Report on the Audit of the Basic Financial Statements

Opinion

We have audited the accompanying Statement of Net Position of the Economic Development Bank for Puerto Rico (the Bank) as of June 30, 2024 and the statements of revenue, expenses and changes in net position, 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, 2024, 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 Basic 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 21 to the basic financial statements, on February 13, 2025 the subrecipient agreement for the Small Business Financing Program (SBFP) increased the total designed amount for grants to \$305 million. Our opinion is not modified with respect to this matter.

Litigation

As discussed in Note 14 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 Basic Financial Statements

Management is responsible for the preparation and fair presentation of the basic 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 basic 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 Basic Financial Statements

Our objectives are to obtain reasonable assurance about whether the basic 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 basic 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 basic 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 basic 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 basic 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 9 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 51 and 52 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 55-56, 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2025 on our consideration of the Bank's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Bank's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Bank's internal control over financial reporting and compliance.



San Juan, Puerto Rico
September 15, 2025

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



DPSC95-214

Economic Development Bank for Puerto Rico

**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, 2024

Introduction

This section provides an overview of the financial performance of the Economic Development Bank for Puerto Rico (the Bank) for the fiscal years ended June 30, 2024 and 2023. It should be read in conjunction with the Bank's basic financial statements and accompanying notes.

The Bank's operations are accounted for as enterprise funds and include its principal operating fund and two blended component units: the Economic Development Bank Capital Investment (EDBCI) and the Community Development Block Grant – Disaster Recovery Small Business Financing Program (CDBG-DR SBF) Program. EDBCI accounts for local equity and venture capital investments, while the CDBG-DR SBF Program manages grant disbursements to eligible small businesses under a subrecipient agreement with the Puerto Rico Department of Housing (PRDOH), primarily for recovery from hurricanes Irma and María in 2017.

The Bank's basic financial statements follow the accrual basis of accounting, consistent with private financial institutions, and include:

- **Statement of Net Position** – showing year-end assets, liabilities, deferred inflows/outflows, and net position.
- **Statement of Revenues, Expenses, and Changes in Net Position** – reporting operating and nonoperating results for the year.
- **Statement of Cash Flows** – summarizing cash inflows and outflows from operating, noncapital financing, capital and related financing, and investing activities.

Financial Highlights – 2024

- **Net position** increased by \$105.8 million (355.6%) to \$135.5 million as of June 30, 2024, mainly from \$100.7 million due to a gain on troubled debt restructuring associated with the settlement of time deposits with public entities, and program revenues from CDBG-DR SBF and the State Small Business Credit Initiative (SSBCI) initiatives.
- **Total assets and deferred outflows** decreased by \$20.6 million (-9.6%) to \$192.7 million, reflecting lower current asset balances after the deposit settlements.
- **Total liabilities and deferred inflows** dropped by \$126.3 million (-69.0%) to \$57.2 million, due to the settlement of \$110.4 million in unsecured deposit claims from 17 government entities.
- **Total interest income** increased by \$1.83 million (40.4%) to \$6.37 million, driven by higher yields on investments and deposits.
- **Noninterest income** totaled \$2.49 million.
- **CDBG-DR SBF grant revenue** was \$69.05 million, with \$66.11 million related to grant expenditures.
- **SSBCI program revenue** totaled \$6.81 million.

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Comparison of 2024 and 2023 Assets, Liabilities, and Net Position

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

	<u>2024</u>	<u>2023</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>Percentage</u>
Assets:				
Current assets	\$ 132,813	145,095	(12,282)	-8.5%
Noncurrent assets	56,219	56,238	(19)	0.0%
Deferred outflows of resources	<u>3,640</u>	<u>11,898</u>	<u>(8,258)</u>	-69.4%
Total assets and deferred outflows of resources	<u>\$ 192,672</u>	<u>213,231</u>	<u>(20,559)</u>	-9.6%
Liabilities:				
Current liabilities	\$ 27,167	148,410	(121,243)	-81.7%
Noncurrent liabilities	29,805	31,839	(2,034)	-6.4%
Deferred inflow of resources	<u>191</u>	<u>3,237</u>	<u>(3,046)</u>	-94.1%
Total liabilities and deferred inflows of resources	<u>57,163</u>	<u>183,486</u>	<u>(126,323)</u>	-68.8%
Net Position:				
Invested in capital assets	6,697	7,106	(409)	-5.8%
Restricted for special loan programs	16,010	9,111	6,899	75.7%
Unrestricted	<u>112,802</u>	<u>13,528</u>	<u>99,274</u>	733.8%
Total net position	<u>135,509</u>	<u>29,745</u>	<u>105,764</u>	355.6%
Total liabilities, deferred inflows of resources and net position	<u>\$ 192,672</u>	<u>213,231</u>	<u>(20,559)</u>	-9.6%

Analysis of Assets, Liabilities, and Net Position

Assets

- Current assets decreased by \$12.3 million (-8.5%) to \$132.8 million, mainly from the payout of time deposit settlements.
- Noncurrent assets remained stable at \$56.2 million.
- Deferred outflows of resources decreased by \$8.26 million (-69.4%), due to lower pension and OPEB-related balances.

Liabilities and Deferred Inflows

- Current liabilities declined by \$121.2 million (-81.7%) due to settlement of government entities deposits.
- Noncurrent liabilities decreased by \$2.0 million (-6.4%).
- Deferred inflows dropped by \$3.0 million (-94.1%), reflecting actuarial adjustments.

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Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2024

Net Position

- Restricted for special programs increased by \$6.9 million (75.7%), reflecting credit granted to small businesses from SSBCI program.
- Unrestricted net position increased by \$99.3 million (733.8%), driven by the gain on troubled debt restructuring related to payout of time deposits settlements.
- Overall net position increased to \$135.5 million, up \$105.8 million from 2023.

Comparison of 2024 and 2023 Revenues, Expenses, and Changes in Net Position

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

	<u>2024</u>	<u>2023</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>Percentage</u>
Interest Income:				
Loans	\$ 1,398	1,151	247	21.5%
Investments				
and interest bearing deposits	4,973	3,388	1,585	46.8%
Total interest income	6,371	4,539	1,832	40.4%
Noninterest income	2,492	4,461	(1,969)	-44.1%
Total operating revenue	8,863	9,000	(137)	-1.5%
Operating expenses:				
Recovery from loan losses	(600)	—	(600)	100.0%
Interest expense	—	304	(304)	-100.0%
Noninterest expenses	11,255	9,708	1,547	15.9%
Total operating expenses	10,655	10,012	643	-6.4%
Nonoperating revenues / (expenses):				
Gain on troubled debt restructuring	100,748	31,970	68,778	215.1%
Grants revenue - CDBG-DR	69,048	82,690	(13,642)	-16.5%
Grants expenditures - CDBG-DR	(69,048)	(82,690)	13,642	-16.5%
Program revenue - SSBCI	6,809	4,759	2,050	43.1%
Total nonoperating revenues, net	107,557	36,729	70,828	192.8%
Net changes in net position	\$ 105,765	35,717	70,048	196.1%

Results of Operations

- **Interest Income** – Totaled \$6.37 million in 2024, up \$1.83 million (40.4%) from 2023, with investment and deposit income rising to \$4.97 million and loan interest at \$1.40 million.

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(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2024

- **Noninterest Income** – \$2.49 million in 2024 compared to \$4.46 million in 2023.
- **Recovery from Loan Losses** – \$600,000 in 2024, compared to \$0 in 2023.
- **Noninterest Expenses** – Increased by \$1.5 million (15.9%) to \$11.3 million, due to higher personnel and operating costs.
- **CDBG-DR Grant Revenue and Expenditures** – Revenue was \$69.05 million (down 16.5%), and expenditures were \$69.05 million (down 16.5%).
- **SSBCI Program Revenue** – \$6.81 million, compared to \$4.76 million in 2023.

Net change in net position was \$105.77 million in 2024, compared to \$35.72 million in 2023, an increase of \$70.05 million (196.1%).

Currently Known Facts

Bank's Financial Condition

For many years, the Bank and the Commonwealth of Puerto Rico (the Commonwealth) experienced a prolonged fiscal, economic, and liquidity crisis. This period was characterized by persistent government deficits, an economic recession beginning in 2006, liquidity constraints, elevated unemployment, population decline, and substantial debt and pension obligations that negatively impacted credit ratings and limited access to capital at reasonable rates.

During this time, the value of the Bank's investment holdings declined, and operations relied primarily on interest income from its loan portfolio. High default rates within the portfolio constrained loan repayments, creating further liquidity pressures. In 2017, the Bank sought additional liquidity by monetizing most of its legacy loan portfolio through sales to third parties. While these sales provided short-term relief, they significantly reduced the size of the loan portfolio, eroding recurring interest income and challenging the Bank's long-term operational sustainability. This combination of factors also limited the Bank's ability to meet obligations to its depositors.

Pursuant to the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) and the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board) on June 30, 2016, Congress created a framework to restore fiscal discipline and restructure the Commonwealth's debt. Following years of litigation, the Commonwealth enacted the Law to End the Bankruptcy of Puerto Rico (Law 53) on October 26, 2021, authorizing the issuance of New General Obligation Bonds and Contingent Value Instruments (CVIs) under the Seventh Amended Plan of Adjustment. The Title III Court confirmed an amended plan on January 18, 2022, which became effective March 15, 2022, marking the Commonwealth's emergence from Title III of PROMESA.

In 2024, the Bank was formally appointed as the manager and administrator of the State Small Business Credit Initiative (SSBCI), with approximately \$109 million allocated to Puerto Rico. These funds are to be deployed through two programs: the Collateral Support Program and the Loan Participation Program, with an amendment under consideration to add a venture capital component.

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Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2024

The Bank has also continued to resolve long-standing deposit obligations. On July 18, 2022, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF) obtained approval from the Financial Oversight and Management Board for a settlement with the Government Development Bank for Puerto Rico (GDB). Under this agreement, the Bank made a one-time payment of \$3.1 million in full satisfaction of a \$35.4 million deposit liability as of June 30, 2021. This payment was completed on September 28, 2022.

Most recently, on July 17, 2023, the Oversight Board approved a comprehensive settlement between the Bank and 17 government entities holding time deposits. Under the agreement, the Bank paid \$9.7 million in cash to fully settle \$110.4 million in unsecured deposit claims—a recovery rate of 8.75%. Following fiscal year-end, the Bank executed final settlement agreements with all affected public sector depositors.

These actions, combined with the Bank's improved capital position in 2024, have significantly reduced outstanding liabilities, strengthened the balance sheet, and positioned the Bank to focus on its strategic priorities, including federal program administration, targeted credit initiatives, and economic development lending.

Significant Developments

In July 2023, the Financial Oversight and Management Board approved a comprehensive settlement agreement between the Bank and 17 government entities, resulting in:

- A one-time payment of \$9.7 million to fully settle \$110.4 million in unsecured deposit claims (8.75% recovery rate).

The Bank also advanced the implementation of the **State Small Business Credit Initiative (SSBCI)**, with over \$109 million in federal funds allocated for collateral support and loan participation programs, and continued disbursements under the **CDBG-DR SBF Program** to support small business recovery efforts.

Strategic Outlook

Management's Future Plans

The Bank has developed a five-year strategic business plan designed to strengthen its financial position, expand its role in economic development, and modernize its operations. The plan focuses on leveraging federal program funds, increasing credit support to small and medium-sized enterprises, and optimizing internal processes to ensure long-term sustainability.

A central component of this plan is the **State Small Business Credit Initiative (SSBCI)**, for which the Bank was approved by the U.S. Department of the Treasury to serve as the administrator for Puerto Rico. Under this initiative, the Bank is managing approximately \$109 million to be deployed through:

- **Collateral Support Program** – providing pledged collateral to enhance borrowers' ability to secure financing from private lenders.
- **Loan Participation Program** – enabling the Bank to partner with private lenders by purchasing portions of qualifying loans.

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Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2024

An amendment to the SSBCI allocation agreement is under consideration to establish a **Venture Capital Program**, aimed at supporting high-growth businesses and innovation-driven enterprises. The SSBCI is funded under the American Rescue Plan Act of 2021 and is intended to stimulate small business growth, job creation, and post-pandemic economic recovery.

Beyond SSBCI, the Bank is working to enhance its participation in **federal guarantee programs**, such as those offered by the Small Business Administration (SBA), to increase loan approvals, reduce lending risk, and improve access to credit for local businesses.

The Bank also continues to administer the **CDBG-DR Small Business Financing Program**, part of the Government of Puerto Rico's Disaster Recovery Action Plan. This program provides grants of up to \$150,000 to eligible small businesses that suffered losses from hurricanes Irma and María. As a subrecipient to the Puerto Rico Department of Housing, the Bank has facilitated significant disbursements to impacted businesses and expects to continue program operations until allocated funds are fully deployed.

Operationally, the Bank intends to reinvest the benefits of its 2024 liability settlements and improve net position into:

- Expanding loan and investment portfolios with a focus on underserved sectors.
- Modernizing digital platforms to improve client service and operational efficiency.
- Strengthening risk management frameworks and internal controls.

Through these initiatives, the Bank aims to capitalize on its renewed financial capacity, restore its role as a key development finance institution in Puerto Rico, and foster sustainable economic growth across the Island.

Litigation

Several legal proceedings remain outstanding regarding loan sales executed prior to and during 2019, with plaintiffs seeking annulment of contracts and return of consideration. While legal counsel does not foresee liability in cases where the Bank is a defendant, outcomes remain uncertain and could require future adjustments to the basic financial statements.

Contacting the Bank's Financial Management

This report is intended to provide a clear overview of the Bank's financial position and results. Requests for additional information should be addressed to:

Economic Development Bank for Puerto Rico
PO 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

June 30, 2024

ASSETS	EDB Operating Fund	EDB Capital Investment	CDBG-DR SBF Program	Eliminations	Total
CURRENT ASSETS:					
Cash and due from banks	\$ 86,561,132	—	1,274,728	—	87,835,860
Interest bearing deposits	12,142,929	—	—	—	12,142,929
Cash and cash equivalents	98,704,061	—	1,274,728	—	99,978,789
Loans, net of allowance for loan losses of \$1,820,295	6,863,110	—	—	—	6,863,110
Accounts receivable - Puerto Rico Department of Housing	—	—	7,296,987	—	7,296,987
Accounts receivable - Commonwealth	18,426,077	—	—	—	18,426,077
Accrued interest receivable	247,653	—	—	—	247,653
Total current assets	124,240,901	—	8,571,715	—	132,812,616
NONCURRENT ASSETS:					
Investments	315,549	40,123,387	—	—	40,438,936
Loans, net of allowance for loan losses of \$2,191,012	8,639,848	—	—	—	8,639,848
Real estate available for sale	114,074	—	—	—	114,074
Other assets	328,949	—	—	—	328,949
Internal balances	(26,106,458)	30,926,854	(4,820,396)	—	—
Depreciable assets, net	6,696,748	—	—	—	6,696,748
Total noncurrent assets	(10,011,290)	71,050,241	(4,820,396)	—	56,218,555
Total assets	114,229,611	71,050,241	3,751,319	—	189,031,171
Deferred outflows of resources:					
Pension related	3,606,488	—	—	—	3,606,488
Other post employment benefit related	33,724	—	—	—	33,724
Total deferred outflow of resources	3,640,212	—	—	—	3,640,212
Total assets and deferred outflows of resources	\$ 117,869,823	71,050,241	3,751,319	—	192,671,383
LIABILITIES					
CURRENT LIABILITIES:					
Accounts payable and accrued liabilities	\$ 1,506,553	—	48,642	—	1,555,195
Accounts payable - grants	—	—	3,702,677	—	3,702,677
Program funds received in advance - SSBCI CP	18,426,077	—	—	—	18,426,077
Program funds received in advance - SSBCI TA	1,282,360	—	—	—	1,282,360
Pension liability	1,715,295	—	—	—	1,715,295
Other post employment benefit liability	30,618	—	—	—	30,618
Other liabilities	454,953	—	—	—	454,953
Total current liabilities	23,415,856	—	3,751,319	—	27,167,175
NONCURRENT LIABILITIES:					
Pension liability	28,854,069	—	—	—	28,854,069
Other post employment benefit liability	396,146	—	—	—	396,146
Other liabilities	554,407	—	—	—	554,407
Total noncurrent liabilities	29,804,622	—	—	—	29,804,622
Total liabilities	53,220,478	—	3,751,319	—	56,971,797
Deferred inflows of resources - pension related	190,654	—	—	—	190,654
NET POSITION:					
Invested in capital assets	6,696,748	—	—	—	6,696,748
Restricted for special programs	16,009,823	—	—	—	16,009,823
Unrestricted	41,752,120	71,050,241	—	—	112,802,361
Total net position	64,458,691	71,050,241	—	—	135,508,932
Total liabilities, deferred inflows of resources and net position	\$ 117,869,823	71,050,241	3,751,319	—	192,671,383

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

For the Year Ended June 30, 2024

	EDB Operating Fund	EDB Capital Investment	CDBG-DR SBF Program	Eliminations	Total
OPERATING REVENUE:					
INTEREST INCOME:					
Loans	\$ 1,397,616	—	—	—	1,397,616
Investments and interest bearing deposits	4,973,060	—	—	—	4,973,060
Total interest income	6,370,676	—	—	—	6,370,676
NONINTEREST INCOME					
Net realized and unrealized gain on investments	—	1,419,723	—	—	1,419,723
Investment income	—	464,833	—	—	464,833
Other income	632,029	—	—	(24,630)	607,399
Total noninterest income	632,029	1,884,556	—	(24,630)	2,491,955
Total operating revenue	7,002,705	1,884,556	—	(24,630)	8,862,631
OPERATING EXPENSES:					
Recovery of loan losses	(600,000)	—	—	—	(600,000)
INTEREST EXPENSE:					
Time deposits	170	—	—	—	170
Total interest expense	170	—	—	—	170
NONINTEREST EXPENSES:					
Salaries and employee benefits	2,735,119	—	—	—	2,735,119
Pension and other post employment benefits	5,019,927	—	—	—	5,019,927
Depreciation and amortization	454,727	—	—	—	454,727
Occupancy and related expenses	450,293	—	—	—	450,293
Professional fees	693,499	24,630	—	(24,630)	693,499
Advertising	320,136	—	—	—	320,136
Other	1,581,058	—	—	—	1,581,058
Total noninterest expenses	11,254,759	24,630	—	(24,630)	11,254,759
Total operating expenses	10,654,929	24,630	—	(24,630)	10,654,929
OPERATING (LOSS) INCOME	(3,652,224)	1,859,926	—	—	(1,792,298)
NONOPERATING REVENUES (EXPENSES)					
Gain on troubled debt restructuring	100,747,809	—	—	—	100,747,809
Grants revenue-CDBG-DR SBF Program	—	—	69,047,751	—	69,047,751
Grants expenditures-CDBG-DR SBF Program	—	—	(66,108,871)	—	(66,108,871)
Salaries-CDBG-DR SBF Program	—	—	(2,078,475)	—	(2,078,475)
Professional services-CDBG-DR SBF Program	—	—	(29,480)	—	(29,480)
Indirect costs-CDBG-DR SBF Program	—	—	(830,925)	—	(830,925)
Program revenue-SSBCI	6,808,550	—	—	—	6,808,550
Total nonoperating revenues, net	107,556,359	—	—	—	107,556,359
Net changes in net position	103,904,135	1,859,926	—	—	105,764,061
TOTAL NET POSITION (DEFICIT), beginning of year	(39,445,444)	69,190,315	—	—	29,744,871
TOTAL NET POSITION, end of year	\$ 64,458,691	71,050,241	—	—	135,508,932

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

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Statement of Cash Flows

For the Year Ended June 30, 2024

	EDB Operating Fund	EDB Capital Investment	CDBG-DR SBF Program	Eliminations	Total
Cash flows from operating activities:					
Payments for goods and services	\$ (3,538,469)	(24,630)	41,918	24,630	(3,496,551)
Payments to employees	(4,635,036)	—	—	—	(4,635,036)
Collections for other operating income / (expenses)	632,029	—	—	(24,630)	607,399
Principal repayments of loans	1,550,565	—	—	—	1,550,565
Loan originations	(3,482,318)	—	—	—	(3,482,318)
Collections of interest on loans	1,323,105	—	—	—	1,323,105
Internal funds	27,609,830	(30,906,526)	3,296,696	—	—
Net cash provided by (used in) operating activities	19,459,706	(30,931,156)	3,338,614	—	(8,132,836)
Cash flows from non-capital financing activities:					
Cash received for CDBG-DR SBF Program	—	—	71,963,586	—	71,963,586
Cash disbursements for CDBG-DR SBF Program	—	—	(74,027,472)	—	(74,027,472)
Cash received for SSBCI CP Program	6,808,550	—	—	—	6,808,550
Cash received for SSBCI TA Program	1,282,360	—	—	—	1,282,360
Payment related to time deposits settlements	(9,660,749)	—	—	—	(9,660,749)
Interest paid on time deposits	(5,260)	—	—	—	(5,260)
Net cash used in noncapital financing activities	(1,575,099)	—	(2,063,886)	—	(3,638,985)
Cash flows from capital and related financing activities:					
Acquisition of capital assets	(45,338)	—	—	—	(45,338)
Interest paid on promissory note payable	(7,242)	—	—	—	(7,242)
Net cash used in capital and related financing activities	(52,580)	—	—	—	(52,580)
Cash flows from investing activities:					
Acquisition of investments	—	(207,834)	—	—	(207,834)
Principal collections on investments	14,049	1,308,839	—	—	1,322,888
Collections of interest and dividend income on investments	4,941,288	466,383	—	—	5,407,671
Payment in relation to foreclosed assets	(3,100)	—	—	—	(3,100)
Net cash provided by investing activities	4,952,237	1,567,388	—	—	6,519,625
Net increase (decrease) in cash and cash equivalents	22,784,264	(29,363,768)	1,274,728	—	(5,304,776)
CASH AND CASH EQUIVALENTS, beginning of year	75,919,797	29,363,768	—	—	105,283,565
CASH AND CASH EQUIVALENTS, end of year	\$ 98,704,061	—	1,274,728	—	99,978,789

(Continued)

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

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Statement of Cash Flows

For the Year Ended June 30, 2024

	EDB Operating Fund	EDB Capital Investment	CDBG-DR SBF Program	Eliminations	Total
Reconciliation of operating income to net cash provided by (used in) operating activities:					
Operating (loss) income	\$ (3,652,224)	1,859,926	—	—	(1,792,298)
Adjustments to reconcile operating loss (income) to net cash provided by (used in) operating activities:					
Investments and interest bearing deposits	(4,973,060)	(464,833)	—	—	(5,437,893)
Net realized and unrealized gain on investments	—	(1,419,723)	—	—	(1,419,723)
Accrued interest	170	—	—	—	170
Depreciation and amortization	454,727	—	—	—	454,727
Changes in assets and liabilities and deferred outflows and inflows of resources that increase (decrease) cash flows from operating activities:					
Loans receivable	(2,531,753)	—	—	—	(2,531,753)
Accrued interest receivable	(74,511)	—	—	—	(74,511)
Other assets	(190,861)	—	—	—	(190,861)
Internal balances	27,609,830	(30,906,526)	3,296,696	—	—
Deferred outflows of resources-Pension	8,255,906	—	—	—	8,255,906
Deferred outflows of resources-OPEB	2,080	—	—	—	2,080
Accounts payable and accrued liabilities	(302,622)	—	41,918	—	(260,704)
Pension liability	(1,842,986)	—	—	—	(1,842,986)
Other post employment benefit liability	(20,412)	—	—	—	(20,412)
Other liabilities	(228,125)	—	—	—	(228,125)
Deferred inflows of resources-pension related	(3,046,453)	—	—	—	(3,046,453)
Net cash provided by (used in) operating activities	\$ 19,459,706	(30,931,156)	3,338,614	—	(8,132,836)
Supplemental cash flows information and noncash transactions:					
Increase in fair value of investments	\$ —	(1,419,723)	—	—	(1,419,723)
Loans written-off	\$ 734,882	—	—	—	734,882
Settlement of deposits	\$ 100,747,809	\$ —	—	—	100,747,809

(Concluded)

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

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Notes to Basic Financial Statements

For the Year Ended June 30, 2024

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.

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, including various amendments for extension of time, through 2025, awarded by the U.S. Government in response to the impact of hurricanes Irma and María. The Bank as

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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 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 12 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, \$30 million was received by the Puerto Rico Department of Treasury, representing the first of three tranches of SSBCI Capital Program (CP) 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, 2024, \$11.6 million in SSBCI Capital Program funds have been committed in loan participation transactions. Funds not committed as of June 30, 2024 in the amount of \$18.4 million are presented as program funds received in advance SSBCI CP in the liability section of the accompanying Statement of Net Position.

On February 9, 2024, the Bank was awarded \$3,885,940 under the SSBCI Technical Assistance Grant Program (SSBCI TA). The program consists of providing technical assistance in the legal, accounting and financial areas, to eligible businesses in the area of accounting and financing through contracted financial and legal experts coordinated by the Bank. As of June 30, 2024, the Bank had received \$1,282,360, however, at June 30, 2024 the Bank is setting the program framework and structure. The Bank had not disbursed any funds to selected financial and legal experts for services provided to participants, and no program related expenses have been incurred. This balance is presented as program funds received in advance, SSBCI TA, in the liability section of the accompanying Statement of Net Position.

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

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subject to such estimates include the allowance for loan losses and foreclosed assets, the valuation of investments, impairment of investments and capital assets, liability on loan guarantees, accruals for legal claims and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

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

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

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. 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.

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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.

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

The accrual of interest on loans ceases when loans become past due 90 days or more and/or on those loans undergoing judicial or bankruptcy proceedings. Once a loan is placed on nonaccrual status, all

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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.

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

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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 15 days of vacation and 18 days of sick leave per year if they began employment before the enactment of Law 26-2017. Those who began employment after the implementation of Law 26-2017 accrue 12 sick days annually. Vacation may accumulate 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 Statement of Net Position.

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 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 basic 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 16 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 2024. 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 related items (further disclosed in Note 17 to the basic financial statements), only other postemployment benefit payments made subsequent to the measurement date are presented as a deferred outflow item, which

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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 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 basic 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 16 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 and amortization, 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 16 to the basic financial statements, effective July 1, 2017, a new "pay-as-you-go" (PayGo) system was enacted into law by Act No. 106 of 2017 (Act 106-2017), significantly reforming the defined benefit pension plan (the Plan) of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). Under the PayGo system, employers' contributions and other contributions ordered by special laws were all eliminated and substantially all assets of the Plan were liquidated and its proceeds transferred to the Commonwealth's General Fund for payment of pension benefits; therefore, since the enactment of Act 106-2017, the Commonwealth's General Fund is making direct payments to the pensioners and obtains reimbursement for those payments by the participating employers.

As a result of the implementation of the PayGo system, the Plan did no longer meet the criteria in paragraph 4 of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*. GASB Statement No. 73

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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, Statement of Net Position in the Case of the Bank. 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 16 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 17 to the basic financial statements.

Recently Adopted Accounting Standards Updates

On July 1, 2023, the Bank adopted the following new statements of financial accounting standards issued by the GASB:

GASB Statement No. 99 Omnibus 2022. This Statement 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

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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. The Bank evaluated the provisions of this Statement and determined that its adoption did not result in a material impact on the basic financial statements.

GASB Statement No. 100 *Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62*. This Statement, 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. The Bank evaluated the provisions of this Statement and determined that its adoption did not result in a material impact on the 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, 2024. Management is evaluating the impact that these statements will have on the Bank's basic financial statements.

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. The Bank is currently evaluating the impact of this Statement.

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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. The Bank is currently evaluating the impact of this Statement.

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. The Bank is currently evaluating the impact of this Statement.

GASB Statement No. 104 *Disclosure of Certain Capital Assets*. The objective of this statement is to provide users of government financial statements with essential information about certain types of capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2025. The Bank is currently evaluating the impact of this Statement.

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, 2024, 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, 2024.

Description	Carrying Amount	Depository Bank Balance	Amount Uninsured and Uncollateralized
Cash and due from banks	\$ 87,835,860	88,139,939	—
Interest-bearing deposits	12,142,929	12,141,249	—
Total cash and cash equivalents	\$ 99,978,789	100,281,188	—

At June 30, 2024, the Bank had cash equivalents amounting to \$78,577,259.

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3. INVESTMENTS

The Bank's investments held at June 30, 2024, are summarized in the following table:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (in Years)</u>
Municipal bond	\$ 315,549	16
External investment pools	40,123,387	N/A
Total fair value	<u>\$ 40,438,936</u>	

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

Custodial Credit Risk - Custodial credit risk related to investments is the risk that, in the event of failure of the counterparty to a transaction, the Bank may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2024, 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, 2024:

Uninsured and registered, with securities held by the counterparty's trust department or agent in the Bank's name	\$ 315,549
Uninsured and unregistered, with securities held by the Bank	<u>40,123,387</u>
Total	<u>\$ 40,438,936</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, 2024, 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 basic financial statements.

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As of June 30, 2024, the venture capital balances consist of the following:

External investment pools	\$ 40,123,387
Equity investments	<u>4,974,000</u>
	45,097,387
Allowance for possible losses in venture capital investments	<u>(4,974,000)</u>
Fair value of venture capital investments	<u>\$ 40,123,387</u>

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

In accordance with the partnership agreements for each of the external investment pools, the Bank's investments can only be redeemed upon distribution from fund managers; usually in the form of a sale of its holdings or dividends distributed. The assets held by the funds in sell-off stage should be liquidated within the next three years; whereas the assets held by investment stage funds will take from seven to ten years for liquidation, as expected per its respective partnership agreements. As of June 30, 2024, the Bank does not intend to sell or redeem investments in any external investment pool for an amount different to that presented in the basic 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, 2024, 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, 2024.

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans outstanding at June 30, 2024 have maturities that range from 2024 to 2054 and interest rates that range from 2.00% to 16.00%.

The reconciliation of loans with the Statement of Net Position as of June 30, 2024 is as follows:

Current portion	\$ 6,863,110
Noncurrent portion	<u>8,639,848</u>
Total loans, net	<u>\$ 15,502,958</u>

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Loans distribution among industry sectors as of June 30, 2024, is as follows:

Agricultural	\$ 601,276
Commercial	2,781,401
Services	8,217,557
Manufacturing	2,051,998
Tourism	<u>5,862,033</u>
Total Loans	19,514,265
Allowance for loans losses	<u>(4,011,307)</u>
Total loans, net	<u>\$ 15,502,958</u>

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

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

At June 30, 2024, 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	\$ 597,612	—	3,664	—	601,276
Commercial	2,366,606	114,657	20,000	280,138	2,781,401
Services	7,661,407	240,685	5,339	310,126	8,217,557
Manufacturing	1,860,150	—	—	191,848	2,051,998
Tourism	<u>5,862,033</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,862,033</u>
Total	<u>\$ 18,347,808</u>	<u>355,342</u>	<u>29,003</u>	<u>782,112</u>	<u>19,514,265</u>

The following is a summary of information on loan to be impaired as of June 30, 2024, 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>8,131,611</u>
Total recorded investment on impaired loans	<u>\$ 8,131,611</u>
Related valuation allowance	<u>\$ 2,480,755</u>
Average recorded investment on impaired loans	<u>\$ 10,467,000</u>
Interest income recognized	<u>\$ 461,835</u>

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At June 30, 2024, 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 \$3,585,658 (\$782,112 over 90 days and \$2,803,546 restructured loans). There were no other loans which the accrual of interest has been discontinued and of which terms have been extended that are not included in non-performing assets.

The balance of nonaccrual loans by industry sector at June 30, 2024, were as follows:

Agricultural	\$	187,588
Commercial		280,138
Services		2,836,609
Manufacturing		191,848
Tourism		<u>89,475</u>
Total	\$	<u><u>3,585,658</u></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, 2024 is as follows:

	<u>Principal</u>	<u>Allowance</u>
Commercial	\$ 756	10
Agriculture	187,588	17,764
Services	3,173,585	2,724,784
Manufacturing	<u>158,271</u>	<u>158,271</u>
Total	\$ <u><u>3,520,200</u></u>	<u><u>2,900,829</u></u>

The following table presents the troubled debt restructuring modified during the year ended June 30, 2024:

	<u>Premodification</u>	<u>Postmodification</u>
Outstanding recorded investment	\$ 162,593	161,842
Number of contracts	3	1
Weighted average rate	6.93%	6.89%
Weighted average term (months)	—	39

Of the total troubled debt restructurings during 2024 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, 2024, management established an allowance for loan losses based upon the risk characteristics of the loans outstanding and the payment history of loans.

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The following table presents the changes and the balance in the allowance for loan losses and the recorded investment in gross loans by industry sector and based on impairment method for the year ended June 30, 2024:

	<u>Agricultural</u>	<u>Commercial</u>	<u>Services</u>	<u>Manufacturing</u>	<u>Tourism</u>	<u>Total</u>
Allowance for loan losses:						
Beginning balance	\$ 86,249	138,159	1,421,501	556,480	2,792,124	4,994,513
Provision (recovery) for loan losses	(32,955)	667,780	320,063	86,647	(1,641,535)	(600,000)
Loans charged-off as uncollectible	(5,493)	(373,206)	—	(356,183)	—	(734,882)
Recoveries	6,732	23,743	317,519	3,438	244	351,676
Ending balance	<u>54,533</u>	<u>456,476</u>	<u>2,059,083</u>	<u>290,382</u>	<u>1,150,833</u>	<u>4,011,307</u>
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	51,521	—	1,270,963	158,271	1,000,000	2,480,755
Collectively evaluated for impairment	3,012	456,476	788,120	132,111	150,833	1,530,552
Ending allowance	<u>54,533</u>	<u>456,476</u>	<u>2,059,083</u>	<u>290,382</u>	<u>1,150,833</u>	<u>4,011,307</u>
Loans:						
Individually evaluated for impairment	187,588	—	3,342,862	158,271	4,442,890	8,131,611
Collectively evaluated for impairment	413,688	2,781,401	4,874,695	1,893,727	1,419,143	11,382,654
Total loans balance	<u>\$ 601,276</u>	<u>2,781,401</u>	<u>8,217,557</u>	<u>2,051,998</u>	<u>5,862,033</u>	<u>19,514,265</u>

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

In 2018, the Bank completed a loan sale that has since been subject to multiple legal challenges seeking to nullify the transaction or obtain compensation. Plaintiffs have requested remedies including the return of consideration received, reversal of the loan transfer, or other equitable relief. As of June 30, 2024, certain legal proceedings remain pending and are in the discovery phase. The Bank continues to defend its position and monitor the outcomes. Refer to Note 14 to the basic financial statements.

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2024 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	12,701,024	15,078	—	12,716,102
Furniture and equipment	4,929,937	30,260	—	4,960,197
Total cost	<u>20,365,961</u>	<u>45,338</u>	<u>—</u>	<u>20,411,299</u>
Less accumulated depreciation and amortization:				
Building and improvements	(8,431,236)	(390,765)	—	(8,822,001)
Furniture and equipment	(4,828,588)	(63,962)	—	(4,892,550)
Total accumulated depreciation and amortization	<u>(13,259,824)</u>	<u>(454,727)</u>	<u>—</u>	<u>(13,714,551)</u>
Capital assets, net	<u>\$ 7,106,137</u>	<u>(409,389)</u>	<u>—</u>	<u>6,696,748</u>

The Bank's principal premises are partially rented to various lessees under lease terms expiring at various future dates. Rent revenue amounting to approximately \$563,000 was recorded as other income

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in the accompanying Statement of Revenue, Expenses, and Changes in Net Position for the year ended June 30, 2024. 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, 2024, future minimum rental income is approximately as follows:

2025	\$	614,400
2026		204,700
2027		93,200
2028		56,800
2029		14,300
	\$	<u>983,400</u>

6. REAL ESTATE AVAILABLE FOR SALE

Activity for real estate available for sale during the year ended June 30, 2024 was as follows:

Beginning balance	\$	110,974
Additions		<u>3,100</u>
Ending balance	\$	<u>114,074</u>

7. OTHER ASSETS

As of June 30, 2024, other assets are mainly composed of the following:

Prepaid expenses	\$	72,006
Miscellaneous items		<u>256,943</u>
Total other assets	\$	<u>328,949</u>

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).

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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, 2024:

- *External Investment Pools:* Valued at net asset value (NAV) of units held. The NAV is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liability. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV.
- *Municipal Bond:* Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote, if available.
- *Impaired Loans:* are evaluated and valued at the time the loan is identified as impaired, using the present value of expected cash flows (if used, such amounts are not included in the following tables), the loan's observable market price or the fair value of the collateral (less cost to sell) if the loans are collateral dependent. Market value is measured based on the value of

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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 is 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, 2024:

	<u>June 30, 2024</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Municipal bonds	\$ <u>315,549</u>	<u>—</u>	<u>315,549</u>	<u>—</u>
Investments measured at NAV:				
External investment pools:				
Guayacán Private Equity Funds	\$ 33,064,902			
Venture Capital Fund	6,689,940			
Other	<u>368,545</u>			
Total investments	\$ <u>40,123,387</u>			

<u>External Investment Pools</u>				
<u>June 30, 2024</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	\$ 33,064,902	560,045	N/A	N/A
Venture Capital Fund	6,689,940	—	N/A	N/A
Other	<u>368,545</u>	<u>—</u>	N/A	N/A
	\$ <u>40,123,387</u>	<u>560,045</u>		

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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, 2024:

	<u>June 30, 2024</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Impaired loans	\$ 8,131,611	—	—	8,131,611
Real estate available for sale	114,074	—	114,074	—
	<u>\$ 8,245,685</u>	<u>—</u>	<u>114,074</u>	<u>8,131,611</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, 2024.

9. TIME DEPOSITS

Effective between August 23, 2023 through September 27, 2023, the Bank signed multiple settlement agreements with 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. During fiscal year 2024, the Bank made payments amounting to \$9,660,749 million in full and final satisfaction of the outstanding time deposits portfolio. Refer to Note 13 to the basic financial statements.

This transaction has been accounted for in accordance with GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* 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 \$100,747,809, for the year ended June 30, 2024, which is presented as nonoperating revenue in the accompanying Statement of Revenue, Expenses and Changes in Net Position.

10. 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 (CP) and the Technical Assistance (TA) Grant Program. Under the SSBCI Capital Program, participating jurisdictions implement credit and equity/venture capital programs to provide capital to small businesses. Under the TA Grant Program,

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the funds are used to support programs that provide legal, accounting, or financial advisory services to qualifying small businesses.

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 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 the SSBCI Capital Program 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, 2024, \$11,567,616 in SSBCI Capital Program funds have been committed in loans and loan participation transactions.

As part of its role in supporting economic development, on February 9, 2024, the Bank was awarded \$3,885,940 by the U.S. Department of the Treasury under the SSBCI TA Grant Program. As of June 30, 2024, the Bank had received \$1,282,360 under such initiative representing the first of three tranches of SSBCI TA Program allocated to Puerto Rico.

The SSBCI TA Grant Program provides financial assistance to eligible recipients to implement technical assistance plans. Under this initiative, the Bank will support the provision of legal, accounting, and financial advisory services to small businesses and business enterprises owned and controlled by socially and economically disadvantaged individuals (SEDIs).

The program is federally funded and subject to the terms and compliance requirements of the U.S. Department of Treasury and applicable federal grant regulations.

The activity of SSBCI Capital Programs and Technical Assistance funds for the year ended June 30, 2024 is as follows:

SSBCI Capital Program:

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><u>\$ 79,379,376</u></u>

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Funds in custody of the Puerto Rico Treasury Department	\$ 29,993,693
Less: Funds committed at June 30, 2024	<u>11,567,616</u>
Program funds received in advance not yet committed	\$ <u><u>18,426,077</u></u>

SSBCI Technical Assistance:

Total Technical Assistance Program Award	\$ 3,885,940
Less: Funds received by the Bank	<u>1,282,360</u>
Total Program Award Balance	\$ <u><u>2,603,580</u></u>
 Funds received and in custody of the Bank	 \$ 1,282,360
Less: Funds committed at June 30, 2024	<u>—</u>
Program fund received in advance not yet committed	\$ <u><u>1,282,360</u></u>

11. OTHER LIABILITIES

The activity for other liabilities during 2024 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Less Due Within One Year</u>	<u>Noncurrent Liabilities</u>
Compensated absences	\$ 585,826	217,722	(252,496)	551,052	236,021	315,031
Legal claims	100,000	—	—	100,000	100,000	—
Early retirement program liability	<u>551,659</u>	<u>—</u>	<u>(193,351)</u>	<u>358,308</u>	<u>118,932</u>	<u>239,376</u>
Total	\$ <u><u>1,237,485</u></u>	<u><u>217,722</u></u>	<u><u>(445,847)</u></u>	<u><u>1,009,360</u></u>	<u><u>454,953</u></u>	<u><u>554,407</u></u>

12. NET POSITION

The Bank's net position invested in capital assets, restricted as of June 30, 2024 is composed of the following:

Invested in capital assets:	
Capital assets	\$ 20,411,299
Accumulated depreciation and amortization	<u>(13,714,551)</u>
Total	\$ <u><u>6,696,748</u></u>
Restricted for special programs:	
Day Care Centers Loan Fund	\$ 4,370,305
State Small Business Credit Initiatives	<u>11,639,518</u>
Total	\$ <u><u>16,009,823</u></u>

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Day Care Center Loan 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, 2024, 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.

State Small Business Credit Initiatives

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.

On March 23, 2023, \$30 million were received by the Puerto Rico Department of Treasury, representing the first of three tranches of SSBCI Capital Program allocated to Puerto Rico under the Capital Program. 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, 2024, \$11.6 million in SSBCI Capital Program funds have been committed in loan participation transactions, including \$527,450 in collateral support program.

As part of its role in supporting economic development, on February 9, 2024, the Bank was awarded \$3,885,940 by the U.S. Department of the Treasury under the SSBCI TA Grant Program. As of June 30, 2024, the Bank had received \$1,282,360 under such initiative.

Net restricted assets for the special programs as of June 30, 2024 consist of the following:

Interest bearing deposits	\$ 527,450
Loans	1,906,960
Accounts receivable - Commonwealth	18,426,077
Due from EDB Operating fund	14,823,910
Other assets	<u>33,863</u>
Total restricted assets	35,718,260
Program funds received in advance - SSBCI CF	18,426,077
Program funds received in advance - SSBCI TA	<u>1,282,360</u>
Total restricted net assets	<u>\$ 16,009,823</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 economic development and job creation or retention course of action from the Puerto Rico Recovery Plan. The subrecipient agreement budget provides for a

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designation of \$285 million (increased from \$30 million after seven 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. At June 30, 2024, the Bank received reimbursement of funds related to noncompliance incidents by participants that triggered the recapture of funds amounting to \$368,878, from this amount the Bank had \$48,642 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, 2024, the Bank recognized federal revenue in the amount of \$69 million comprised of grants expenditures for the program amounting to \$66.1 million for eligible participants of the program. Direct costs charged to this fund amounted to \$2.1 million. Indirect costs charged to this fund in 2024 amounted to \$830,925. 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.

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. 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. Finally on February 13, 2025, Amendment G was signed increasing the authorized budget by \$20 million to \$305 million.

13. 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

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response to the hurricanes Irma and María. The Bank received from the PRDOH \$69 million in grants for the program during year ended June 30, 2024. As of June 30, 2024, the accounts receivable from PRDOH amounted to \$7.3 million for reimbursement of grants disbursed to participants and direct and indirect costs incurred.

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 10 and 12 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, 2024, there was no pending or threatened litigation under such programs.

Related Party Transactions

Time Deposits

The Bank as a member of the Commonwealth enters into transactions with different government agencies.

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. During fiscal year 2024, the Bank made payments amounting to \$9,660,749 million in full and final satisfaction of the outstanding deposits existed at June 30, 2023 in the amount of \$110,399,863. As a result of these settlement agreements the Bank recorded a gain on troubled debt restructuring of \$100,747,809. The held time deposits in such portfolio, interest earned, payment and recognized gain, by government entity were as follows:

	Beginning Balance	Interest Accrued	Payment	Gain on Troubled Debt Restructuring
Economic Development and Commerce Department	\$ 191,659	17	16,772	174,904
Energy Affairs Administration	3,003,301	534	262,836	2,740,999
GDB Debt Recovery Authority	4,182,968	221	366,029	3,817,160
Puerto Rico Film Commission	184,243	28	16,124	168,147
Puerto Rico Highway Authority	5,956,970	548	521,283	5,436,235
Puerto Rico Housing Finance Authority	67,385,413	2,341	5,896,428	61,491,326
Puerto Rico Industrial Development	15,266,718	3,477	1,336,142	13,934,053
Puerto Rico National Parks Company	7,000,426	229	612,557	6,388,098
Puerto Rico Ports Authority	544,840	48	47,678	497,210
Social Economic Development Administration	654,485	58	57,272	597,271
Funds from Economic Development and Commerce Department for "Programa Juvempresas"	986,629	225	86,350	900,504
Inactive Programs Guarantees from Other Agencies	5,042,211	969	441,278	4,601,902
	<u>\$ 110,399,863</u>	<u>8,695</u>	<u>9,660,749</u>	<u>100,747,809</u>

Investments

At June 30, 2024, the Bank had one investment outstanding for \$315,549 from the GDB Debt Recovery Authority.

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Accounts Receivable

At June 30, 2024, the Bank had a receivable balance of \$18,426,077 from the Commonwealth related to funds received by the Puerto Rico Treasury Department for SSBCI CP program. The Bank received in 2024 funds from the Puerto Rico Treasury Department amounting to \$6,808,550 related to this program.

Pursuant to the CDBG-DR SBF subrecipient agreement, the Bank has accounts receivable at June 30, 2024, from the PRDOH of \$7,296,987, recorded revenues for \$69,047,751 and received funds from the same government agency for \$71,963,586.

14. COMMITMENTS AND CONTINGENCIES

Litigation

The loan sale executed by the Bank during the fiscal year ended June 30, 2019, as further described in Note 4 to the basic financial statements, continues to be the subject of litigation initiated by certain former borrowers and by the Bank itself. Plaintiffs seek various remedies, primarily including the annulment of the loan sale contracts, the return of sold loans, or equivalent compensation. Separate legal actions have been filed by the Bank and affected borrowers against the ultimate purchasers of the loans, as well as against the advisory firm that facilitated the sale. The claims allege violations of applicable laws and fiduciary duties in connection with the sale process.

As of June 30, 2024, most of these cases have been dismissed or stayed by the plaintiffs. Legal counsel has advised that no liability is currently anticipated in cases where the Bank is a defendant. However, some matters remain unresolved, and there is still uncertainty as to whether courts may nullify the loan sale agreements or assign liability to the Bank. If a court were to declare the sale null, it may require the restatement of the related financial statement impacts from the original transaction.

In addition, as of June 30, 2024, the Bank is a defendant in various unrelated lawsuits arising from the ordinary course of business. Management, after consultation with legal counsel, believes that the outcome of these unrelated matters is not expected to have a material impact on the Bank's financial position or results of operations. Due to the inherent uncertainties of litigation, the Bank's ultimate liability, if any, may differ from current estimates.

Other Risks

The Bank is exposed to various risks of loss related to torts, theft, casualty, errors and omissions, and other risks for which it maintains commercial insurance coverage. There have been no settlements in the past three fiscal years that exceeded insurance coverage. The Bank also obtains workers' compensation coverage through another component unit of the Commonwealth of Puerto Rico.

15. 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, 2024 the Bank had two loans amounting to \$6,969,373 that represented 36% of the loan portfolio.

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Deposits

The Bank maintained significant deposit balances from government agencies, which represented a substantial concentration. During fiscal year 2024, the Bank made payments amounting to \$9,660,749 million in full and final satisfaction of the outstanding deposits existed at June 30, 2023 in the amount of \$110,399,863. Refer to Note 13 to the basic financial statements.

16. RETIREMENT PLAN

Plan Description

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

The Modified Eight Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al, ("2022 Plan of Adjustment") confirmed by the U.S. District Court for the District of Puerto Rico on January 18, 2022, eliminated several benefits to certain Plan participants. In summary, participants within benefits for System 2000 and Act 3 members, as previously defined, who were not in payment status as of March 15, 2022 were transferred out from Plan benefits. Also, eliminated future cost of living adjustments, and benefits to active members under the Act 127-1958 (members in high risk positions).

Plan participants within the System 2000, includes 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.

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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 are generally those members hired before April 1, 1990 (contributory, defined benefit program).
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April 1, 1990, and on or before December 31, 1999 (contributory, defined benefit program).

(a) Service Retirement Eligibility Requirements

- (1) *Eligibility for Act No. 447 Members*-Act No. 447 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 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 50 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 members who attained 30 years of credited service by December 31, 2013, are eligible to retire at any time.

Act No. 447 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 with 10 years of credited service upon attainment of the retirement eligibility age shown in the table below.

<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 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 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 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 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 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.

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(b) Compulsory Retirement

All Act No. 447 and Act No. 1 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 Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the Defined Contribution Hybrid Contribution Account is \$10,000 or less, it shall be paid as a lump sum instead of as an annuity.

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

If the Act No. 447 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 to coordinate with social security (the Coordination Plan), the benefit is re-calculated 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 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 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 members eligible for this transitory benefit during the period beginning July 1, 2013, and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the Defined Contribution Hybrid Contribution Account begin after the member attains 30 years of credited service.

If the Act No. 447 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

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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 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 defined, 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 Members* - The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 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 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 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, 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, increases pensions for certain retirees as described in Act No. 124 approved on June 8, 1973 and Act No. 23 approved on September 23, 1983.

- Minimum Benefits for Members who Retired before July 1, 2013 (Act No. 156 of 2004, Act No. 35 of 2007, and Act No. 3 of 2013).

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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, is not less than the benefit payable prior to SSRA.

(3) *Special "Bonus" Benefits*

- Christmas Bonus (Act No. 144, as Amended by Act No. 3)
An annual bonus of \$200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013.
- Medication Bonus (Act No. 155, as Amended by Act No. 3)

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

(e) Early Retirement Programs

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

The Act No. 211 provides that the employee will receive an annuity equivalent to 60% of the average compensation, as defined, as of December 31, 2015 and until the participating member attained 61 years old, which is the age the employee will become part of the Retirement System. The Bank is responsible for the payment of the employer contribution to the Social Security and Medicare, based on the 60% of the average compensation as of December 31, 2015. Also, is responsible for the payment of the related employee and employer contributions to the Retirement System based on the 100% of average salary as of December 31, 2015, for amounts which guarantees a 50% minimum compensation to eligible employee of its average compensation as of 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, 2024, the total liability related to these termination benefits was approximately \$358,308. 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, 2024, amounted to \$193,351. The amounts represented 100% for the required contribution for the corresponding year.

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, 2024

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, 2023 actuarial measurement data was used for the pension benefits financial reporting recognition as of and for the fiscal year ended June 30, 2024.

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, 2024 (the measurement date was June 30, 2023) was \$30,569,364 and 0.14717%, 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, 2023 was 3.65%. 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, 2023 actuarial valuation 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 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 127-1958.

- Post-retirement Retiree 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

Economic Development Bank for Puerto Rico
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Notes to Basic Financial Statements

For the Year Ended June 30, 2024

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.

Other Assumptions

- Inflation rate: Not applicable
- Salary increases: 3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy.

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

The following table presents the Bank's proportionate share of the total pension liability for ERS calculated using the discount rate of 3.65%, 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 (2.65%) or 1% point higher (4.65%) than the current rate (based on a proportion percentage of 0.14717% of the aggregate total pension liability of the ERS allocated to the Bank as of June 30, 2023 (measurement date):

	<u>1% Decrease (2.65%)</u>	<u>Current Discount Rate (3.65%)</u>	<u>1% Increase (4.65%)</u>
The Bank's proportionate share of total pension liability	\$ 34,082,356	30,569,364	27,634,212

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, 2024, related to the ERS amounted to \$5,038,259.

Economic Development Bank for Puerto Rico
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Notes to Basic Financial Statements

For the Year Ended June 30, 2024

Deferred outflows and deferred inflows of resources from pension activities reported in the Bank's Statement of Net Position as of June 30, 2024, are as follows:

Deferred Outflows of Resources

Changes in proportion	\$ 1,891,193
Bank's Pay Go pension benefits payments made subsequent to the measurement date	<u>1,715,295</u>
	<u>\$ 3,606,488</u>

Deferred Inflows of Resources

Changes in assumptions	\$ —
Differences between expected and actual experience in measuring total pension liability	<u>190,654</u>
	<u>\$ 190,654</u>

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2024 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
2024	\$ 1,795,866	(95,327)	1,700,539
2025	<u>95,327</u>	<u>(95,327)</u>	<u>—</u>
	<u>\$ 1,891,193</u>	<u>(190,654)</u>	<u>1,700,539</u>

Deferred outflows of resources related to pension benefit payments made by the Bank subsequent to the measurement date amounted to \$1,715,295 as of June 30, 2024, and will be recognized as a reduction of the net pension liability in the year ending June 30, 2025. This amount is not included in the table above, which presents only the amortization of deferred outflows and inflows related to changes in assumptions, proportion, and experience.

Additional information on the Employees' Retirement System (ERS) is provided in its standalone financial statements for the year ended June 30, 2023, 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.

17. OTHER POSTEMPLOYMENT BENEFITS

The Bank participates in the ERS-OPEB plan of the Commonwealth. The ERS-OPEB is an unfunded, defined benefit other postemployment healthcare benefit plan (OPEB). The Plan 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, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB Statement No.75). Under the guidance of GASB Statement No. 75, the Commonwealth and its component units are considered one employer and are classified for financial reporting as a single-employer defined benefit OPEB plan. Because certain component units of

Economic Development Bank for Puerto Rico
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Notes to Basic Financial Statements

For the Year Ended June 30, 2024

the Commonwealth, including the Bank, prepare separate financial statements, a proportionate share of the total OPEB liability and related amounts is calculated and reported.

GASB Statement No. 75 requires participating entities to recognize their proportionate share of the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense (benefit). The employer's allocation percentage is based on the ratio of each participating entity's members to the total OPEB liability for all employers during the measurement date. Minor differences may exist due to rounding.

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 (Act No. 483, as amended by Act No.3). 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. ERS-OPEB members were eligible for benefits upon reaching the applicable retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the ERS-OPEB members that retired after June 30, 2013.

Measurement Date and Proportion

ERS-OPEB uses a measurement date of June 30 of the prior fiscal year. Therefore, the actuarial valuation as of June 30, 2023 was used for the Bank's FY2024 financial reporting.

As of that date:

- The Bank's proportionate share of the total OPEB liability was \$426,764
- The Bank's allocation percentage was 0.06600%

(a) Actuarial Assumptions

Discount Rate:

The discount rate for June 30, 2023, was 3.65% . This is based on 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 include tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality:

- Pre-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.

Economic Development Bank for Puerto Rico
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For the Year Ended June 30, 2024

- 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 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 measurement date.

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

The following table presents the Bank's proportionate share of the OPEB liability at June 30, 2024 (measurement date June 30, 2023) for ERS-OPEB calculated using the discount rate of 3.65%, 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 (2.65%) or 1% point higher (4.65%) than the current rate:

	1% Decrease (2.65%)	Current Discount Rate (3.65%)	1% Increase (4.65%)
The Bank's proportionate share of total OPEB liability	\$ 463,325	426,764	395,162

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

The OPEB credit adjustment recognized by the Bank for the year ended June 30, 2024, related to ERS-OPEB, amounted to \$18,332. This negative amount reflects a credit or reversal in the proportionate share of the net OPEB expense, which may occur due to updated actuarial assumptions or experience gains.

Because all participants in the plan are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, demographic or economic gains/losses, and changes in proportionate share are recognized immediately during the measurement year.

However, a deferred outflow of resources was recognized for the benefit payments made by the Bank after the measurement date, which amounted to \$33,724 as of June 30, 2024. This amount will be recognized as a reduction of the total OPEB liability in the year ending June 30, 2025.

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, 2023, 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. 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,

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, 2024

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, 2024, 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>560,045</u>
Commitments to extend credit	\$ <u>7,605,933</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, 2024, there are no financial guarantees outstanding.

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

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

At June 30, 2024, the Bank did not have a reserve outstanding for potential losses associated with unfunded loan commitments.

19. OTHER NONINTEREST INCOME

Other noninterest income for the year ended June 30, 2024 consists of the following:

Rental income (Note 5)	\$ 563,343
Miscellaneous income	<u>44,056</u>
Total	<u>\$ 607,399</u>

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Notes to Basic Financial Statements

For the Year Ended June 30, 2024

20. OTHER NONINTEREST EXPENSES

Other noninterest expenses for the year ended June 30, 2024 consist of the following:

Electricity	\$ 405,845
Insurance	338,906
Repairs and maintenance	259,885
Training, seminars and continued education	16,790
Computer programs licensing	60,607
Water and sewer	56,412
Telephone	36,209
Special disbursements - OATRH	25,000
Dues and subscriptions	30,655
Office supplies	17,488
Reimbursement of expenses to employees	13,145
Investment operations	216,707
Vehicles	12,330
Computer supplies	4,433
Books and magazines	251
Postage	7,740
Bank charges	2,705
Travel	9,569
Miscellaneous	66,381
Total	<u>\$ 1,581,058</u>

21. SUBSEQUENT EVENTS

Subsequent events were evaluated through September 15, 2025, to determine if any event should either be recognized or disclosed in the 2024 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. 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. Finally on February 13, 2025, Amendment G was signed increasing the authorized budget by \$20 million to \$305 million.

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, 2024

	2024*	2023*	2022*	2021*	2020*	2019*	2018*
Proportion of Total Pension Liability	0.14717%	0.14631%	0.10596%	0.09917%	0.09392%	0.08302%	0.07707%
Proportionate Share of Total Pension Liability	\$ 30,569,364	\$ 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	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, 2024

	2024*	2023*	2022*	2021*	2020*	2019*	2018*
Proportion of total OPEB liability	0.06600%	0.06429%	0.05393%	0.05583%	0.51780%	0.05194%	0.05333%
Proportionate Share of total OPEB liability (asset)	\$ 426,764	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	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, 2024, and the related notes to the financial statements, which collectively comprise the Bank's basic financial statements and have issued our report thereon dated September 15, 2025.

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 **2024-001** and **2024-002** 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 **2024-003** 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 **2024-004** and **2024-006**.

The Bank's Response to Findings

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

Purpose of this Report

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



San Juan, Puerto Rico
September 15, 2025

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



DPSC95-215
Economic Development Bank for Puerto Rico

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, 2024

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>69,047,751</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, 2024

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, 2024. 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. DIRECT AND INDIRECT COSTS

Federal award disbursements consist of direct and indirect costs. Direct costs are those that can be readily attributed to the federal award. The amount of direct costs attributed to the federal award consist of salaries, wages and professional services.

For indirect costs the Bank does not use the 10% de minimis rate permitted under the Uniform Guidance. The Bank utilizes an indirect cost rate of 40% for the CDBG-DR award, as negotiated between the Bank and the Puerto Rico Department of Housing (the Pass-through Grantor). The effective date for this indirect cost rate is July 1, 2023 to June 30, 2025.

4. FINANCING PROGRAM

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

	Total Federal Award June 30, 2024
Federal expenditures under this program	\$ 69,047,751

**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, 2024. 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, 2024.

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 **2024-004, 2024-005, 2024-006 and 2024-007** 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 **2024-005** 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 **2024-004**, **2024-006** and **2024-007** to be significant deficiencies.

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

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

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



San Juan, Puerto Rico
September 15, 2025

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



DPSC95-216
Economic Development Bank for Puerto Rico

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, 2024

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>69,047,751</u>

Dollar threshold used to distinguish between
Type A and Type B programs for Uniform Guidance:

\$ 2,071,433

Auditee qualify as low-risk auditee?

 yes X no

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2024

Section II-Financial Statements Findings

FINDING NO. 2024-001: 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 support 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 that the monthly cash account reconciliations were not prepared on a timely basis. Even though improvement has been noted, the situation continues to be present during the year ended June 30, 2024. We noted 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.

Unreconciled amounts should be investigated and not be allowed to be carried over from month to month. Management has achieved significant progress by reducing the dollar amount and quantity of unreconciled items and continues working to resolve this matter in the near term.

At June 30, 2024, we noted certain differences in three (3) cash accounts, due to accounts not being properly reconciled during the year. In addition, we noted an error in the presentation of the Bank's reconciliation since Management did not consider and adjust disbursements not included in accounting records but recorded in the bank cash account, representing outstanding disbursements in relation to the reconciliation of bank balance. Transactions recorded by the financial institution in the Bank cash account but not yet posted in the general ledger, were presented as a timing difference between Bank's records and financial institution instead of properly record the transaction in the general ledger. Consequently, adjustments in the amount of approximately \$600,000 and a reclassification in the amount of approximately \$1,220,000 were required to be posted in the cash accounts at June 30, 2024.

Cause:

The Bank prepares manually the bank reconciliations which can make difficult and time consuming, the match of the transactions from bank statements to accounting records.

Effect:

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

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, 2024

correction of errors, on a timely matter. This resulted in a material weakness in internal control related to cash.

Recommendation:

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

Furthermore, we recommend the Bank to determine automation needs in this area, and as considered necessary choose a solution that integrates cash reconciliation with the accounting system instead of the actual manually process.

Views of Responsible Officials and Planned Corrective Action:

Management concurs with the auditor's finding. The delays in preparing the reconciliations are primarily due to the review process still being performed manually, which requires additional time and effort. Although significant progress has been made in reducing both the dollar amounts and the number of unreconciled items, improvements are still needed to ensure that reconciliations are prepared and reviewed in a timely manner.

Economic Development Bank for Puerto Rico
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For the Year Ended June 30, 2024

Cause:

The observations noted in finding 2024-005 appear to be largely due to the effect of the lack of monthly presentation of transactions of CDBG-DR Fund transactions in the general ledger and related reconciliations of general ledger with subsidiaries and related program reports. Also, a lack of programs and data interphase communication between the Bank's Financial and Federal Programmatic Divisions does not permit the accurate and prompt reconciliation of the CDBG-DR accounting records, reports, and subsidiaries.

Effect:

Refer to finding 2024-005 for the effect of this observation. This resulted in a material weakness in the internal control related to the CDBG-DR Fund transactions in general ledger and related reconciliations.

Recommendation:

Refer to finding 2024-005 for the recommendation for the observations associated with this finding.

Views of Responsible Officials and Planned Corrective Action:

Refer to finding 2024-005 for the views of responsible officials and planned corrective action associated with this finding.

Management concurs with the facts presented by the auditor. However, we do not agree with the conclusion that there is a lack of adequate internal controls in the area of program reports and accounting records. The Bank, as a Subrecipient, performs the closing of the CDBG-DR SBF grants and records each transaction in a system provided by the Recipient and its consultants. The Administrative and Performance Reports referenced by the auditor are automatically generated from the grant management systems provided by the Recipient. The differences reflected between the Bank's records and these reports result from a system error under the exclusive control of the Recipient and its consultants. These differences were duly reported to the Recipient and its consultants for correction.

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

For the Year Ended June 30, 2024

FINDING NO. 2024-003

GRANT AWARDS REVIEW

Repeated Finding:

Yes

Criteria:

As more fully described in finding 2024-004, 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 2024-004, during our examination, we performed different audit testing to validate compliance with criteria described above. From a total of 974 SBF Program Recovery Grants (the grants) awarded to business applicants during the year ended June 30, 2024, in the amount of \$66,108,871, 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: sixteen (16) awarded for working capital purposes, fourteen (14) awarded for working capital and equipment and thirty-one (31) grants awarded for the purchase of equipment, in total amount of \$3,630,774.

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 \$3,598,259 from a total of 1,911 grants awarded amounting to \$99,766,799 for which closeout procedures were completed during the year ended June 30, 2024.

Also, we performed a recapture of funds test to validate procedures surrounding recapture of grant funds. We selected a sample of twenty-five (25) cases, in the total amount of \$906,561 from a total of 318 grants awarded amounting to \$11,492,282 for which recapture of funds were completed during the year ended June 30, 2024.

As more fully described in finding 2024-004, we noted the following:

- *Amount Awarded Computed Incorrectly*
- *Incorrect Data in Grant Management System of Record for the Grants*
- *Missing Documents in Grant Management System of Record for the Grants*
- *Inadequate Documentation and Implementation of Procedures*

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 2024-004.

Effect:

Refer to finding 2024-004 for the effect of this observation.

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

For the Year Ended June 30, 2024

Recommendation:

Refer to finding 2024-004 for the recommendation for the observations associated with this finding.

Views of Responsible Officials and Planned Corrective Action:

Refer to finding 2024-004 for the views of responsible officials and planned corrective action associated with this finding.

Management does not concur with the finding. The cases identified were processed in accordance with the policies, guidelines, and procedures established by the Recipient (PRDOH) and were reviewed at each stage of the grant process, including award, disbursement, and closeout. All determinations were made following the internal controls, Program Guidelines, and systems established by the Recipient. The observations noted do not represent noncompliance by the Bank but, in some cases, reflect situations inherent to the grant management systems, which are administered directly by the Recipient and its consultants.

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, 2024

Section III-Federal Award Findings and Questioned Costs

FINDING NO. 2024-004

GRANT AWARDS DISBURSEMENTS

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

Criteria:

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

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2024

Conditions and Context:

During our examination, we performed different audit testing to validate compliance with criteria described above. From a total of 974 Small Business Financing (SBF) Program Recovery Grants (the grants) awarded to business applicants during the year ended June 30, 2024, in the amount of \$66,108,871, 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: sixteen (16) awarded for working capital purposes, fourteen (14) awarded for working capital and equipment and thirty-one (31) grants awarded for the purchase of equipment, in the total amount of \$3,630,774.

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 \$3,598,259 from a total of 1,911 grants awarded amounting to \$99,766,799 for which closeout procedures were completed during the year ended June 30, 2024.

Also, we performed a recapture of funds test to validate procedures surrounding recapture of grant funds. We selected a sample of twenty-five (25) cases, in the total amount of \$906,561 from a total of 318 grants awarded amounting to \$11,492,282 for which recapture of funds were completed during the year ended June 30, 2024.

Amount Awarded Computed Incorrectly

Based on the results of our grant award testing, we recomputed the amount of the grant awarded, and noted that in one (1) case, representing approximately 2% of the total sample, the amount of the award was computed incorrectly. The average quotation cost used for the acquisition of equipment, was computed in the amount of \$12,163, instead of \$11,622.

Missing Documents in Grant Management System of Record for the Grants

Based on the results of our examination, we noted certain exceptions where documents were missing in the Grant Management System of Record for the Grants (Canopy) or the document had missing information. The situations noted were as follows, classified by the test performed.

Grant Award Procedures Testing:

- For the grants awarded for equipment, we reviewed the supporting documentation for required quotes and noted that in thirteen (13) cases, or approximately 29%, the quotes provided by the Business Applicants did not have the document date.
- For one (1) case, representing approximately 2% of total sample, we reviewed the support documentation required for eligible equipment and noted that for one item requested the eligible cost surpassed the \$10,000 threshold for the requirement of (3) three vendors quotations. However, just one quote was obtained.
- For fifty-seven (57) cases, representing approximately 93% of total sample, we noted that the SBF Acknowledgement of Receipt and Certification Guidance (Task 4 for the closeout phase) was not found in Canopy.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2024

Closeout Procedures Testing:

- For three (3) cases, representing approximately 5% of total sample, the applicant's duplication of benefits certification used in the Expenditure Review & Closeout Process, was not found. Instead, we found the following: the review of the bank statements (one case), a note (one case) and in other case we noted that the certification was uploaded in May 2025.
- For one (1) case, representing approximately 2% of total sample, no sufficient evidence was provided to validate utilities expense. Applicant submitted a letter from the landlord as a receipt without the invoice for the utilities. Expense amounted to \$1,768.
- For two (2) cases, representing approximately 3% of total sample, the grant award agreement was not located on file. The document was found in the grant award extension file.

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, classified by the test performed.

Closeout Procedures Testing:

- For two (2) cases, representing approximately 3% 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.
- For two (2) cases, representing approximately 3% of total sample, the applicant did not comply with the period of reporting for the Third Low and Moderate Income (LMI) as established in the Program's Guidelines. Subsequently, we noted that the original date, that should not be changed, was changed in the Canopy file.
- For one (1) case, representing approximately 2% of total sample, closeout procedures were completed, but the status in Canopy appeared as "Pending Closeout Confirmation".
- During our evaluation of the report provided for closeout procedures, we noted that twenty-three (23) cases appeared with a Notice of Compliance Letter sent date during the period under audit (July 1, 2023 to June 30, 2024), but the disbursement date was made from June 2024 through November 2024. Notice of compliance letter should be dated after the date of disbursement. In addition, the Closeout Status was "Closing Team Case Manager (CM) Review in Progress".

Recapture of Funds Testing:

- During our evaluation of the recapture of funds report, we noted that for one (1) case the grant amount as per the grant award agreement does not agree with the amount as included in the recapture of funds report provided for audit purpose. The difference amounted to \$42,195.

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Schedule of Findings and Questioned Costs

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Inadequate Documentation and Implementation of Procedures

As a result of our audit procedures, we noted several instances where the procedures were not completed or properly documented in Canopy. The situations noted were as follows, classified by the test performed.

Closeout Procedures Testing:

- For five (5) cases, representing approximately 8% of total sample, the First LMI Form was not provided by the Applicant in the period established. The period of reporting must be during the Eligibility Review phase.
- For one (1) case, representing approximately 2% of total sample, the Second LMI Form was not provided by the Applicant in the period established. Period of reporting must be during the Award Coordination phase.
- For nine (9) cases, representing approximately 15% of total sample, the third LMI Form was not provided by the Applicant in the period established. Period of reporting must be completed during the Expenditure and Closeout phase.
- The Case Manager is required to comply with the following notifications to the Applicant: a) First Receipts Review Reminder; b) Subsequent Receipt Review Reminder to applicants after 30 days following disbursement date.
 - For forty-four (44) cases, representing approximately 72% of total sample, there was no evidence of reminder sent to the Applicant.
 - For thirteen (13) cases, representing approximately 21% of total sample, the reminder was sent to Applicant, but not in the first 30 days after disbursement.

Recapture of Funds Testing:

- For four (4) cases, representing approximately 16% of total sample in which, the applicant did not return the funds within the 30-day period, did not provide adequate documentation nor request a program administrative reconsideration. The cases were not referred to PRDOH Legal Division as established in the guidelines.
- For one (1) case, representing approximately 4% of total sample in which, the applicant did not return the funds within the 30-day period or provided adequate documentation. Also, the program reconsideration was denied. The case was not referred to PRDOH Legal Division as established in the guidelines.

Cause:

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

Economic Development Bank for Puerto Rico
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For the Year Ended June 30, 2024

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 consistently comply with procedures of work performed as detailed in the policies and procedures to ensure amounts awarded incorrectly and missing documents in Grant Management System of Record 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.

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, and recapture of funds 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 acknowledges the recommendation and confirms that grant disbursements are processed using the systems and procedures established by the Recipient. Management is committed to reinforcing review processes to ensure proper documentation and oversight while remaining compliant with HUD requirements.

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

For the Year Ended June 30, 2024

FINDING NO. 2024-005

PROGRAM REPORTS AND ACCOUNTING RECORDS

Federal Agency:

U.S. Department of Housing and Urban Development

Federal Program:

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

Federal Award No:

B-18-DP-72-0001

Compliance Requirement:

Reporting

Questioned Costs:

None

Repeated Finding:

Yes

Criteria:

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

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

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

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

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.

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For the Year Ended June 30, 2024

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, 2024. We noted a difference of \$25,766,191 due to grants awarded from January 2024 through June 2024 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.

- The trial balance maintained by management for internal and external reporting related to CDBG-DR funds had not been reconciled with the subsidiary records for grant expenditures, including both direct and indirect costs.

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.

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For the Year Ended June 30, 2024

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 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 concurs that reconciliation procedures can be strengthened. All accounting and reporting activities are performed using the Recipient systems, ensuring compliance with HUD reporting standards. Enhancements will focus on improving documentation and internal oversight.

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FINDING NO. 2024-006

PROCUREMENT AND CONTRACTOR OVERSIGHT

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

Criteria:

The subrecipient agreement between the Bank and the Puerto Rico Department of Housing (PRDOH), established in the Terms and Conditions Section Y. Conduct, Subsection 1. Contracts, under letter e. Notification, the following: "The Subrecipient shall notify and provide a copy of any and all contracts related to this agreement and CDBG-DR funds to the Contracts Administration Area of the CDBG-DR Legal Division within three (3) days of its execution".

Conditions and Context:

During our audit procedures over the special tests and provisions, it was observed that the Bank entered into an agreement with a third party on June 13, 2023. The Bank submitted the agreement and its amendment to the PRDOH CDBG-DR Legal Division on September 21, 2023, three months past the execution date.

Cause:

Management has not consistently applied procedures as described in the "Conduct Section" to ensure compliance with special requirements.

Effect:

The Bank did not comply with notifying and providing a copy of the awarded subcontracts to PRDOH CDBG-DR Legal Division within the established period.

Recommendation:

Management must establish internal controls that permit the proper detection of any instance of non-compliance with the special requirements. By doing so, the Bank will avoid falling in noncompliance with federal requirements and the terms and conditions established in the subrecipient agreement.

Views of Responsible Officials and Planned Corrective Action:

Management notes that all contracts and amendments are executed in accordance with Recipient systems and procedures. Observations are acknowledged as an opportunity to improve the tracking and notification processes to the PRDOH Legal Division.

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

For the Year Ended June 30, 2024

FINDING NO. 2024-007

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 respectively fiscal year equaled or exceeded the threshold set forth in section 200.501 Audit Requirements.

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

The 2 C.F.R 200.512 (a) (1) establishes that the audit must be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. If the due date falls 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, 2024, was not submitted on or before March 31, 2025, as required by the Uniform Guidance. The Single Audit related to such period was completed after the 9 months deadline.

Cause:

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

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2024

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 acknowledges that the Single Audit report timelines can be further strengthened. All audit processes are performed using the Recipient systems, which are designed to comply with federal requirements. Observations are considered an opportunity to improve coordination and internal monitoring.

Economic Development Bank for Puerto Rico
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Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2024

Finding Reference Number	Finding Description	Finding Current Status
2023-001	We noted the cash accounts reconciliations were not being prepared on a timely basis. Even though improvement has been noted, the situation continues to be present.	Not corrected
2023-002	Refer to finding 2023-006.	Not corrected
2023-003	Refer to finding 2023-004.	Not corrected
2023-004	During our examination, we performed different audit testing to validate compliance with grant criteria and noted amount awarded computed incorrectly; missing documents in Grant Management System of Records for the grants; duplicated grant disbursements; incorrect data in Grant Management System of Records for the grants.	Partially Corrected
2023-005	We performed a closeout test to validate procedures surrounding the expenditure review and closeout of the grants and noted deficiencies related to duplication of benefits.	Corrected
2023-006	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 and noted a difference. 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.	Not corrected
	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.	
2023-007	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.	Not corrected