



**AGRICULTURAL ENTERPRISES
DEVELOPMENT ADMINISTRATION**
(A Component Unit of the
Commonwealth of Puerto Rico)

**BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY
INFORMATION AND INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2020



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VALDES, GARCIA, MARIN & MARTINEZ, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Administrator of the
Agricultural Enterprises Development Administration
of the Commonwealth of Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Agricultural Enterprises Development Administration ("AEDA"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2020, and the related notes to the basic financial statements, which collectively comprise AEDA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to in the first paragraph of the preceding page present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of AEDA as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Uncertainty about Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that AEDA will continue as a going concern. As discussed in Note 2 to the financial statements, AEDA has a net capital deficiency and is highly dependent on the Commonwealth of Puerto Rico's (the Commonwealth) contributions to finance its operations. The financial difficulties experienced by the Commonwealth, including the uncertainty as to its ability to fully satisfy its obligations, raise substantial doubt about AEDA's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 2. 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 15, the Schedule of AEDA's Proportionate Share of the Total Pension Liability and Related Ratios on page 65, and the Schedule of AEDA's Proportionate Share of Total OPEB Liability on page 66, 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Valdés, María, Marín & Martínez, LLP

San Juan, Puerto Rico
February 28, 2022

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The following is a discussion and analysis of the Agricultural Enterprises Development Administration's ("AEDA") financial performance, including an overview and analysis of the financial activities of AEDA for the fiscal year ended June 30, 2020. Readers should consider this information in conjunction with AEDA's financial statements, including the notes to the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide Highlights

The government-wide financial statements report information about AEDA as a whole using the economic resources measurement focus and accrual basis of accounting:

- Net Position of AEDA Governmental Activities, on a government-wide basis, was a net surplus at the close of fiscal year 2020 of \$9.2 million and a deficit at the close of fiscal year 2019 of \$30.9 million.
- Net Position of AEDA Business-Type Activities, on a government-wide basis, presented a deficit at the close of fiscal year 2020 of \$79.8 million and at the close of fiscal year 2019 of \$120.9 million.
- Net Position of AEDA, on a government-wide basis, was a deficit at the close of fiscal year 2020 of \$70.6 million and at the close of fiscal year 2019 of \$89.9 million. This represents a decrease in deficit of \$19.3 million.
- Total Revenues of AEDA Governmental Activities, on a government-wide basis, decreased by \$33.1 million (35%) and expenses decreased \$13.7 million (14%) in comparison with year 2019.
- Total Revenues of AEDA Business-Type Activities, on a government-wide basis, decreased by \$4.2 million (4%) and expenses decreased \$30.1 million (36%) in comparison with year 2019.
- Total net change in net position, on a government-wide basis, amounted to \$19.3 million, a decrease of \$106.0 million with respect to prior year (2019) net change, due principally to a PROMESA Title VI transaction related with the RSA agreed with GDB in 2019.

Fund Highlights

The fund financial statements provide detailed information about AEDA's most significant funds using the current financial resources measurement focus and modified accrual basis of accounting:

- At the close of the current fiscal year, AEDA's governmental funds reported combined ending fund balances of \$68.5 million a decrease of \$24.1 million in comparison with the prior year.
- The General Fund reported an efficiency of revenues over expenditures of \$581,071 and unassigned fund balance deficit of \$141.6 million.
- Enterprise funds reported combined fund deficit of \$79.8 million, a decrease of \$41.1 million in comparison with prior year.
- The business-type activities of AEDA include the Agricultural Services.

General Financial Highlights

- The net investment in capital assets from governmental activities as of June 30, 2020, was \$5.6 million net of accumulated depreciation of \$14.8 million and \$16 million net of accumulated depreciation of \$23.8 million from business-type activities.
- Long-term debt notes payable, and lines of credit decreased to \$488,144, a decrease of 42% (\$355,138) with respect to 2019 in governmental activities.
- Other noncurrent liabilities increased by \$181,249 from governmental activities and increased \$682,438 from business-type activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management’s Discussion and Analysis is intended to serve as an introduction to AEDA’s basic financial statements, which include three components: (i) Governmental-Wide Financial Statements; (ii) Fund Financial Statements; and (iii) Notes to the Basic Financial Statements. The focus is on both AEDA as a whole (i.e., governmental-wide) and the major individual funds. The dual perspectives allow the reader to address relevant questions, broaden a basis for comparison (year-to-year or government-to-government), and enhance AEDA’s accountability.

Basic Financial Statements

AEDA’s basic financial statements consist of two kinds of statements, each with a different view of AEDA’s finances. The Government-Wide Financial Statements provide both long-term and short-term information about AEDA’s overall financial status. The Fund Financial Statements focus on major aspects of AEDA’s operations, reporting the operations in more detail than the government-wide statements. The following table summarizes the major features of the financial statements. The overview section below also describes the structure and contents of each of the statements in more detail.

	GOVERNMENT-WIDE STATEMENTS	FUND FINANCIAL STATEMENTS	
		GOVERNMENTAL	ENTERPRISE
SCOPE	Entire entity	The day-to-day operating activities of AEDA for basic governmental services	The day to day operating activities of AEDA for business-type enterprises
ACCOUNTING BASIS AND MEASUREMENT FOCUS	Accrual accounting economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
TYPE OF ASSET, LIABILITY, AND DEFERRED OUTFLOWS/INFLOWS OF RESOURCES INFORMATION	All assets and liabilities, both financial and capital, short-term and long-term all deferred outflows and deferred inflows of resources	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included. All deferred outflows and deferred inflows of resources	All assets and liabilities, both financial and capital, and short-term and long-term. All deferred outflows and deferred inflows of resources
TYPE OF INFLOW AND OUTFLOW INFORMATION	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the year; expenditures when goods or services have been received and payments is during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

- ***Government-Wide Financial Statements***

The government-wide statements report information about AEDA as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting.

Statement of Net Position – Presents information on all AEDA's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position.

$$\text{Net Position} = (\text{Assets} + \text{Deferred Outflows of Resources}) - (\text{Liabilities} + \text{Deferred Inflows of Resources})$$

Over time, increases or decreases in net position may serve as a useful indicator of whether its financial position is improving or deteriorating. Other non-financial factors may need to be considered to assess the overall financial position of AEDA.

Statement of Activities – The *Statement of Activities* presents information showing how AEDA's net position (deficit) changed during the year. All changes in net position (current year's revenues less expenses) are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected service charges, earned but unused vacation leave). The *Statement of Activities* is focused on both the gross and net cost of various activities (including governmental and business-type activities). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various state activities and the degree to which activities are subsidized by general revenues.

Both of these government-wide financial statements distinguish functions of AEDA that are principally supported by Commonwealth's contributions (i.e., governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (i.e., business-type activities).

The governmental activities of AEDA include incentives and subsidies for agricultural entrepreneurship development. These activities are primarily financed through Commonwealth's contributions (i.e., governmental activities). The business-type activities of AEDA include the purchase and sale of different kind of agricultural products like coffee, chicken meat, vegetables, and other agricultural services.

- ***Fund Financial Statements***

A fund is a group of related accounts used to maintain control over resources that are segregated for specific activities or objectives. AEDA, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of AEDA can be divided into two categories: governmental funds and enterprise funds. The fund financial statements provide more detailed information about AEDA's most significant funds. Funds are accounting devices that AEDA uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Government regulations.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating AEDA's near-term financing requirements.

As required by GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent.

Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, AEDA's governmental funds reported combined ending fund balances of \$68.5 million. Of this amount, there is a deficit on the General Fund of \$141.6 million; therefore, there is no available balance for spending at the government's discretion (i.e., unassigned fund balance). The remainder fund balance is classified as nonspendable, restricted, committed or assigned to indicate that is not available for new spending because it has already been committed.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

AEDA maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for two major funds and an aggregate total for all non-major funds. AEDA's major governmental funds are the General Fund and Incentives Fund.

The General Fund is the chief operating fund of AEDA. At the end of the current fiscal year, the Unassigned General Fund deficit balance was \$141.6 million.

Enterprise Funds – AEDA maintains only one type of enterprise fund. *Enterprise funds* are used to report the same functions presented as business -type activities in the government-wide financial statements. AEDA uses enterprise funds to account for its Agricultural Services Fund.

Enterprise funds financial statements provide the same type of information as the government-wide financial statements, but in greater detail. The enterprise fund financial statements provide separate information of Agricultural Services Fund, which is considered to be the major enterprise fund of AEDA.

- ***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements.

- **Required Supplementary Information – Total Pension Liability**

The annual financial report includes the Schedule of Proportionate Share of the Total Pension Liability and Related Ratios as the result of the implementation of GASB Statement No. 73.

- **Required Supplementary Information – OPEB Liability**

The annual financial report includes the Schedule of Proportionate Share of Total Other Postemployment Benefits Liability as required by GASB Statement No. 75.

FINANCIAL ANALYSIS OF AEDA AS A WHOLE

Government-Wide Financial Statements Analysis

The following table presents a summary of the Statements of Net Position as of June 30, 2020, and 2019:

Commonwealth of Puerto Rico								
Agricultural Enterprises Development Administration								
Statement of Net Position								
As of June 30,								
	Governmental Activities		Business-Type Activities		Total		Total Change	
	2020	2019	2020	2019	2020	2019	Dollar	Percent
Current and Non-current Assets	\$49,582,359	\$ 66,226,125	\$ 76,718,840	\$ 44,624,566	\$126,301,199	\$110,850,691	\$ 15,450,508	13.9%
Internal Balance	36,865,781	45,601,592	(36,865,781)	(45,601,592)	-	-	-	0.0%
Capital Assets	5,637,515	5,228,604	16,083,862	16,063,056	21,721,377	21,291,660	429,717	2.0%
Total Assets	92,085,655	117,056,321	55,936,921	15,086,030	148,022,576	132,142,351	15,880,225	12.0%
Deferred Outflows of Resources	5,411,024	3,888,524	9,619,599	6,912,932	15,030,623	10,801,456	4,229,167	39.2%
Current Liabilities	23,096,390	24,058,905	29,394,895	27,635,758	52,491,285	51,694,663	796,622	1.5%
Noncurrent Liabilities	60,848,561	61,311,729	108,327,548	107,211,032	169,176,109	168,522,761	653,348	0.4%
Total Liabilities	83,944,951	85,370,634	137,722,443	134,846,790	221,667,394	220,217,424	1,449,970	0.7%
Deferred Inflows of Resources	4,317,955	4,578,957	7,676,358	8,140,360	11,994,313	12,719,317	(725,004)	-5.7%
Net Position:								
Net Investment in Capital Assets	5,637,515	5,228,604	16,083,862	16,063,056	21,721,377	21,291,660	429,717	2.0%
Unrestricted (Deficit)	3,596,258	25,766,650	(95,926,143)	(137,051,244)	(92,329,885)	(111,284,594)	18,954,709	-17.0%
Total Net Position	\$ 9,233,773	\$ 30,995,254	\$(79,842,281)	\$(120,988,188)	\$ (70,608,508)	\$ (89,992,934)	\$ 19,384,426	-21.5%

Analysis of Net Position

Net position (deficit) may serve over time as a useful indicator of a government's financial position. AEDA's liabilities and deferred inflows exceeded its assets and deferred outflows by \$70.6 million at the close of fiscal year 2020.

A portion of AEDA's net position reflects its investment in capital assets (e.g., land, buildings, infrastructure, motor vehicles, and machinery and equipment) of \$21.7 million (i.e., total capital assets less accumulated depreciation). AEDA uses these assets to provide services to citizens and consequently, these assets are not available for future spending.

Unrestricted net position is the part of the net position that can be used to finance day to day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

AGRICULTURAL ENTERPRISES DEVELOPMENT ADMINISTRATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

A Component Unit of the Commonwealth of Puerto Rico

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

As of June 30, 2020, AEDA presented an unrestricted deficit of \$92.3 million. This balance was affected by liabilities of \$221.6 million including \$181.8 million for payroll related liabilities (e.g., compensated absences, voluntary termination benefits, other postemployment benefits, pensions) and financing liabilities of \$488,144 (e.g., lines of credit, notes payable).

The following table summarizes the changes in net position for the years ended June 30, 2020, and 2019:

Commonwealth of Puerto Rico Agricultural Enterprises Development Administration Changes in Net Position For the Years Ended June 30,								
	Governmental Activities		Business-Type Activities		Total		Dollar Change	Percent Change
	2020	2019	2020	2019	2020	2019	2020	2020
Revenues:								
Program Revenues:								
Charges for Services	\$ -	\$ -	\$ 91,450,713	\$ 89,551,048	\$ 91,450,713	\$ 89,551,048	\$ 1,899,665	2.1%
Operating Grants and Contributions	59,835,652	90,342,490	3,815,048	9,844,000	63,650,700	100,186,490	(36,535,790)	-36.5%
General Revenues:								
Interest Income	78,725	101,840	281,159	451,702	359,884	553,542	(193,658)	-35.0%
Rent Income	117,837	606,743	2,150	1,445	119,987	608,188	(488,201)	-80.3%
Other General Revenues	567,585	2,667,472	8,539	6,840	576,124	2,674,312	(2,098,188)	-78.5%
Total Revenues	60,599,799	93,718,545	95,557,609	99,855,035	156,157,408	193,573,580	(37,416,172)	-19.3%
Governmental Activities Expenses:								
Incentives and Subsidies	62,975,926	69,231,641	-	-	62,975,926	69,231,641	(6,255,715)	-9.0%
General Government - Administrative and Operating	19,274,818	26,824,481	-	-	19,274,818	26,824,481	(7,549,663)	-28.1%
Interest Costs	110,536	7,461	-	-	110,536	7,461	103,075	1381.5%
Total Expenses	82,361,280	96,063,583	-	-	82,361,280	96,063,583	(13,702,303)	-14.3%
Business-Type Activities Expenses:								
Agricultural Services	-	-	54,411,702	84,568,195	54,411,702	84,568,195	(30,156,493)	-35.7%
Total Expenses	-	-	54,411,702	84,568,195	54,411,702	84,568,195	(30,156,493)	-35.7%
Transfers:								
Transfer in	-	157,736	-	-	-	157,736	(157,736)	
Transfers (Out)	-	-	-	(157,736)	-	(157,736)	157,736	
Total Transfers	-	157,736	-	(157,736)	-	-	-	
Increase (Decrease) in Net Position Before Special Items	(21,761,481)	(2,187,302)	41,145,907	15,129,104	19,384,426	12,941,802	6,442,624	48.6%
Special Items:								
Contribution from Commonwealth	-	81,448,888	-	-	-	81,448,888	(81,448,888)	
Recovery from Custodial Credit Risk	-	29,204,402	-	1,872,489	-	31,076,891	(31,076,891)	
Changes in Net Position	(21,761,481)	108,465,988	41,145,907	17,001,593	19,384,426	125,467,581	(106,083,155)	-241.0%
Net Position - Beginning	30,995,254	(77,470,734)	(120,988,188)	(137,989,781)	(89,992,934)	(215,460,515)	125,467,581	-58.2%
Net Position (Deficit) - Ending	\$ 9,233,773	\$ 30,995,254	\$ (79,842,281)	\$ (120,988,188)	\$ (70,608,508)	\$ (89,992,934)	\$ 19,384,426	-11.3%

Analysis of Changes in Net Position

AEDA's net position overall decreased by \$19.3 million during fiscal year 2020, compared to a \$125.4 million decrease during fiscal year 2019. The governmental activities component change in net position for 2020 was a decrease of \$21.7 million and for business-type activities the change in net position was an increase of \$41.1 million. A discussion of these changes is presented in the government and business-type activities below.

Governmental Activities. AEDA's net position decreased by \$21.7 million during 2020. For the most part, this was due to a contribution from the Commonwealth and recovery of custodial credit risk from deposits on GDB related with the execution of the RSA of GDB, which occurred in fiscal year 2019.

Approximately 99% of AEDA's Governmental Activities revenues came from state grants and contributions, and 1% from other sources. AEDA's expenses cover a range of services. The largest expenses are incentives and subsidies with 76%, and general government and other with 24% of total expenses.

Business-Type Activities. The enterprise fund net position increased by \$41.1 million during fiscal year 2020.

The following table focuses on the cost of each of AEDA's largest functions/programs as well as each functions/program's net cost (total cost less charges for services generated by the programs, Commonwealth's contributions, and grants):

Commonwealth of Puerto Rico Agricultural Enterprises Development Administration Agency Cost of Programs/Functions Fiscal Years Ended June 30,				
	Total Cost of Services		Net Cost of Services	
	2020	2019	2020	2019
Governmental Activities:				
Incentives and Subsidies	\$ 62,975,926	\$ 69,231,641	\$ (24,723,425)	\$ (8,409,554)
General Government - Administrative and Operating	19,274,818	26,824,481	2,308,333	2,695,922
Interest Costs	110,536	7,461	(110,536)	(7,461)
Total Expenses	82,361,280	96,063,583	(22,525,628)	(5,721,093)
Business-Type Activities:				
Agricultural Services	54,411,702	84,568,195	40,854,059	14,826,853
Total Expenses	54,411,702	84,568,195	40,854,059	14,826,853
Total	\$ 136,772,982	\$ 180,631,778	\$ 18,328,431	\$ 9,105,760

FINANCIAL ANALYSIS OF AEDA'S FUNDS

Governmental Funds

The focus of AEDA's governmental funds is to provide information on near-term inflows, outflows, and balances of resources available for spending. Such information is useful in assessing AEDA's financing requirements. Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent.

Commonwealth of Puerto Rico Agricultural Enterprises Development Administration Fund Balance As of June 30,								
FUNDS	FUND BALANCES							
	Nonspendable		Committed		Unassigned		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
General	\$ 518,802	\$475,739	\$ -	\$ -	\$(141,641,328)	\$(142,179,336)	\$(141,122,526)	\$(141,703,597)
Special Revenue	-	-	230,906,950	221,281,124	-	-	230,906,950	221,281,124
Joint Resolution	-	-	-	-	(22,411,528)	11,107,020	(22,411,528)	11,107,020
Other Governmental	2,744	2,744	-	-	1,209,191	2,022,399	1,211,935	2,025,143
Total	\$ 521,546	\$478,483	\$230,906,950	\$221,281,124	\$(162,843,665)	\$(129,049,919)	\$ 68,584,831	\$ 92,709,690

Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the fiscal year 2020, AEDA's governmental funds reported combined ending fund balances of \$68.5 million, which represents a net decrease of approximately \$24.1 million. This decrease was due primarily to the excess of expenditures over revenues in the joint resolution fund. No amount is available for spending at the government's discretion (i.e., unassigned fund balance) since a deficit is reported. The remainder fund balance is nonspendable or restricted to indicate that is not available for new spending because it has already been committed.

The general fund is the operating fund of AEDA. Unassigned Fund Balance of the General Fund presents a deficit of \$141.6 million.

For the fiscal year 2020, the deficit of the general fund decreased by \$581,071 when in the prior year there was a decrease of \$32 million.

Commonwealth of Puerto Rico
Agricultural Enterprises Development Administration
General Fund
As of June 30,

Description	2020	2019	Dollar Change	Percentage Change
Revenues:				
Contributions from Commonwealth	\$ 21,583,151	\$ 29,518,000	\$ (7,934,849)	-26.9%
Interest	78,725	101,840	(23,115)	
Rent	117,837	606,743	(488,906)	-80.6%
Other	155,028	1,824,474	(1,669,446)	-91.5%
Total Revenues	<u>21,934,741</u>	<u>32,051,057</u>	<u>(10,116,316)</u>	-31.6%
Expenditures:				
General Government	20,362,634	19,190,120	1,172,514	6.1%
Capital Outlays	985,738	212,687	773,051	363.5%
Debt Service (Principal and Interest)	5,298	91,429,137	(91,423,839)	-100.0%
Total Expenditures	<u>21,353,670</u>	<u>110,831,944</u>	<u>(89,478,274)</u>	-80.7%
Other Financing Sources (Uses)	<u>-</u>	<u>110,811,027</u>	<u>(110,811,027)</u>	-100.0%
Net Change in Fund Balance	<u>\$ 581,071</u>	<u>\$ 32,030,140</u>	<u>\$(31,449,069)</u>	-98.2%

Enterprise Fund

AEDA's enterprise fund provides the same type of information found in the government-wide financial statements, but in more detail.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, AEDA has invested \$21.7 million (net of accumulated depreciation) in a broad range of capital assets, including buildings, land, vehicles, and equipment. This amount represents a net increase of \$429,761 or 2% more than in prior year.

AEDA acquired a total of \$1,912,093 of capital assets during the fiscal year 2020. Governmental Activities additions were \$985,738 and Business-Type Activities were \$926,355.

The following table presents the components of capital assets for the fiscal years 2020 and 2019:

Commonwealth of Puerto Rico				
Agricultural Enterprises Development Administration				
Capital Assets, Net				
As of June 30,				
Description	2020	2019	Dollar Change	Percentage Change
Governmental Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 546,678	\$ 546,678	\$ -	0.0%
Depreciable Capital Assets (Net):				
Buildings	1,388,976	1,443,686	(54,710)	-3.8%
Equipment	2,491,488	2,565,966	(74,478)	-2.9%
Furniture & Fixtures	954,525	580,424	374,101	64.5%
Motor Vehicles	247,933	83,892	164,041	195.5%
Other	7,915	7,915	-	0.0%
Total Governmental Capital Assets	5,637,515	5,228,560	408,954	7.8%
Business-Type Activities:				
Non-Depreciable Capital Assets:				
Land	3,192,804	3,192,804	-	0.0%
Depreciable Capital Assets (Net):				
Buildings	8,905,364	9,279,642	(374,278)	-4.0%
Equipment	3,206,494	2,732,514	473,980	17.3%
Furniture & Fixtures	200,045	231,466	(31,421)	-13.6%
Motor Vehicles	565,385	612,641	(47,257)	-7.7%
Other	13,770	13,989	(219)	-1.6%
Total Business-Type Capital Assets	16,083,862	16,063,056	20,806	0.1%
Total	\$21,721,377	\$21,291,616	\$ 429,760	2.0%

NONCURRENT LIABILITIES

At year-end, AEDA had \$21.2 million in outstanding debt including notes payable, lines of credit, payroll related liabilities and legal claims. This amount represents an increase of \$508,549 or (0.33%) with respect to prior year. Following is a summary of AEDA's outstanding long-term debts as of June 30, 2020, and 2019:

Commonwealth of Puerto Rico				
Agricultural Enterprises Development Administration				
Outstanding Long-Term Debts				
As of June 30,				
	2020	2019	Dollar Change	Percentage Change
Governmental Activities:				
Line of Credit	\$ 71,728	\$ 71,728	\$ -	0.0%
Notes Payable	416,416	771,554	(355,138)	-46.0%
Legal Claims	278,347	908,084	(629,737)	-69.3%
Compensated Absences	750,268	564,769	185,499	32.8%
Voluntary Termination Benefits	4,342,490	4,454,647	(112,157)	-2.5%
Total Other Postemployment Benefits	2,272,972	2,288,228	(15,256)	-0.7%
Total Pension Liability	57,992,499	57,239,599	752,900	1.3%
Total	\$ 66,124,720	\$ 66,298,609	\$ (173,889)	-0.3%
Business-Type Activities:				
Compensated Absences	\$ 824,460	\$ 1,031,852	\$ (207,392)	-20.1%
Voluntary Termination Benefits	8,275,408	8,696,943	(421,535)	-4.8%
Total Other Postemployment Benefits	4,040,839	4,067,963	(27,124)	-0.7%
Total Pension Liability	103,097,775	101,759,286	\$ 1,338,489	1.3%
Total	\$ 116,238,482	\$ 115,556,044	\$ 682,438	0.6%

DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

Deferred Outflows of Resources

This classification balance, although similar to “assets,” is set apart because these items do not meet the technical definition of being an asset of AEDA on the date of the financial statements. In other words, these amounts are not available to pay liabilities in the way assets are available. When all the recognition criteria are met, the deferred outflow of resources will become an expense/expenditure.

The most significant deferred outflows of resources reported are related to the implementation of GASB Statement No. 73 for pension liability reporting. On June 30, 2019, AEDA adopted the provisions 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”. This statement requires that governmental employers whose employees are provided with defined benefit pensions recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions administered through a trust that do not meet the requirements of GASB Statement No. 73. AEDA's pension plan is administered by the Employees

Retirement System Administration (“ERS”). However, there may be some deferred outflows of resources attributable to the various components that impact pension changes, and may include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience.

Deferred Inflows of Resources

Deferred inflows of resources are the counterpart to deferred outflows of resources on the Statement of Net Position. Deferred inflows of resources are not technically liabilities of AEDA as of the date of the financial statements. When all the recognition criteria are met, the deferred inflow of resources will become revenue or an increase to net position.

Deferred inflows of resources related to pensions represent a net amount attributable to the various components that impact pension changes, and may include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience.

GOING CONCERN – COMMONWEALTH OF PUERTO RICO AND AEDA

The Commonwealth currently faces a severe fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth’s liquidity is the vulnerability of revenue streams during times of major economic downturns and large health care, pension, and debt service costs. The Commonwealth’s tax base has shrunk, and its revenues have been affected by prevailing economic conditions; health care, pension and debt service costs have become an increasing portion of the Commonwealth General Fund budget, which has resulted in reduced funding available for other essential services, like the ones provided by AEDA, which is a component unit of the Commonwealth.

The Commonwealth will not be able to honor all of its obligations as they come due while at the same time providing essential government services. These factors create an uncertainty about the Primary Government’s ability to continue as a going concern. Accordingly, because AEDA is part of the Commonwealth, and depend on the contributions of the Commonwealth, that creates an uncertainty about AEDA’s ability to continue as a going concern.

SEISMIC ACTIVITY

During the last weeks of December 2019 and the first weeks of January 2020, Puerto Rico experienced a sequence of seismic events, the most significant of which was a 6.4 magnitude earthquake in the early morning hours of January 7, 2020. As a result, the Governor declared a state of emergency.

COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization - WHO - declared the coronavirus disease ("COVID 19") as a global pandemic. Subsequently, on March 15, 2020, the Commonwealth declared a "State of Emergency and Quarantine", as a consequence of the spread of COVID-19 in Puerto Rico, issuing a series of provisions to contain its spread, such as: exceptional restrictive traffic measures, the drastic reduction of activities and the issuance of economic regulations, among others; that have affected and are expected to significantly affect the economic activity of the country and the markets in general. Subsequent executive orders have been issued through the date of the financial statements to continue addressing the pandemic, always in an attempt to balance the measures directed to containing the spread of the virus with those measures geared toward the stabilization of the economy. Extensive economic stabilization measures have been enacted by both the Federal and local government, in order alleviate the heavy impact of this pandemic on the economic activity. As the Commonwealth observes and assesses the results of recent reopening of the economy, it will continue to re-evaluate and further amend business restrictions as necessary to promote economic recovery while preserving the health, welfare and safety of the people of Puerto Rico. At the date of issuance of the financial statements, the duration of the aforementioned exceptional measures and the effects that they may have on AEDA cannot be reasonably estimated.

CONTACTING AEDA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of AEDA's finances and to demonstrate AEDA's accountability for the money it receives. If you have questions about this report or need additional information, contact AEDA's Office of Finance Affairs at (787) 304-5350 Ext. 2159 or P.O. Box 9200, San Juan, Puerto Rico 00908-0200.

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 42,415,526	\$ 60,666,362	\$ 103,081,888
Receivables, net			
Trade	56,215	32,468	88,683
Note Receivable	154,735	-	154,735
Other	1,729,020	-	1,729,020
Internal Balance	36,865,781	(36,865,781)	-
Due from Commonwealth	-	13,406,389	13,406,389
Due from Commonwealth's Component Units	4,705,316	-	4,705,316
Inventory	131,570	2,583,103	2,714,673
Prepaid Expenses	389,977	30,518	420,495
Total Current Assets	86,448,140	39,853,059	126,301,199
Non-Current Assets			
Capital Assets, net	5,637,515	16,083,862	21,721,377
TOTAL ASSETS	92,085,655	55,936,921	148,022,576
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	5,225,381	9,289,566	14,514,947
Other Post-Employment Benefits Related	185,643	330,033	515,676
TOTAL DEFERRED OUTFLOWS OF RESOURCES	5,411,024	9,619,599	15,030,623

(Continues)

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

AGRICULTURAL ENTERPRISES DEVELOPMENT ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION
JUNE 30, 2020

	PRIMARY GOVERNMENT		TOTAL
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
LIABILITIES			
Current Liabilities			
Accounts Payable- Trade	\$ 8,044,330	\$ 16,183,347	\$ 24,227,677
Accounts Payable- Farmers	3,494,468	-	3,494,468
Accrued Expenses	6,281,433	5,300,614	11,582,047
Line of Credit-FIDA	71,728	-	71,728
Notes Payable- FIDA	355,138	-	355,138
Compensated Absences	322,615	354,518	677,133
Voluntary Termination Benefits Payable	972,201	1,237,347	2,209,548
Total Other Post-Employment Benefits Liability	177,624	315,775	493,399
Total Pension Liability	3,376,853	6,003,294	9,380,147
Total Current Liabilities	23,096,390	29,394,895	52,491,285
Non-Current Liabilities			
Notes Payable - FIDA	61,278	-	61,278
Reserve for Legal Claims	278,347	-	278,347
Compensated Absences	427,653	469,942	897,595
Voluntary Termination Benefits Payable	3,370,289	7,038,061	10,408,350
Total Other Post-Employment Benefits Liability	2,095,348	3,725,064	5,820,412
Total Pension Liability	54,615,646	97,094,481	151,710,127
Total Noncurrent Liabilities	60,848,561	108,327,548	169,176,109
TOTAL LIABILITIES	83,944,951	137,722,443	221,667,394
DEFERRED INFLOWS OF RESOURCES - Pension related	4,317,955	7,676,358	11,994,313
Total liabilities and deferred inflows of resources	88,262,906	145,398,801	233,661,707
NET POSITION			
Net Investment in Capital Assets	5,637,515	16,083,862	21,721,377
Unrestricted (Deficit)	3,596,258	(95,926,143)	(92,329,885)
TOTAL NET POSITION (DEFICIT)	\$ 9,233,773	\$ (79,842,281)	\$ (70,608,508)

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

AGRICULTURAL ENTERPRISES DEVELOPMENT ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position		
		Charges For Services	Operating Grants and Contributions	Governmental Activities	Business - Type Activities	Total
PRIMARY GOVERNMENT						
Governmental Activities						
Incentives and Subsidies	\$ 62,975,926	\$ -	\$ 38,252,501	\$ (24,723,425)	\$ -	\$ (24,723,425)
General Government - Administrative and Operating	19,274,818	-	21,583,151	2,308,333	-	2,308,333
Interest on Long-Term Debt	110,536	-	-	(110,536)	-	(110,536)
Total Governmental Activities	82,361,280	-	59,835,652	(22,525,628)	-	(22,525,628)
Business-Type Activities						
Agricultural Services	54,411,702	91,450,713	3,815,048	-	40,854,059	40,854,059
Total Business-Type Activities	54,411,702	91,450,713	3,815,048	-	40,854,059	40,854,059
Total Primary Government	\$ 136,772,982	\$ 91,450,713	\$ 63,650,700	(22,525,628)	40,854,059	18,328,431
General Revenue:						
Rent				117,837	2,150	119,987
Interest				78,725	281,159	359,884
Other Income				567,585	8,539	576,124
Total General Revenue				764,147	291,848	1,055,995
CHANGES IN NET POSITION				(21,761,481)	41,145,907	19,384,426
Net Position (Deficit) – Beginning of Year				30,995,254	(120,988,188)	(89,992,934)
NET POSITION (DEFICIT)– END OF YEAR				\$ 9,233,773	\$ (79,842,281)	\$ (70,608,508)

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

AGRICULTURAL ENTERPRISES DEVELOPMENT ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2020

ASSETS	GENERAL FUND	INCENTIVES FUND	JOINT RESOLUTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Cash and Cash Equivalents	\$ 13,732,500	\$ 14,415,921	\$ 13,637,552	\$ 629,553	\$ 42,415,526
Receivables, net					
Trade	56,215	-	-	-	56,215
Notes Receivable	154,735	-	-	-	154,735
Other	-	-	-	1,729,020	1,729,020
Due from Other Funds	-	227,155,711	-	-	227,155,711
Due from Commonwealth's Component Units	4,705,316	-	-	-	4,705,316
Inventory	131,570	-	-	-	131,570
Prepaid Expenses	387,232	-	-	2,744	389,976
Total Assets	\$ 19,167,568	\$ 241,571,632	\$ 13,637,552	\$ 2,361,317	\$ 276,738,069
LIABILITIES					
Accounts Payable - Trade	\$ 1,308,671	\$ 2,745,116	\$ 3,953,431	\$ 37,110	\$ 8,044,328
Accounts Payable - Farmers	-	3,494,468	-	-	3,494,468
Accrued Expenses	1,818,544	4,425,098	9,142	-	6,252,784
Line of Credit-FIDA	71,728	-	-	-	71,728
Due to Other Funds	157,091,151	-	32,086,507	1,112,272	190,289,930
Total Liabilities	160,290,094	10,664,682	36,049,080	1,149,382	208,153,238
FUND BALANCES					
Nonspendable	518,802	-	-	2,744	521,546
Committed For:					
Subsidies and Incentives	-	230,906,950	-	-	230,906,950
Unassigned (Deficit)	(141,641,328)	-	(22,411,528)	1,209,191	(162,843,665)
Total Fund Balances	(141,122,526)	230,906,950	(22,411,528)	1,211,935	68,584,831
Total Liabilities and Fund Balances	\$ 19,167,568	\$ 241,571,632	\$ 13,637,552	\$ 2,361,317	\$ 276,738,069

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

AGRICULTURAL ENTERPRISES DEVELOPMENT ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

RECONCILIATION OF THE
BALANCE SHEET – GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2020

Total Fund Balances of Governmental Funds		<u>\$68,584,831</u>
Amount reported for Governmental Activities in the Statement of Net Position are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:		
Capital Assets	20,512,771	
Accumulated Depreciation	<u>(14,875,256)</u>	
Total Capital Assets		5,637,515
Deferred Outflows of Resources in Governmental Activities are paid in the current available period and therefore are reported in the funds.		
	5,411,024	
Deferred Inflows of Resources in Governmental Activities corresponded to future period and therefore are not reported in the funds.		
	<u>(4,317,955)</u>	
Total Deferral of Resources		1,093,069
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Notes Payable- FIDA	(416,416)	
Reserve for Legal Claims	(278,347)	
Accrued Interest	(28,650)	
Compensated Absences	(750,268)	
Voluntary Termination Benefits Payable	(4,342,490)	
Total Other Postemployment Liability	(2,272,972)	
Total Pension Liability	<u>(57,992,499)</u>	
Total Long-Term Liabilities		<u>(66,081,642)</u>
Total Net Position of Governmental Activities		<u><u>\$ 9,233,773</u></u>

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

**STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

AGRICULTURAL ENTERPRISES DEVELOPMENT ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

REVENUE	GENERAL FUND	INCENTIVES FUND	JOINT RESOLUTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Contributions from Commonwealth	\$ 21,583,151	\$ 35,213,801	\$ 3,038,700	\$ -	\$ 59,835,652
Rent	117,837	-	-	-	117,837
Interest	78,725	-	-	-	78,725
Other	155,028	412,557	-	-	567,585
Total Revenue	21,934,741	35,626,358	3,038,700	-	60,599,799
EXPENDITURES					
Incentives, Subsidies and Other Services	-	25,533,030	36,557,248	770,363	62,860,641
General Government - Administrative and					
Operating Activities	20,362,634	63,752	-	42,845	20,469,231
Capital Outlays	985,738	-	-	-	985,738
Debt Service:					
Principal	-	355,138	-	-	355,138
Interest	5,298	48,612	-	-	53,910
Total Expenditures	21,353,670	26,000,532	36,557,248	813,208	84,724,658
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	581,071	9,625,826	(33,518,548)	(813,208)	(24,124,859)
Fund Balances (Deficit) - Beginning of year	(141,703,597)	221,281,124	11,107,020	2,025,143	92,709,690
FUND BALANCES (DEFICIT) – End of Year	\$ (141,122,526)	\$ 230,906,950	\$ (22,411,528)	\$ 1,211,935	\$ 68,584,831

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

**RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

AGRICULTURAL ENTERPRISES DEVELOPMENT ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

Net Change in Fund Balances of Governmental Funds \$ (24,124,859)

Amount reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

Depreciation Expense	(574,916)	
Capital Outlays	<u>985,738</u>	
Excess of Capital Outlays over Depreciation Expense		410,822

Repayment of long-term principal is an expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year the repayments were:

Governmental Funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net assets differs from the change in fund balance by the cost of the disposed asset.		355,138
		(1,867)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

These activities consist of:

Change in Reserve for Legal Claims	629,738	
Change in Accrued Compensated Absences	(185,499)	
Change in Voluntary Termination Benefits Payable	112,156	
Change in Accrued Interest	(2,925)	
Change in Other Postemployment Benefits Liability	15,257	
Change in Total Pension Liability	<u>1,030,558</u>	

Total Change in Expenses		<u>1,599,285</u>
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Change in Net Position of Governmental Activities \$ (21,761,481)

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

AGRICULTURAL ENTERPRISES DEVELOPMENT ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION -
ENTERPRISE FUND
JUNE 30, 2020

ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 60,666,362
Receivables, net:	
Trade	32,468
Due from Commonwealth	13,406,389
Inventories	2,583,103
Prepaid Expenses	30,518
Total Current Assets	76,718,840
Capital Assets	
Land	3,192,804
Property, Plant and Equipment, Net	12,891,058
Total Capital Assets	16,083,862
TOTAL ASSETS	92,802,702
DEFERRED OUTFLOWS OF RESOURCES	
Pension Related	9,289,566
Other Postemployment Benefits Related	330,033
TOTAL DEFERRED OUTFLOWS OF RESOURCES	9,619,599

(Continues)

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

LIABILITIES	
Current Liabilities	
Accounts Payable - Trade	\$ 16,183,347
Accrued Expenses	5,300,614
Due to Governmental Funds	36,865,781
Compensated Absences	354,518
Voluntary Termination Benefits Payable	1,237,347
Other Postemployment Benefits Liability	315,775
Total Pension Liability	6,003,294
Total Current Liabilities	66,260,676
Noncurrent Liabilities	
Compensated Absences	469,942
Voluntary Termination Benefits Payable	7,038,061
Other Postemployment Benefits Liability	3,725,064
Total Pension Liability	97,094,481
Total Noncurrent Liabilities	108,327,548
DEFERRED INFLOWS OF RESOURCES - Pension Related	7,676,358
NET POSITION	
Net Investment in Capital Assets	16,083,862
Unrestricted (Deficit)	(95,926,143)
TOTAL NET POSITION (DEFICIT)	\$ (79,842,281)

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

OPERATING REVENUE

Sales of Goods	\$ 91,450,713
Rent	2,150
Other	<u>8,539</u>
Total Operating Revenue	<u>91,461,402</u>

OPERATING EXPENSES

Cost of Sales	46,226,151
Administrative and Operating Expenses	7,280,002
Depreciation	<u>861,627</u>
Total Operating Expenses	<u>54,367,780</u>
Operating Income	<u>37,093,622</u>

NON-OPERATING REVENUE (EXPENSES)

Grants and Contributions	3,815,048
Interest	281,159
Loss on Disposal of Capital Assets	<u>(43,922)</u>
Total Non-Operating Revenue (Expenses)	<u>4,052,285</u>

Net Change in Net Position	41,145,907
Net Position (Deficit) - Beginning of Year	<u>(120,988,188)</u>

NET POSITION (DEFICIT) - END OF YEAR	<u><u>\$ (79,842,281)</u></u>
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The accompanying notes are an integral part of these financial statements.

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers and Users	\$ 89,327,439
Payments to Suppliers	(46,366,454)
Payments to Employees	<u>(7,641,961)</u>
Net Cash Provided by Operating Activities	<u>35,319,024</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Decrease from Other Funds	(8,735,771)
Intergovernmental Grants and Contributions	<u>3,815,048</u>
Net Cash Used in Noncapital Financing Activities	<u>(4,920,723)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisitions of Property and Equipment, Net	<u>(926,355)</u>
Net Cash Used in Capital and Financing Activities	<u>(926,355)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	<u>281,159</u>
Net Cash Provided by Investing Activities	<u>281,159</u>
Net Increase in Cash and Cash Equivalents	29,753,105
Cash and Cash Equivalents at Beginning of Year	<u>30,913,257</u>
Cash and Cash Equivalents at End of Year	<u>\$ 60,666,362</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	\$ 37,093,622
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	861,627
Bad Debt Recovery	(1,296,465)
Net Change in Assets and Liabilities:	
Accounts Receivable	(2,133,963)
Inventory and supplies	1,090,158
Prepaid Expenses	(900)
Deferred Outflows of Resources	(2,706,667)
Accounts Payable	1,447,145
Accrued Expenses	746,028
Compensated Absences Liability	(207,392)
Voluntary Termination Benefits Liability	(421,534)
Other Postemployment Benefits Liability	(27,123)
Total Pension Liability	1,338,490
Deferred Inflows of Resources	<u>(464,002)</u>
Net Cash Provided by Operating Activities	<u>\$ 35,319,024</u>

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

ASSETS

Cash and Cash Equivalents \$ 92,796

TOTAL ASSETS **\$ 92,796**

LIABILITIES

Accounts payable \$ 92,796

TOTAL LIABILITIES **92,796**

TOTAL NET POSITION **\$ -**

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

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Agricultural Enterprises Development Administration (“AEDA”) is a component unit of the Commonwealth of Puerto Rico created under the Reorganization Plan No. 4 of the Department of Agriculture (the “Department”) of July 29, 2010 (the “Reorganization Plan”). The Reorganization Plan eliminated Rural Development and Agricultural Enterprises Service and Development Administration. The functions of the two entities were transferred to AEDA, which was created to provide a wide variety of services and incentives to the agricultural sector. Under the Reorganization Plan, AEDA has fiscal and operational autonomy and receives administrative support from the Department.

The Secretary of the Department: (1) implements AEDA’s public policy and approves the necessary, appropriate, and suitable standards, rules and regulations to exercise the power and comply with the purposes of the Reorganization Plan and any applicable law; (2) appoints the Administrator, who administers AEDA in accordance with the provisions of the Reorganization Plan; and (3) may delegate to the Administrator and, at the same time, other employees of AEDA, such powers and duties as it deems necessary, except the power to regulate.

Financial Reporting Entity

AEDA is for financial reporting purposes, a component unit of the Commonwealth of Puerto Rico (the “Commonwealth”). Because AEDA is part, for financial reporting purposes, of the Commonwealth, its financial data is included as part of the Commonwealth’s financial statements.

The accompanying basic financial statements include the organization units governed by AEDA’s management. In evaluating AEDA as a reporting entity, management has addressed the entire potential component unit. The basic criteria for including a potential component unit within the governmental financial reporting entity are whether the potential component unit for which the primary government is financially accountable and whether other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause AEDA’s financial statements to be misleading or incomplete.

The GASB has set forth criteria to be considered in determining financial accountability. These criteria include: (i) appointing a voting majority of an organization’s governing body; and (ii) AEDA’s ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to or impose specific financial burdens on AEDA.

The relative importance of each criterion must be evaluated considering specific circumstances to determine which components units are to be included as part of the reporting entity. AEDA’s management has considered all potential component units for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with AEDA may be such that exclusion of their basic financial statements from those of AEDA would cause AEDA’s basic financial statements to be misleading or incomplete. AEDA’s management has concluded that, based on the criteria set forth by GASB Accounting Standards Codification Section 2100, *Defining the Financial Reporting Entity*, there are no legally separate entities or organizations that should be reported as component units of AEDA as of June 30, 2020.

Summary of Significant Accounting Policies

The accompanying basic financial statements of AEDA have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), as prescribed by the Governmental Accounting Standard Board ("GASB").

Measurement Focus

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-Wide Financial Statements ("GWFS")

The GWFS are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is generally recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which AEDA gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and entitlements. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been met, other than time requirements. These resources relate to a future period (when the advance is first permitted to be used in accordance with the government-mandated nonexchange transaction or a voluntary nonexchange transaction) and, therefore, should be classified as deferred inflows of resources until such time as the resources are first permitted to be used.

Governmental Funds Financial Statements ("GFFS")

The GFFS are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For these purposes, AEDA considers revenues to be available if they are collected within sixty (60) days after the end of the current fiscal period. Revenues that AEDA earns by incurring obligations are recognized in the same period as when the obligations are recognized. For the fiscal year ended June 30, 2020, all revenues sources met the availability criterion.

Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or when the availability requirements have been met, and the amount is received during the period or within the availability period for this revenue source (i.e., 60 days of year-end). However, those resources not available for spending in the current period should be classified as deferred inflows of resources. Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Accordingly, such resources, if any, should be reported as unearned revenue in the liability section of the GFFS general fund's Balance Sheet. All other revenue items are measurable and available only when cash is received by AEDA.

Expenditures are recorded when the related fund liability is incurred, as under the accrual basis of accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Principal and interest on notes payable are recorded when they mature (i.e., when payment is due). Proceeds from long-term debt and acquisitions under capital leases, if any, are reported as other financing sources and uses.

Basis of Presentation

The accompanying basic financial statements present the financial position of the governmental activities, business-type activities, each major governmental fund, and the aggregate remaining fund information of AEDA as of June 30, 2020, and the respective changes in financial position, and the cash flows, where applicable, thereof for the fiscal year then ended, in conformity with GAAP, as prescribed by GASB.

The basic financial statements of AEDA have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to local governmental units. The basic financial statements include both government-wide (based on AEDA as a whole) and fund financial statements, which provide a more detailed level of financial information. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

Principal revenue sources include Commonwealth's appropriations, charges for services and grants, and contributions.

Expenditures are generally recorded when a liability is incurred, as under the accrual basis of accounting. Modifications to the accrual basis of accounting include the following:

- Employees vested annual vacation and sick leave are recorded as expenditures when matured. The unmatured amount of accumulated annual vacation leave as of June 30, 2020, is reported only in the GWFS.
- Interest and principal on general long-term obligations are recorded when due, except for interest and principal due on July 1 of the following fiscal year, if resources are available for payment as of June 30.
- Debt service expenditures, federal funds' cost disallowances, other long-term obligations, and amounts subject to judgments under litigation are recorded in the governmental funds only when payment is due; and in the case of judgments under litigation, when a settlement has been made and awaiting payment. Until these criteria are met, these liabilities are recorded only in the GWFS.

A summary reconciliation of the difference between the total fund balances as reflected in the governmental funds balance sheet and the net position of governmental activities as shown in the government-wide statement of net position is presented in the accompanying reconciliation of the balance sheet of governmental funds to the statement of net position.

A summary reconciliation of the difference between the net change in fund balances as reflected in the governmental funds statement of revenue, expenditures, and changes in fund balances and the change in net position in the statement of activities of the government-wide financial statements is presented in the accompanying reconciliation of revenue, expenditures, and changes in fund balances of governmental funds to the statement of activities.

Proprietary Funds and Fiduciary Funds – The financial statements of the proprietary funds and fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the GWFS.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. Revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. The major sources of revenue of the proprietary funds are charges for services (e.g., sale and distribution of coffee).

Government-Wide Financial Statements (“GWFS”)

The GWFS (i.e., statement of net position, statement of activities) report information of all the nonfiduciary activities of AEDA. For the most part, the effect of interfund activity has been removed from the GWFS. Governmental Activities, which normally are supported by Commonwealth’s appropriations, are reported separately from Business-Type Activities, which rely to a significant extent on charges for services or which are financed and operated in a manner similar to private business enterprises.

The GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the way GFFS are prepared. Therefore, GFFS include reconciliations with brief explanations to better identify the relationship between the GWFS and the GFFS.

The statement of net position presents the reporting entities’ nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the residual measure reported as net position. Net position is reported in three categories:

- *Net Investment in Capital Assets* – This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are directly attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of this component of net position. Rather, that portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

- *Restricted Net Position* – This component of net position consists of restricted assets and deferred outflows of resources reduced by related liabilities and deferred inflows of resources. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restricted assets result when constraints placed on those assets use are either, externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When both restricted and unrestricted resources are available for use, generally, it is AEDA's policy to use restricted resources first, then the unrestricted resources as they are needed. Designations solely imposed by AEDA's management are not presented as restricted net position.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses for centralized services and administrative overhead are allocated among the programs and functions using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not.

Program revenue includes charges to customers who purchase, use, or directly benefit from goods or services provided by a given function or segment. Program revenue also includes grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenue that is not classified as program revenue, including rent and interest are presented as general revenue. Resources that are dedicated internally are reported as general revenue rather than as program revenue.

For the most part, the effect of inter-fund activity has been removed from these statements. The government-wide *Statement of Activities* presents a comparison between expenses, both direct and indirect, and program revenues for each of the programs of the primary government of AEDA.

Governmental Funds Financial Statements (“GFFS”)

The GFFS (i.e., balance sheet, statement of revenues, expenditures, and changes in fund balances) provide information about AEDA's funds. The emphasis of fund financial statements is on major governmental funds displayed in a separate column. Non-major funds are summarized into a single column.

Each fund is a separate accounting entity with a self-balancing set of accounts used to record the financial transactions and balances of that entity. Individual funds have been established as stipulated by legal provisions or by administrative discretion. AEDA uses fund accounting, which is designed to demonstrate legal compliance, segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

By definition, the general fund is always considered a major fund. Governmental funds other than the general fund must be reported as major funds if they meet both the ten percent and five percent criterion, defined respectively as: (a) an individual governmental fund reports at least ten percent of any of the following: (i) total governmental fund assets and deferred outflows; (ii) total governmental fund liabilities and deferred inflows; (iii) total governmental fund revenues; or (iv) total governmental fund expenditures; or (b) an individual governmental fund reports at least five percent of the aggregated total for both governmental funds and enterprise funds of any one of the items for which it met the ten percent criterion. In addition, a fund may be reported as major if it is believed to be of importance to financial statement users.

Governmental Funds focus on the sources and uses of funds and provide information on near term inflows, outflows, and balances of available resources. AEDA reports the following governmental funds as of June 30, 2020:

- *General Fund* – The General Fund is the primary operating fund of AEDA. It is used to account for and report all financial resources received and used for those services traditionally provided by a government, except those required to be accounted for and reported in another fund. The financial resources received and used in the General Fund mostly include Commonwealth’s contributions as approved by the Legislature and as adjusted for timing and basis of accounting differences.
- *Incentive Fund* – This major fund accounts for resources devoted to providing farmers support, subsidies, economic incentives, protection, and provision of agricultural resources to develop infrastructure, entrepreneurship, and implementation of necessary technology for the following industries: apiculture, poultry, coffee, livestock, dairy, fisheries, swine, vegetable, fruit, food, and producers of rabbits, goats, and sheep.
- *Joint Resolution Fund* – This fund accounts for joint resolutions from the Commonwealth’s Legislative Assembly assigned to AEDA to develop several infrastructure projects. Also, this fund makes contributions and transfers to other agencies and municipalities for capital projects.
- *Other Governmental Funds* – Combines two funds as Federal for and Capital Project Fund, respectively. In case of Federal Fund, this accounts revenues and expenditures related to WIC Farmers’ Market Nutrition Program and Senior Farmers’ Market Nutrition Program. The Capital Project Fund accounts for revenues and expenditures associated with Permanent Capital Projects for AEDA for construction of buildings.

The GFFS are the following:

- *Balance Sheet* – Reports information as of June 30, 2020, about the current financial resources (assets, liabilities, and fund balances) of each major governmental fund. Generally, reflects only assets that will be converted into cash to satisfy current liabilities. Long -term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying *Balance Sheet – Governmental Funds*.
- *Statement of Revenue, Expenditures and Changes in Fund Balances* – Reports information about the revenues and expenditures of the governmental funds for the fiscal year ended June 30, 2020. The measurement focus of the GFFS is on decreases of net financial resources (i.e., expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying *Statement of Activities*, but are not recorded in the accompanying GFFS.

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the classification of fund balance is based on the extent to which AEDA is bound to observe constraints imposed upon the use of resources in the governmental funds. The classifications are as follows:

- *Non-spendable* – Amounts that are not in a spendable form or are legally or contractually required to be maintained intact.
- *Restricted* – Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for a specific purpose.
- *Committed* – Amounts that are constrained for specific purposes that are internally imposed by the government’s formal action at the highest level of decision-making authority. The highest level of decision authority for AEDA is the Secretary of the Department of Agriculture.
- *Assigned* – includes fund balance amounts that are constrained and are intended to be used for specific purposes that are neither considered restricted nor committed. The Administrator of AEDA is authorized to assign an amount for a specific purpose.
- *Unassigned* – is the residual classification for the General Fund. In a governmental fund other than the General Fund, a negative amount indicates that the expenditures incurred for a specific purpose exceeded the amounts in the fund that are restricted, committed, and assigned to that purpose.

AEDA uses restricted amounts first when both restricted and unrestricted fund balances are available, unless there are legal documents/contracts that prohibit doing this (e.g., grant agreement requiring dollar for dollar spending). Additionally, unless required by law or agreement, AEDA would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. AEDA does not have a formal minimum fund balance policy.

Enterprise Funds

The enterprise funds follow the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash, respectively. The enterprise funds also distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operation. Revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

AEDA includes as operating transactions in the Agricultural Services Fund (i.e., enterprise fund) any activity undertaken during ordinary business, as well as ancillary activities or activities that are a natural extension of, or that result from these activities. Transactions resulting from events or transactions clearly distinct from the ordinary activities and which are not expected to occur frequently or regularly are reported as non-operating transactions. This fund accounts for those activities for which the intent of management is to recover, primarily through charges for services or goods, and the cost of providing goods or services to the public.

The financial statements of the Agricultural Services Fund are the following:

Statement of Net Position – Assets and liabilities are presented in a classified format to distinguish between current and long-term assets and liabilities. The deferred outflows/inflows of resources are presented as part of the implementation of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, and GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions*.

Statement of Revenue, Expenses and Changes in Fund Net Position – Revenue and expenses are reported by distinguishing between operating and non-operating revenues and expenses.

Statement of Cash Flows – The primary purpose of the *Statement of Cash Flows* is to provide relevant information about the cash receipts and disbursements of AEDA during the fiscal year. The information of the *Statement of Cash Flows* should help financial report users assess AEDA's: (i) ability to generate future net cash flows; (ii) ability to meet its obligations as they come due; (iii) needs for external financing; and (iv) reasons for differences between operating income and associated cash receipts and disbursements and the effects on Agricultural Services Fund's financial position of operating, capital and related financing activities, non-capital related financing activities and investment activities during the period.

The accompanying statement of cash flows is presented in accordance with the provisions of GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. For purposes of reporting cash flows, cash includes cash on hand, amounts due from banks, and items in process of collection.

Fiduciary Funds

The accounting used for fiduciary funds is much like that used for proprietary funds. Fiduciary funds follow the accrual basis of accounting. Fiduciary Funds are used to account for assets held by AEDA in a trustee capacity, or as an agent for individual, private organizations, and other governmental units. The fiduciary fund is not accounted for in the statement of Net Position because the resources of the fund are not available to support AEDA's programs. AEDA's fiduciary fund is considered an Agency Fund. These are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide information that is essential for the user's full understanding of the data provided in the basic financial statements.

Risk Financing

The Commonwealth of Puerto Rico purchases commercial insurance covering casualty, theft, tort, claims, and other losses for AEDA. AEDA reimburses the Commonwealth for premium payments made on its behalf. AEDA's current insurance policies have not been canceled or terminated.

For workers' compensation, the State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, provides the workers' compensation insurance to AEDA's employees.

AEDA is authorized to deposit only in financial institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico, and such deposits should be kept in separate accounts in the name of AEDA.

Significant Accounting Policies

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates made by management include the allowance for loan losses, the useful lives of capital assets, the valuation of capital assets, and accruals for legal claims and other contingencies. The current economic environment has increased the degree of uncertainty inherent in estimates and assumptions.

Cash and Cash Equivalents

AEDA considers all highly liquid investments with maturity of three (3) months or less when purchased to be cash equivalents. The cash balances are available to meet current operating requirements in various interest-bearing accounts with commercial banks.

Receivables and Payables

The receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Receivables represent mostly agricultural service charges corresponding to June revenues collected thereafter. Intergovernmental receivables (e.g., due from Commonwealth, due from Commonwealth's public corporation) represent amounts owed to AEDA pursuant to charge for services and state contributions. Accounts payable represent amounts, including salaries and wages, payable for goods and services received prior to year-end.

Intergovernmental receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. This intergovernmental receivable is recognized as revenue in the governmental funds when it becomes measurable and available based on actual collections for 90 days following the fiscal year-end related to transactions that occurred before the end of the year. In applying the susceptible to accrual concept to federal grants, revenue is recognized when all applicable eligibility requirements are met (i.e., when related expenditures are incurred) and the resources are available.

The accounts receivable from nongovernmental customers are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users. Accounts receivable from Commonwealth and from Commonwealth's public corporations are evaluated for collectability.

Federal Grants

Contributions received from federal grants are recorded as operating revenues under the U.S. Department of Agriculture ("USDA") programs in the accounting period in which all eligibility requirements and/or time and purposes restrictions are met.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out ("FIFO") method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both GWFS and GFFS.

Interfund Transactions

Activities among the funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding among the governmental activities and business-type activities are reported in the GWFS as "internal balances".

During its operations, AEDA has activities among the funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the GWFS. Balances among the funds included in governmental activities (i.e., the governmental

funds) are eliminated so that only the net amount is included as internal balances in the governmental activities' column. Similarly, balances among the funds included in business-type activities (i.e., the enterprise fund) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Capital Assets

Capital assets, which include buildings and improvements, equipment, furniture and fixtures, motor vehicles and other, are reported in the applicable governmental or business-type activities column in the GWFS. Capital assets are defined by AEDA as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. For improvements other than buildings, the capital outlay must be greater than \$5,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset.

As AEDA constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, AEDA values the capital asset at the estimated fair value of the item at the date of its donation.

Capital outlay is recorded as an expenditure in the General Fund and other governmental funds and as assets in the GWFS to the extent AEDA's capitalization threshold is met. Interest incurred during the construction phase of the capital asset of business-type activities is reflected in the capitalized value of the asset acquired. Depreciation and amortization expense is recorded only in the GWFS. No depreciation is recorded for land and construction in progress. Other property, equipment, furniture and fixtures, and motor vehicles of the primary government are depreciated using the straight-line method over the following estimated useful lives:

CAPITAL ASSETS	YEARS
Buildings	40
Building Improvements	40
Equipment, Furniture & Fixtures, and Motor Vehicles	5 - 20
Other	5

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset.

Impaired capital assets that will no longer be used by AEDA, if any, are reported at the lower of the carrying value or the fair value. Impairment losses on capital assets with physical damages that will continue to be used by AEDA are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors, or assets that are subject to technological changes or obsolescence, if any, are measured using the service units' approach.

Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund when the liability is incurred. The Non-Current Liabilities include amounts estimated as contingent liabilities or liabilities with a fixed or expected due date, which will require future available financial resources for their payment.

Long-Term Obligations

The liabilities reported in the GWFS include long-term notes, other noncurrent liabilities (e.g., employees' vacations, claims and judgments, noncurrent liabilities to other governmental entities and third parties). Expenditures for principal and interest payments of the governmental general fund and the incentives fund are recognized in the corresponding fund when due.

Compensated Absences

Compensated absences are accounted for under the provisions of GASB Accounting Standards Codification Section C60, *Compensated Absences*. Compensated absences include paid time off made available to employees in connection with vacation. The liability for compensated absences recorded in the accompanying statement of Net Position is limited to leave of absence that: (i) is attributable to services already rendered on or before June 30, 2020; and (ii) is not contingent on a specific event (such as illness) that is outside the control of AEDA and the employee. The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (e.g., employer's share of social security and Medicare taxes).

According to Act 8-2017 and Act 26-2017, the compensated absences policy of the Commonwealth that applies to AEDA's employees provides for a maximum annual accumulation of 15 days of vacations and 18 days of sick leave if hired before February 4, 2017, or 12 days of sick leave if hired after February 4, 2017.

Compensated absences are accrued when incurred using the pay or salary rates in effect at the date of the statement of Net Position. The cost of compensated absences expected to be paid in the next twelve (12) months is classified as a current liability while amounts expected to be paid after twelve (12) months are classified as noncurrent liabilities.

Vacation and sick leave may be accumulated up to a maximum of 67.5 and 99 days, respectively. In the event of employee termination, an employee is paid for accumulated vacation days up to the maximum allowed of 60 days. Termination of employment voids the right of compensation for accumulated sick leave.

Pension Benefits

AEDA accounts for pension costs under the provisions 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 No. 68*.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of Statement No. 73 extend the approach for accounting and financial reporting established in Statement No. 68 to all pensions with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to the financial statements and required supplementary information by all similarly situated employers and non-employer contributing entities.

Refer to Note 11 for the allocation methodology used by AEDA to report its allocated share of the total pension liability and the related pension accounts.

Voluntary Termination Benefits

AEDA accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits* (“GASB 47”). Pursuant to the provisions of GASB 47, AEDA, as an employer, should recognize a liability and expense for voluntary termination benefits (e.g., early retirement incentives) when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits (e.g., severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

Other Postemployment Benefits

AEDA participates in the Other Postemployment Benefit Plan for Retired Employees of the Commonwealth (“OPEB”), which is an unfunded, multi-employer defined benefit other postemployment healthcare benefit plan (“OPEB Plan”) provided by the Commonwealth to its retired plan members. 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 the Postemployment Benefits Other Than Pensions* (“GASB 75”). Because certain employers that are component units of the Commonwealth, such as AEDA, prepare individual financial statements, a proportionate share of OPEB expense is determined for those employers.

GASB 75 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

Deferred Outflows/ Inflows of Resources

In addition to assets and liabilities, the Statement of Net Position includes separate sections for deferred outflows/inflows of resources. Such separate financial statement elements, deferred outflows/inflows of resources, represent a depletion (expenses/expenditures) or accretion (income) of net position that applies to a future period, and thus, will not be recognized as an outflow/inflow of resources until then.

Enterprise Fund Operating and Non-operating Revenue and Expenses

The principal operating revenue of AEDA's enterprise fund is from charges to customers for the sale and distribution of coffee. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Adoption of New Accounting Pronouncements

The provisions of the following Governmental Accounting Standards Board (GASB) Statement were implemented for the year ended June 30, 2020:

- The GASB issued Statement No. 95, "*Postponement of the Effective Dates of Certain Authoritative Guidance*" in May 2020, effective immediately. The objective of this Statement is to provide temporary relief to governments due to the COVID-19 pandemic. This statement extends the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018. The adoption of this statement had no effect on previously reported amounts.

Recently Issued Accounting Pronouncements

The following new accounting standards have been issued but are not yet effective for the fiscal year ended June 30, 2020:

- GASB Statement No. 84, *Fiduciary Activities*. This statement will enhance consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019, as revised by GASB Statement No. 95. AEDA is evaluating the impact of this new statement.
- GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single

model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2021, as revised by GASB Statement No. 95. AEDA is evaluating the impact of this new statement.

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement will enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and will simplify accounting for interest cost incurred before the end of a construction period. The requirements of this statement are effective for reporting periods beginning after December 15, 2020, as revised by GASB Statement No. 95. AEDA is evaluating the impact of this new statement.
- GASB Statement No. 90, *Majority Equity Interests*. This statement will improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for reporting periods beginning after December 15, 2019, as revised by GASB Statement No. 95. AEDA is evaluating the impact of this new statement.
- GASB Statement No. 91, *Conduit Debt Obligations*. This statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2020, as revised by GASB Statement No. 95. AEDA is evaluating the impact of this new statement.
- GASB Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: the effective date of Statement No. 87, *Leases*, and *Implementation Guide No. 2020-3, Leases*, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for

amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as revised by GASB Statement No. 95. AEDA is evaluating the impact of this new statement.

- GASB Statement No. 93, *Replacement of Interbank Offered Rates*. This Statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this statement are effective for reporting periods ending after June 15, 2021, as revised by GASB Statement No. 95. AEDA is evaluating the impact of this new statement.
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement establishes standards of accounting and financial reporting for PPPs and APAs for governments. The requirements of this statement are effective for reporting periods beginning after June 15, 2022, as revised by GASB Statement No. 95. AEDA is evaluating the impact of this new statement.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. AEDA is evaluating the impact of this new statement.
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This Statement is intended to (i) increase the comparability of the reporting of fiduciary component units in circumstances where a potential component unit doesn't have a governing board; (ii) mitigate financial reporting costs associated with certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and other employee benefit plans, by clarifying the financial burden criteria in Statement No. 84, *Fiduciary Activities*; and (iii) extends the accounting and financial reporting requirements related to pension plans, to Section 457 plans that meet the definition of a pension plan. The requirements of this statement are effective for reporting periods beginning after June 15, 2021. AEDA is evaluating the impact of this new statement.
- GASB Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement are effective for fiscal years ending after December 15, 2021, AEDA is evaluating the impact of this new statement.

Management is evaluating the impact that these Statements will have, if any, on AEDA's basic financial statements when the effective dates apply.

NOTE 2 – GOING CONCERN

The Commonwealth currently faces a severe fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth’s liquidity is the vulnerability of revenue streams during times of major economic downturns and large health care, pension, and debt service costs. The Commonwealth’s tax base has shrunk, and its revenues have been affected by prevailing economic conditions; health care, pension and debt service costs have become an increasing portion of the Commonwealth’s General Fund budget, which has resulted in reduced funding available for other essential services, like the ones provided by AEDA, which is a component unit of the Commonwealth.

The Commonwealth’s debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which the Commonwealth has financed, further increasing the amount of its debt. More recently, these matters and the Commonwealth’s liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates. As a result, the Commonwealth has relied heavily on short-term financings and interim loans from GDB, and other instrumentalities of the Commonwealth, which reliance has constrained the liquidity of the Commonwealth in general and GDB and increased near-term refinancing risk. These factors have also resulted in delays in the repayment by the Commonwealth and its instrumentalities of outstanding GDB lines of credit, which delays have limited GDB’s ability to continue providing liquidity to the Commonwealth and have caused GDB to fail to make a principal payment on its debt obligations. These factors are reflected in the deterioration of the Commonwealth’s credit ratings. Since June 30, 2014, the principal rating agencies have continued to lower their rating on the general obligation bonds of the Commonwealth, which had already been placed within non-investment grade ratings in February 2014. They also lowered their ratings on the bonds of the Public Buildings Authority and COFINA, and on other bonds of various instrumentalities, including GDB, all of which were lowered multiple notches in the grading levels.

The following Commonwealth activities, funds, and blended component units reflect a deficit balance as of June 30, 2018, last audited financial statements:

	Deficit Balance <u>(In thousands)</u>
Primary Government	\$72,487,986
Component Units	\$14,135,056
Governmental Funds	\$808,936

The Commonwealth shows a net position deficit of approximately \$72 billion as of June 30, 2018. The net deficit is attributable to the accumulated effect of over a decade of operating expenses exceeding program and general revenues, an increase in the cost of funding the Retirement Systems, and a decrease in estimated revenues, among other factors.

The Commonwealth's ability to reduce its deficit and achieve a balanced budget in future fiscal years depends on a number of factors, some of which are not wholly within its control, including the performance of the Commonwealth's economy, that actual collections of taxes meet the Treasury Department's projections, and the government's ability to reduce and control governmental expenditures, particularly in areas such as education, public safety and healthcare, which represent a significant portion of the budget appropriations of the Commonwealth.

On June 30, 2016, the then-President of the United States signed into law the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"). In general terms, PROMESA seeks to provide the Commonwealth, its instrumentalities, and public corporations with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debts can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of Title 11 of the United States Code (U.S. Bankruptcy Code).

On May 3, 2017, the Financial Oversight and Management Board (the Oversight Board), at the request of the Governor commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico. As of June 30, 2020, the Commonwealth continues under PROMESA proceedings for restructuring its existing debt.

The Commonwealth will not be able to honor all its obligations as they come due while at the same time providing essential government services and has stated that substantial doubt exists about its ability to continue as a going concern. Accordingly, because AEDA is part of the Commonwealth, and is financially dependent from the appropriations of the Commonwealth, it creates an uncertainty about AEDA's ability to continue as a going concern.

In addition, AEDA's net position show a net deficit of approximately \$70.6 million as of June 30, 2020. The net deficit is attributable to the accumulated effect of over a decade of operating expenses exceeding program and general revenues, an increase in the cost of funding the Retirement Systems, and a decrease in estimated revenues, among other factors.

In response to the financial difficulties, the Commonwealth submitted a Fiscal Plan covering the agriculture component that integrates the Department of Agriculture, AEDA, and Insurance Farmers Corporation. The plan includes a series of costing initiatives to reduce administrative and payroll costs. The Certified Fiscal Plan establishes savings for the agriculture component of \$26.7 million for fiscal year 2020 and \$30.3 million for the five years ending on fiscal year 2023. Refer to Note 13 for more details of the fiscal plan.

NOTE 3 – CASH AND CASH EQUIVALENTS

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth. AEDA is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws.

During the year, AEDA invests its funds in interest bearing bank accounts. AEDA is authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth. Such deposits should be kept in separate accounts in the name of AEDA. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of the amounts insured by the Federal Deposit Insurance Corporation

AEDA’s cash and cash equivalents as of June 30, 2020, consist of the following:

	<u>Book Balance after Loss</u>	<u>Depository Bank Balance</u>	<u>Amount Uninsured and Uncollateralized</u>
<u>GOVERNMENTAL FUNDS</u>			
Cash deposited in commercial banks	\$ 42,415,526	\$ 38,313,575	\$ -
Total for Governmental Funds	<u>\$ 42,415,526</u>	<u>\$ 38,313,575</u>	<u>\$ -</u>
<u>ENTERPRISE FUNDS</u>			
Cash deposited in commercial banks	\$ 60,666,362	\$ 66,316,029	-
Total for Enterprise Funds	<u>\$ 60,666,362</u>	<u>\$ 66,316,029</u>	<u>\$ -</u>
Total of cash and equivalents	<u>\$ 103,081,888</u>	<u>\$ 104,629,604</u>	<u>\$ -</u>

AEDA follows the provisions of GASB Accounting Standards Codification Section C20, *Cash Deposit with Financial Institutions*, related with cash deposit and interest-earning investment contract with financial institutions. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of AEDA as of June 30, 2020:

Credit Risk

Credit risk refers to the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2020, AEDA has invested only in cash equivalents of \$103,081,888 consisting of interest-bearing accounts in commercial banks, which are insured by the Federal Deposit Insurance Corporation (“FDIC”), generally up to a maximum of \$250,000. As previously mentioned, public funds deposited by AEDA in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. Neither investments in debt nor equity securities were made during the fiscal year ended June 30, 2020. Therefore, AEDA’s management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on AEDA’s deposits is considered low as of June 30, 2020.

Custodial Credit Risk Reserve

This is the risk that, in the event of the failure of a depository financial institution, AEDA will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Commonwealth adopted by the Treasury Department, AEDA may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico. It is management's policy to only maintain deposits in banks affiliated to the FDIC to minimize the custodial credit risk.

Interest Rate Risk

It is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. AEDA manages its exposure to declines in fair values by: (i) not including debt or equity investments in its investments portfolio as of June 30, 2020; (ii) limiting the weighted average maturity of its investments in certificates of deposit to periods of four months or less; and (iii) keeping most of its bank's deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. Therefore, as of June 30, 2020, the interest risk associated with AEDA's cash and cash equivalents is considered low.

Foreign Exchange Risk

It is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the investment guidelines adopted, AEDA is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to AEDA's deposits is considered low as of June 30, 2020.

Fiduciary Fund

Cash equivalents of the fiduciary fund as of June 30, 2020, consist of the following:

	<u>Book Balance</u>	<u>Depository bank balance</u>	<u>Amount uninsured and uncollateralized</u>
<u>AGENCY FUND</u>			
Cash and cash equivalents	\$ 92,796	\$ 97,714	\$ -
Total for Agency Fund	<u>\$ 92,796</u>	<u>\$ 97,714</u>	<u>\$ -</u>

As of June 30, 2020, AEDA has on behalf of the fiduciary fund the amount of \$92,796 in an interest-bearing account at a commercial bank. Deposits in commercial banks are insured by the FDIC, generally up to a maximum of \$250,000. However, public funds deposited by AEDA in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. Therefore, AEDA's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on AEDA's Fiduciary Fund is considered low as of June 30, 2020.

NOTE 4 – LOANS AND ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2020 consist of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Trade	\$ 4,175,109	\$ 5,052,913	\$ 9,228,022
Due from Commonwealth	20,644	-	20,644
Due from Other Governmental Entities	-	34,486,421	34,486,421
Due from Commonwealth's Public Corporation	5,502,836	-	5,502,836
Notes Receivable	154,735	-	154,735
Other	8,770,939	568,435	9,339,374
Total	<u>18,624,263</u>	<u>40,107,769</u>	<u>58,732,032</u>
Less: Allowance for doubtful accounts	<u>(11,978,977)</u>	<u>(26,668,912)</u>	<u>(38,647,889)</u>
Loans and accounts receivable, net	<u>\$ 6,645,286</u>	<u>\$ 13,438,857</u>	<u>\$ 20,084,143</u>

Changes in the allowance for doubtful accounts during the year ended June 30, 2020 are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Allowance for doubtful accounts, beginning of year	\$ 11,883,537	\$ 27,965,377	\$ 39,848,914
Plus: Provision for doubtful accounts	95,440	-	95,440
Less: Bad Debts Recovery	-	(1,296,465)	(1,296,465)
Allowance for doubtful accounts, end of year	<u>\$ 11,978,977</u>	<u>\$ 26,668,912</u>	<u>\$ 38,647,889</u>

NOTE 5 – INVENTORIES

Inventories, including supplies, are stated at the lower of cost or market determined using the first-in, first-out valuation method. The inventory balance by locations as of June 30, 2020, is as follows:

<u>Description</u>	<u>Location</u>	<u>Valuation</u>
Coffee - Yahuecas	Adjuntas	\$ 1,818,351
Other	Various	<u>608,198</u>
Total Inventory		2,426,549
Supplies	Various	<u>288,124</u>
Total Inventory and supplies		<u><u>\$ 2,714,673</u></u>

NOTE 6 – CAPITAL ASSETS

A summary of the activity of capital assets of the Governmental Activities follows:

Description	Balance at June 30, 2019	Additions	Retirements	Balance at June 30, 2020
Governmental Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 546,678	-	-	\$ 546,678
Depreciable Capital Assets:				
Buildings	3,307,252	-	-	3,307,252
Equipment	11,364,437	266,211	(300)	11,630,348
Furniture & Fixtures	3,409,226	525,425	(369)	3,934,282
Motor Vehicles	838,918	194,102	(17,956)	1,015,064
Other	79,147	-	-	79,147
Total Depreciable Capital Assets	18,998,980	985,738	(18,625)	19,966,093
Less: accumulated depreciation				
Buildings	\$ (1,863,566)	\$ (54,709)	\$ -	(1,918,275)
Equipment	(8,798,472)	(340,658)	270	(9,138,860)
Furniture & Fixtures	(2,828,802)	(151,284)	328	(2,979,758)
Motor Vehicles	(755,026)	(28,265)	16,160	(767,131)
Other	(71,232)	-	-	(71,232)
Total Accumulated Depreciation	(14,317,098)	(574,916)	16,758	(14,875,256)
Total Depreciable Capital Assets (Net)	4,681,882	410,822	(1,867)	5,090,837
CAPITAL ASSETS, NET	\$ 5,228,560	\$ 410,822	\$ (1,867)	\$ 5,637,515

A summary of the activity of capital assets of the Business-Type Activities follows:

Description	Balance at June 30, 2019	Additions	Retirements	Balance at June 30, 2020
Business-Type Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 3,192,804	\$ -	\$ -	\$ 3,192,804
Depreciable Capital Assets:				
Buildings	20,234,108	-	-	20,234,108
Equipment	9,440,379	920,924	(86,459)	10,274,843
Furniture & Fixtures	1,368,321	5,431	(937)	1,372,815
Motor Vehicles	4,891,193	-	(121,105)	4,770,088
Other	137,610	-	-	137,610
Total Depreciable Capital Assets	<u>36,071,611</u>	<u>926,355</u>	<u>(208,501)</u>	<u>36,789,464</u>
Less: accumulated depreciation				
Buildings	(10,954,466)	(374,278)	-	(11,328,744)
Equipment	(6,707,865)	(415,226)	54,742	(7,068,349)
Furniture & Fixtures	(1,136,855)	(31,327)	843	(1,167,339)
Motor Vehicles	(4,278,552)	(40,577)	108,994	(4,210,135)
Other	(123,621)	(219)	-	(123,840)
Total Accumulated Depreciation	<u>(23,201,359)</u>	<u>(861,627)</u>	<u>164,579</u>	<u>(23,898,406)</u>
Total Depreciable Capital Assets (Net)	<u>12,870,252</u>	<u>64,728</u>	<u>(43,922)</u>	<u>12,891,058</u>
CAPITAL ASSETS, NET	<u>\$ 16,063,056</u>	<u>\$ 64,728</u>	<u>\$ (43,922)</u>	<u>\$ 16,083,862</u>

Accounting for the impairment of capital assets

AEDA accounts for assets impairment under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its services utility has declined significantly and unexpectedly. The statement also establishes accounting requirements for insurance recoveries. A capital asset generally should be considered impaired if both: (i) the decline in service utility of the capital asset is large in magnitude; and (ii) the event of change in circumstances is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by AEDA should be reported at the lower of carrying value or fair value. As of June 30, 2020, no capital assets were considered impaired by AEDA.

NOTE 7 – LONG-TERM OBLIGATIONS

The following summarizes the activities of the long-term obligations as of June 30, 2020:

	<u>Balance at June 30, 2019</u>	<u>Net change</u>	<u>Balance at June 30, 2020</u>	<u>Due within One (1) Year</u>	<u>Due after One (1) Year</u>
Governmental Activities:					
Line of Credit	\$ 71,728	\$ -	\$ 71,728	\$ 71,728	\$ -
Notes Payable	771,554	(355,138)	416,416	355,138	61,278
Legal Claims	908,084	(629,737)	278,347	-	278,347
Compensated Absences	564,769	185,499	750,268	322,615	427,653
Voluntary Termination Benefits	4,454,647	(112,157)	4,342,490	972,201	3,370,289
Total Other Postemployment Benefits	2,288,228	(15,256)	2,272,972	177,624	2,095,348
Total Pension Liability	57,239,599	752,900	57,992,499	3,376,853	54,615,646
TOTAL	<u>\$ 66,298,609</u>	<u>\$ (173,889)</u>	<u>\$ 66,124,720</u>	<u>\$ 5,276,159</u>	<u>\$ 60,848,561</u>
Business-Type Activities:					
Compensated Absences	1,031,852	(207,392)	824,460	354,518	469,942
Voluntary Termination Benefits	8,696,943	(421,535)	8,275,408	1,237,347	7,038,061
Total Other Postemployment Benefits	4,067,963	(27,124)	4,040,839	315,775	3,725,064
Total Pension Liability	101,759,286	1,338,488	103,097,775	6,003,294	97,094,481
TOTAL	<u>\$ 115,556,044</u>	<u>\$ 682,437</u>	<u>\$ 116,238,482</u>	<u>\$ 7,910,934</u>	<u>\$ 108,327,548</u>

Line of Credit

Line of credit balance as of June 30, 2020 for the Governmental Activities is composed of the following:

- Revolving line of credit of \$7,800,000 with the “Fondo Integral para el Desarrollo Agrícola de Puerto Rico” with a maturity date of June 24, 2014, at a fixed annual interest rate of 6.50%. Balance as of June 30, 2020 is \$71,728.

Notes payable

Notes payable balance as of June 30, 2020 for the Governmental Activities is composed of the following:

- Long-term obligation of \$11,837,802 with the “Fondo Integral para el Desarrollo Agrícola de Puerto Rico” with a maturity date of June 30, 2016, payable in six (6) equal annual installments of \$1,469,168 of principal and fixed annual interest rate of 6%. Balance as of June 30, 2020 is \$416,416.

NOTE 8 – VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 (Act No. 70) establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of AEDA. Act No. 70 established that early retirement benefits will be provided to eligible employees that have

completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee' salary, as defined. In this early retirement benefit program, AEDA will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive are eligible to receive health plan coverage for up to 12 months in a health plan selected by the management of AEDA.

The financial impact resulting for the benefits granted to participants on this program was the recognition within AEDA's financial statements of a liability of \$9,289,271 in the statement of net position as of June 30, 2020. As of June 30, 2020, unpaid long-term benefits granted on this program were discounted at .95%.

On December 8, 2015, the Commonwealth enacted a program based on provisions established on Act No. 211. All eligible employees may retire from employment in exchange for an early pension and other benefits. Furthermore, the Act No. 211 provides those eligible employees may retire from employment in exchange for an early pension and other benefits. Act No. 211 only applied to employees with twenty years or more participating in the ERS created pursuant to Act No. 447 of 1951 and have not reached 61 years of age.

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 has attained 61 years old, which is the age the employee will become part of the ERS. AEDA is responsible for the payment of the employer contribution to the Social Security and Medicare, based on 60% of the average compensation as of December 31, 2015. Also, AEDA is responsible for the payment of the related employee and employer contributions to the ERS based on 100% of the average salary as of December 31, 2015, for amounts which guarantee a 50% minimum compensation to an 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 or when the employee reaches 61 years old, whichever comes first.

As of June 30, 2020, the total liability related to these termination benefits was approximately \$3,328,627. Payments of such voluntary termination plans are expected to be made until 2030.

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (“OPEB”)

Plan Description

In addition to the pension benefits described in Note 11, AEDA participates in the Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employees' Retirement System (the “OPEB plan”), through the ERS MIPC, in accordance with local law. The OPEB plan is an unfunded defined benefit other postemployment healthcare benefit plan 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 to be one employer and are classified for financial reporting purposes as a single-employer defined benefit OPEB plan.

The OPEB plan 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 OPEB Plan is financed by the Commonwealth through legislative appropriations. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Plan members were eligible for benefits upon reaching the applicable retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the OPEB plan members that retired after June 30, 2013.

Total OPEB Liability, OPEB Expense, and Actuarial Assumptions and Methods:

The total OPEB liability is \$6,313,811 as of June 30, 2020. The total OPEB liability as of June 30, 2020, was determined by an actuarial valuation as of July 1, 2018, which was rolled forward to June 30, 2019 (measurement date). As of June 30, 2020, AEDA's proportionate share was 0.75866%, which resulted in a decrease of 0.00391% from its proportionate as of June 30, 2018 (using the measurement date as of June 30, 2019). AEDA recognized an OPEB benefit of approximately \$23,605 during the year ended June 30, 2020. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Proportionate Share - June 30, 2018	0.75475%
Proportionate Share - June 30, 2019	<u>0.75866%</u>
Change - Increase (Decrease)	<u>-0.00391%</u>

Discount Rate

The discount rate for June 30, 2019 (measurement date) was 3.50%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

- a) *Pre-retirement Mortality* — For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 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.

- b) *Post-retirement Healthy Mortality* — Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan’s experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
- c) *Post-retirement Disabled Mortality* — Rates which vary by gender are assumed for disabled retirees based on a study of the Plan’s experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Sensitivity of AEDA's Proportionate Share of Total OPEB Liability to Change in the Discount Rate

The following table presents AEDA's proportionate share of the total OPEB liability for the OPEB Plan as of June 30, 2020, calculated using the current discount rate of 3.50% as well what AEDA's proportionate share of the Plan’s total OPEB liability if it were calculated using a discount rate of one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current rate:

Description	At 1% decrease (2.50%)	At current discount rate (3.50%)	At 1% increase (4.50%)
OPEB liability	\$ 6,925,033	\$ 6,313,811	\$ 5,794,661

Deferred Outflows of Resources

The deferred outflows of resources related to OPEB Plan resulting from AEDA's benefits payments made subsequent to measurement date amounting to \$515,676 as of June 30, 2020, will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2020. Because all participants are inactive, there are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year.

Additional information on OPEB plan is provided in its standalone financial statements for the year ended June 30, 2019, 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.

NOTE 10 – INTERGOVERNMENTAL REVENUE, FEDERAL AND STATE GRANTS

Intergovernmental revenues consist primarily of funds received from the Fund for Agricultural Development Innovation of the Commonwealth and grants and subsidies received from the Commonwealth and federal agencies. Intergovernmental revenue is accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue Fund or other Governmental Funds.

NOTE 11 – EMPLOYEE’S RETIREMENT PLAN

Pension and Plan Description

The Defined Benefit Pension Plan for Participants of the Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico (the Commonwealth) (the Plan) 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 (“ERS participants”). 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. 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. Total employee contributions for the PayGo system during the year ended June 30, 2020, were approximately \$9.2 million.

As a result of the implementation of the PayGo system, the Plan does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (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 in GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. 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.

Act No. 106-2017 also terminated the previously existing pension programs for ERS participants as of June 30, 2017 and created a new defined contribution plan (the New Defined Contribution Plan) for existing active members and new employees hired on or after July 1, 2017. This plan is similar to a 401(k) and is managed by a private entity. Future benefits will not be paid by the Plan. Under the New Defined Contribution Plan, members of the prior programs and new governmental employees hired on and after July 1, 2017, will be enrolled in the New Defined Contributions Program that will be selected by the Retirement Board established under Act No. 106-2017. As of June 22, 2020, the accumulated balance on the accounts of the prior pension programs were transferred to the individual member accounts in the New Defined Contribution Plan.

Act No. 106-2017, among other things, amended Act No. 447 with respect to Plan's governance, funding and benefits for active members of the actual program and new hired members. Under Act 106-2017, the Plan's Board of Trustees was eliminated, and a new Retirement Board was created. The Retirement Board is currently responsible for governing all the Commonwealth's three major pension systems, including the Plan.

Defined Benefit Program

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

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

- Members of Act No. 447 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).
- Members of Act No. 305 of September 24, 1999 (Act No. 305 or System 2000) are generally those members hired on or after January 1, 2000, and on or before June 30, 2013 (defined contribution program).

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who on 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.

Service Retirement Eligibility Requirements

- (1) *Eligibility for Act No. 447 Members* – 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. 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. 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, 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.

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

- (2) *Eligibility for Act No. 1 Members* – 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, or (2) attainment of age 65 with 10 years of credited service.

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.

- (3) *Eligibility for System 2000 Members* – members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time.

System 2000 members who were not eligible to retire as of June 30, 2013, are eligible to retire upon attainment of the retirement eligibility age shown in the table below.

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

Service Retirement Annuity Benefits

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

Retirement benefits were determined by the application of stipulated benefit ratios to the member’s average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by the Plan. The annuity, for which a plan member was eligible, was limited to a minimum of \$500 per month and a maximum of 75% of the average compensation.

Refer to the stand-alone financial statements of the Plan for further information on additional benefits.

Total Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2020, AEDA reported a liability of approximately \$161 million for its proportionate share of the total pension liability.

AEDA’s total pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the total pension liability was determined by an actuarial valuation as of June 30, 2018, rolled forward to the measurement date of June 30, 2019. AEDA’s proportion of the total pension liability was based on the ratio of AEDA’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.

As of June 30, 2020, AEDA's proportionate share was 0.64824%, which was the June 30, 2019 base as required by GASB No. 73:

Proportionate Share - June 30, 2018	0.64925%
Proportionate Share - June 30, 2019	<u>0.64824%</u>
Change - Increase (Decrease)	<u>0.00101%</u>

Actuarial Assumptions and Methods:

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

Discount Rate

The discount rate for June 30, 2019, was 3.50%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer 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, 2019, actuarial valuation was as follows:

a) *Pre-retirement Mortality*

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2019 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.

b) *Post-retirement Healthy Mortality*

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

c) *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement.

The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Other Assumptions as of June 30, 2019

Actuarial cost method	Entry age normal
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.

Sensitivity of AEDA's proportionate share of net pension liability to change in the discount rate

The following table presents AEDA's proportionate share of the total pension liability for the Plan calculated using the discount rate of 3.50% as well what AEDA's proportionate share of the total pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

Description	At 1% decrease (2.50%)	At current discount rate (3.50%)	At 1% increase (4.50%)
Total Pension liability	\$ 183,176,192	\$ 161,090,274	\$ 143,151,894

For the year ended June 30, 2020, AEDA recognized a pension expense of approximately \$2.9 million due to the GASB No. 73 implementation and other actuarial changes. As of June 30, 2020, the reported deferred outflows of resources and deferred inflows of resources related to pensions are related to the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 5,461,430
Change in assumptions	5,231,001	4,164,614
Changes in Proportion	-	2,368,269
Benefits paid subsequent to measurement date	9,283,946	-
	<u>\$ 14,514,947</u>	<u>\$ 11,994,313</u>

Deferred outflows of resources related to pension benefit payments made by AEDA subsequent to the measurement date that amounted to approximately \$9.2 million, will be recognized as a reduction of the total pension liability for the ended June 30, 2020.

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2020, will be recognized in the pension expense (benefit) for the next five years, as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ (1,352,662)
2022	(1,352,662)
2023	(1,352,662)
2024	(1,352,662)
2025	<u>(1,352,662)</u>
Total	<u>\$ (6,763,310)</u>

The previous amounts do not include AEDA’s specific deferred outflows and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) over the average of the expected remaining service lives of all plan members, which is 6 years for 2018.

Additional information on the Plan is provided on its stand-alone financial statements for the year ended June 30, 2019, 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.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Operating Leases

AEDA has long-term operating lease agreements for substantially all its office facilities for periods up to thirty (30) years. Future minimum noncancelable lease payments on existing operating leases as of June 30, 2020, which have an initial term of one year or more, are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 112,890
2022	46,681
2023	46,681
2024	46,681
2025	46,681
2026 and Thereafter	<u>66,131</u>
	<u>\$ 365,745</u>

Litigations

AEDA is a defendant in several lawsuits arising in the normal course of business. Management believes that it has a reasonable possibility of prevailing in these cases. AEDA has contingency reserves of \$278,347 to cover its exposure on the lawsuits.

Federal and State Awards

AEDA participates in a number of federal financial assistance programs funded by the federal government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantors or their representatives. If expenditures are disallowed due to noncompliance with grant program regulations, AEDA may be required to reimburse the grantors for such expenditures.

AEDA is from time to time audited by the Office of the Comptroller of Puerto Rico (“OCPR”) where audits could result in request for reimbursements or other resolutions. These amounts, if any, of expenditures, which may be disallowed, cannot be determined at this time. Management believes that such disallowances, if any, will not have a material effect in the financial statements of AEDA.

NOTE 13 – SUBSEQUENT EVENTS

AEDA has evaluated all transactions occurring subsequent to the statement of net position as of June 30, 2020, for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through February 28, 2022, the date the accompanying financial statements were available to be issued. The following events were noted:

Commonwealth’s Fiscal Plan

On March 13, 2017, the Oversight Board certified the initial fiscal plan for the Commonwealth. The fiscal plan has been subject to various revisions. On April 23, 2021, the Oversight Board certified its most recent fiscal plan for the Commonwealth (the Oversight Board Fiscal Plan), which included the following categories of structural reforms and fiscal measures:

- (i) Human Capital and Welfare Reform
- (ii) K-12 Education Reform
- (iii) Ease of Doing Business Reform
- (iv) Power Sector Reform
- (v) Infrastructure and Capital Investment Reform
- (vi) Establishment of the Office of the CFO
- (vii) Agency Efficiency Measures
- (viii) Medicaid Reform
- (ix) Enhance Tax Compliance and Optimized Taxes and Fees
- (x) Reduction in UPR and Municipality Appropriations
- (xi) Comprehensive Pension Reform

There is no certainty that the Oversight Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results. All these plans and measures, and the Commonwealth’s ability to reduce its deficit and achieve a balanced budget in future fiscal years depend on several factors and risks, some of which are not wholly within its control.

Administrative Bulletin No. OE 2021-003

On January 2, 2021, the newly elected governor of the Commonwealth of Puerto Rico, issued Administrative Bulletin No. OE-2021-003 named "Executive Order to Issue Fiscal Responsibility and Expense Control Measures, and to repeal Administrative Bulletin No. OE-2017-001".

The executive order declares a fiscal emergency state in the government of Puerto Rico. It orders all governmental agencies in Puerto Rico to implement the necessary measures in order to reduce operational expenses, without adversely affect those services necessary to protect the citizens health, security and wellness.

Among the most significant measures required by the executive order are:

1. Vacancies - All regular career, transitory and irregular positions, which are vacant at executive order date, or which becomes vacant after the effective date of the executive order, will be subject to a need assessment. The governmental agencies are also not allowed to fill any vacant positions by any means (like promotion, merit, mobility, transfer and others), unless it is deemed necessary to offers the necessary services to the citizens, and only through a written authorization from the Management and Budget Office (MBO),
2. Prohibition to Create New Positions - Governmental agencies are not allowed to create new regular career, transitory and irregular positions, unless it is deemed necessary to offers the necessary services to the citizens, and only through a written authorization from the Management and Budget Office (MBO),
3. Reduction in Positions of Confidence - All governmental agencies are required a 20% reduction in posts of confidence,
4. Reduction in Operational Expenses - All governmental agencies are required reductions in operational expenses, as part of the expense reduction measures,
5. Credit Cards - The use of official credit cards, paid through with public funds, is prohibited, unless it is done is strict compliance with applicable and outstanding regulations,
6. Traveling outside Puerto Rico - The order prohibits the use, by officers and employees of the governmental agencies, of public funds for traveling outside Puerto Rico, unless they are strictly essential to perform the duties of the position, and only when authorized by the Secretary of the agency and the Secretary of the Commonwealth of Puerto Rico. Also, if authorized, should be done in strict compliance with applicable and outstanding regulations,
7. Cellular Phones and Other Technological Services - The order prohibits the use of public funds for payment of cellular phones, personal digital assistants (PDA's), personal internet service equipment and other technological services, for exclusive use of the Officers and employees of the agencies. MBO Director is allowed to offer waivers to these requirements, considering, among other things, the service needs of public employees related to remote working. Agencies are required to obtain authorization from MBO and the Puerto Rico Innovation and Technology Service (PRITS), for any plan related to the acquisition of these technological equipment or services,
8. Reduction in Energy and Water Consumption - All agencies' directors are required to reduce consumption of public utilities, like electric power and water. Regarding electric power, the agencies are required to implement all necessary measures to reach a minimum

annual reduction of 5%. As for water consumption, those agencies, for which operational expenses are subsidized, in whole or in part, with funds from the Commonwealth's Central Government, must reduce water consumption by 5% annually, during fiscal years 2020-2021, 2021-22, and 2022-23, so it can reach a reduction of 15% in the three-year period. Percentage reduction will be measured from water consumption expense during year 2019-20 as base year,

9. Reduction in Contract Amounts - Each agency must reduce expenses for services (purchased and/or professional) by 10% annually,
10. Contracting for Services - It is prohibited to make a contract for purchased or professional services over \$10,000 (and below \$10,000,000) in the same fiscal year, without the written authorization from MBO. For this purpose, the Director of MBO will verify funds availability in the budget assigned to the agency. For contracts in excess of \$10,000,000, in the same fiscal year, must be authorized together by the Director of MBO and the Secretary of the Commonwealth of Puerto Rico, or the person designated by him for such purpose, and
11. Lease Contracts - Agencies must submit to MBO, within 30 days after the effective date of this executive order, a list of all outstanding lease contracts, amount contracted, and the reasons to justify the contract. MBO is authorized to deny the renewal of these contracts, or to modify its terms when due, unless it is necessary for the services given to citizens. MBO can consolidate operations in various agencies in a single lease premise, and renegotiate monthly fees and other clauses, to attain better terms.

The executive order discloses that all these control measures are the first ones to be implemented to face the fiscal crisis, and that it should not be understood that they are the only ones to be implemented. All agencies must evaluate its operations to detect additional measures of control, savings, and expense reduction.

AEDA has not yet determined the effects these measures will have on the basic financial statements and the results of operations.

NOTE 14 – COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization declared the coronavirus disease (“COVID-19”) as a global pandemic. Subsequently, on March 15, 2020, the Commonwealth declared a "State of Emergency and Quarantine", as a consequence of the spread of COVID-19 in Puerto Rico, issuing a series of provisions to contain its spread, such as: exceptional restrictive traffic measures, the drastic reduction of activities and the issuance of economic regulations, among others; that have affected and are expected to significantly affect the economic activity of the country and the markets in general. Subsequent executive orders have been issued through the date of the financial statements to continue addressing the pandemic, always to balance the measures directed to containing the spread of the virus with those measures geared toward the stabilization of the economy. Extensive economic stabilization measures have been enacted by both the Federal and local government, in order alleviate the heavy impact of this pandemic on the economic activity. As the Commonwealth observes and assesses the results of recent reopening of the economy, it will continue to re-evaluate and further amend business restrictions as necessary to promote economic recovery while preserving the health, welfare, and safety of the people of Puerto Rico.

At the date of issuance of the financial statements, the duration of the exceptional measures and the effects that they may have on AEDA cannot be reasonably estimated.

END OF NOTES

Required Supplementary Information

AGRICULTURAL ENTERPRISES DEVELOPMENT ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF
THE TOTAL PENSION LIABILITY AND
RELATED RATIOS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Description	2020*	2019*	2018*
Proportion of Total Pension Liability	0.64824%	0.64925%	0.66073%
Proportionate Share of Total Pension Liability	\$ 161,090,274	\$ 158,998,885	\$ 186,354,914

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

*The coverage payroll disclosure is omitted because contributions were eliminated after the enactment of Act No. 106 - 2017 and are no longer based on payroll.

* No assets are accumulated in a trust for the payment of benefits.

Fiscal year 2019 was the first year that the AEDA transitioned from GASB No. 68 to No. GASB 73, as a result of the PayGo system implementation. 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.

The accompanying notes are an integral part of this required supplementary information

AGRICULTURAL ENTERPRISES DEVELOPMENT ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF TOTAL
POSTEMPLOYMENT BENEFIT LIABILITY (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Description	2020*	2019*	2018*
Proportion of Total Other Post Employment Benefit Liability	0.75866%	0.75475%	0.75772%
Proportionate Share of Total Other Post Employment Benefit Liability	\$ 6,313,811	\$ 6,356,191	\$ 6,974,928

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

*The coverage payroll disclosure is omitted because contributions were eliminated after the enactment of Act No. 106-2017 and are no longer based on payroll.

There are no assets accumulated in a trust for payment of OPEB related benefits, and the plan is not administered through a trust or equivalent arrangement.

Fiscal year 2018 was the first year that the new requirements of GASB 75 were implemented by AEDA. 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.

The accompanying notes are an integral part of this required supplementary information.

1. As a result of the implementation of the PayGo system, the Pension Plan does not meet the criteria in paragraph 4 of *Governmental Accounting Standards Board (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 in 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 No. 68*. Under the guidance of GASB Statement No. 73, the Commonwealth and its component units, including AEDA) are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan.
2. The information presented in the schedules relates solely to AEDA and not to the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico, as a whole.
3. The data provided in the schedules is based as of the measurement date of the total pension liability and total other post-employment benefits liability, which is as of the prior fiscal year ended June 30th.