

**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, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Administrators of the
Agricultural Enterprise Development Administration
(A Component Unit of the Commonwealth of Puerto Rico)
San Juan, Puerto Rico

Opinions

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 (A Component Unit of the Commonwealth of Puerto Rico) ("AEDA") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the AEDA's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above 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, 2021, 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.

Basis for Opinions

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

Substantial Doubt about AEDA's 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 18 of 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 reduction in the Commonwealth of Puerto Rico's contributions to finance AEDA's operations, raise substantial doubt about AEDA's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 18. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules of the proportionate share of the total pension liability and OPEB liability be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2022, on our consideration of the AEDA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the AEDA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AEDA's internal control over financial reporting and compliance.



ROMAN TORO & CO., CPA, CSP
LICENSE #35 – IN FORCE

Yauco, Puerto Rico
November 30, 2022

Stamp No. E508202 of the
Puerto Rico of Certified Public Accountants
was affixed to the original report

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, 2021. 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 deficit at the close of the fiscal year 2021 of \$25.4 million and a deficit at the close of the fiscal year 2020 of \$27.6 million.
- Net Position of AEDA Business-Type Activities, on a government-wide basis, presented a deficit at the close of the fiscal year 2021 of \$25.9 million and a deficit at the close of the fiscal year 2020 of \$43 million.
- Net Position of AEDA, on a government-wide basis, was a deficit at the close of the fiscal year 2021 of \$51.3 million and at the close of the fiscal year 2020 of \$70.6 million. This represents a decrease in deficit of \$19.3 million.
- Total Revenues of AEDA Governmental Activities, on a government-wide basis, increased by \$2.1 million (3%) and expenses decreased \$4 million (5%) in comparison with the year 2020.
- Total Revenues of AEDA Business-Type Activities, on a government-wide basis, decreased by \$18.9 million (20%) and expenses decreased \$12.8 million (24%) in comparison with the year 2020.

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 \$31.1 million an increase of \$2.9 million in comparison with the prior year.
- The General Fund reported efficiency of revenues over expenditures of \$10.9 million and an unassigned fund balance surplus of \$23.5 million.
- Enterprise funds reported a combined fund deficit of \$25.9 million, a decrease of \$17.1 million in comparison with the prior year.
- The business-type activities of AEDA include Agricultural Services.

General Financial Highlights

- The investment in capital assets from governmental activities as of June 30, 2021, was \$5.1 million net of accumulated depreciation of \$15.5 million and \$15.6 million net of accumulated depreciation of \$24.5 million from business-type activities.
- Long-term debt notes payable, and lines of credit increased to \$843,282, an increase of 73% (\$355,138) with respect to 2020 in governmental activities.
- Other noncurrent liabilities increased by \$9.1 million from governmental activities and increased \$9 million 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 the 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 are 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, and 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 kinds of agricultural products like coffee, 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 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 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 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.

An 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 \$31.1 million. Of this amount, there is a surplus in the General Fund of \$23.5 million; therefore, there is 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 surplus balance was \$22.5 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 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 for the Agricultural Services Fund, which is 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, 2021, and 2020:

Commonwealth of Puerto Rico Agricultural Enterprises Development Administration Statement of Net Position As of June 30,									
	Governmental Activities		Business-Type Activities		Total		Total Change		
	2021	2020	2021	2020	2021	2020	2021	2021	
Current and Non-current Assets	\$ 50,433,871	\$ 49,582,359	\$ 89,189,507	\$ 76,718,840	\$ 139,623,378	\$ 126,301,199	\$ 13,322,179		10.5%
Due from Commonwealth's Component Unit	3,475,941	-	-	-	3,475,941	-	3,475,941		0.0%
Capital Assets	5,134,427	5,637,515	15,577,611	16,083,862	20,712,038	21,721,377	(1,009,339)		-4.6%
Total Assets	59,044,239	55,219,874	104,767,118	92,802,702	163,811,357	148,022,576	15,788,781		10.7%
Deferred Outflows of Resources	12,295,684	5,411,024	21,858,993	9,619,599	34,154,677	15,030,623	19,124,054		127.2%
Current Liabilities	24,238,015	23,096,390	24,097,120	29,394,895	48,335,135	52,491,285	(4,156,150)		-7.9%
Noncurrent Liabilities	69,191,049	60,848,561	122,575,584	108,327,548	191,766,633	169,176,109	22,590,524		13.4%
Total Liabilities	93,429,064	83,944,951	146,672,704	137,722,443	240,101,768	221,667,394	18,434,374		8.3%
Deferred Inflows of Resources	3,295,264	4,317,955	5,858,241	7,676,358	9,153,505	11,994,313	(2,840,808)		-23.7%
Net Position, as adjusted:									
Investment in Capital Assets	5,134,427	5,637,515	15,577,611	16,083,862	20,712,038	21,721,377	(1,009,339)		-4.6%
Unrestricted (Deficit)	(30,518,832)	(33,269,524)	(41,482,445)	(59,060,322)	(72,001,277)	(92,329,846)	20,328,569		-22.0%
Total Net Position	\$ (25,384,405)	\$ (27,632,009)	\$ (25,904,834)	\$ (42,976,460)	\$ (51,289,239)	\$ (70,608,469)	\$ 19,319,230		-27.4%

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 \$51.3 million at the close of the fiscal year 2021.

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 \$20.7 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.

As of June 30, 2021, AEDA presented an unrestricted deficit of \$72 million. This balance was affected by liabilities of \$240.1 million including \$204.2 million for payroll-related liabilities (e.g., compensated absences, voluntary termination benefits, other post-employment benefits, pensions) and financing liabilities of \$843,282 (e.g., lines of credit, notes payable).

The following table summarizes the changes in net position for the years ended June 30, 2021, and 2020:

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
	2021	2020	2021	2020	2021	2020	2021	2021
Revenues:								
Program Revenues:								
Charges for Services	\$ -	\$ -	\$ 69,699,860	\$ 91,450,713	\$ 69,699,860	\$ 91,450,713	\$ (21,750,853)	-23.8%
Operating Grants and Contributions	62,559,075	59,835,652	6,931,000	3,815,048	69,490,075	63,650,700	5,839,375	9.2%
General Revenues:								
Interest Income	8,442	78,725	43,352	281,159	51,794	359,884	(308,090)	-85.6%
Rent Income	21,867	117,837	-	2,150	21,867	119,987	(98,120)	-81.8%
Other General Revenues	94,293	567,585	40,450	8,539	134,743	576,124	(441,381)	-76.6%
Total Revenues	62,683,677	60,599,799	76,714,662	95,557,609	139,398,339	156,157,408	(16,759,069)	-10.7%
Governmental Activities Expenses:								
Incentives and Subsidies	45,334,364	62,975,926	-	-	45,334,364	62,975,926	(17,641,562)	-28.0%
General Government - Administrative and Operating	33,101,995	19,274,818	-	-	33,101,995	19,274,818	13,827,177	71.7%
Interest Costs	8,423	110,536	-	-	8,423	110,536	(102,113)	-92.4%
Total Expenses	78,444,782	82,361,280	-	-	78,444,782	82,361,280	(3,916,498)	-4.8%
Business-Type Activities Expenses:								
Agricultural Services	-	-	41,634,327	54,411,702	41,634,327	54,411,702	(12,777,375)	-23.5%
Total Expenses	-	-	41,634,327	54,411,702	41,634,327	54,411,702	(12,777,375)	-23.5%
Transfers:								
Transfer in (out)	18,008,709	8,795,811	(18,008,709)	(8,735,811)	-	60,000	(60,000)	
Total Transfers	18,008,709	8,795,811	(18,008,709)	(8,735,811)	-	60,000	(60,000)	
Increase (Decrease) in Net Position	2,247,604	(12,965,670)	17,071,626	32,410,096	19,319,230	19,444,426	(125,196)	-0.6%
Changes in Net Position	2,247,604	(12,965,670)	17,071,626	32,410,096	19,319,230	19,324,426	(125,196)	-0.6%
Net Position - Beginning, as Adjusted	(27,632,009)	(14,666,339)	(42,976,460)	(75,386,556)	(70,608,469)	(90,052,895)	19,444,426	-21.6%
Net Position (Deficit) - Ending	\$ (25,384,405)	\$ (27,632,009)	\$ (25,904,834)	\$ (42,976,460)	\$ (51,289,239)	\$ (70,728,469)	\$ 19,319,230	-27.3%

Analysis of Changes in Net Position

AEDA's net deficit overall decreased by \$19.3 million during the fiscal year 2021, compared to a \$19.3 million decrease during the fiscal year 2020. The governmental activities component change in net position for 2021 was an increase of \$2.2 million and for business-type activities, the change in net position was an increase of \$17.1 million. A discussion of these changes is presented in the government and business-type activities below.

Governmental Activities. AEDA's net deficit decreased by \$2.2 million in 2021. For the most part, this was due to a change in accounting policy related to the Transfers and Internal Balance regarding this Management decision. 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 57%, and general government and others with 43% of total expenses.

Business-Type Activities. The enterprise fund net position (deficit) decreased by \$17.1 million during the fiscal year 2021.

The following table focuses on the cost of each of AEDA's largest functions/programs as well as each function/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	
	2021	2020	2021	2020
Governmental Activities:				
Incentives and Subsidies	\$ 45,334,364	\$ 62,975,926	\$ (8,505,789)	\$ (24,723,425)
General Government - Administrative and Operating	33,101,995	19,274,818	(7,371,495)	2,308,333
Interest Costs	8,423	110,536	(8,423)	(110,536)
Total Expenses	78,444,782	82,361,280	(15,885,707)	(22,525,628)
Business-Type Activities:				
Agricultural Services	41,634,327	54,411,702	34,996,533	40,854,059
Total Expenses	41,634,327	54,411,702	34,996,533	40,854,059
Total	\$ 120,079,109	\$ 136,772,982	\$ 19,110,826	\$ 18,328,431

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	
	2021	2020	2021	2020	2021	2020	2021	2020
General	\$ 977,961	\$ 518,802	\$ -	\$ -	\$ 22,500,948	\$ 11,973,882	\$ 23,478,909	\$ 12,492,684
Incentive	-	-	-	3,751,239	(3,936,864)	-	(3,936,864)	3,751,239
Joint Resolution	-	-	-	-	9,195,148	9,674,977	9,195,148	9,674,977
Other Governmental	2,744	2,744	-	-	2,385,441	2,321,466	2,388,185	2,324,210
Total	\$ 980,705	\$ 521,546	\$ -	\$ 3,751,239	\$ 30,144,673	\$ 23,970,325	\$ 31,125,378	\$ 28,243,110

An 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 2021, AEDA's governmental funds reported combined ending fund balances of \$31.1 million, which represents a net increase of approximately \$2.9 million respect to the prior year. This decrease was due primarily to the excess of expenditures over revenues in the incentives 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 committed to indicate that is not available for new spending because it has already been committed.

The general fund is the operating fund of AEDA. The unassigned Fund Balance of the General Fund presents a surplus of \$22.5 million.

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

Description	2021	2020	Dollar Change	Percentage Change
Revenues:				
Contributions from Commonwealth	\$ 25,730,500	\$ 21,583,151	\$ 4,147,349	19.2%
Interest	8,442	78,725	(70,283)	
Rent	21,867	117,837	(95,970)	-81.4%
Other	65,877	155,028	(89,151)	-57.5%
Total Revenues	<u>25,826,686</u>	<u>21,934,741</u>	<u>3,891,945</u>	17.7%
Expenditures:				
General Government	31,738,815	20,362,634	11,376,181	55.9%
Capital Outlays	226,973	985,738	(758,765)	-77.0%
Debt Service (Principal and Interest)	8,423	5,298	3,125	59.0%
Total Expenditures	<u>31,974,211</u>	<u>21,353,670</u>	<u>10,620,541</u>	49.7%
Other Financing Sources (Uses)	<u>17,133,750</u>	<u>8,812,486</u>	<u>8,321,264</u>	100.0%
Net Change in Fund Balance, as adjusted	<u>\$ 10,986,225</u>	<u>\$ 9,393,557</u>	<u>\$ 1,592,668</u>	17.0%

For the fiscal year 2021, the surplus of the general fund increased by \$11 million when in the prior year there was an increase of \$9.4 million.

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 invested \$20.7 million (net of accumulated depreciation) in a broad range of capital assets, including buildings, land, vehicles, and equipment. This amount represents a net decrease of \$1 million or 4.6% less than in the prior year.

AEDA acquired a total of \$713,091 of capital assets during the fiscal year 2021. Governmental Activities additions were \$226,973 and Business-Type Activities were \$486,118.

The following table presents the components of capital assets for the fiscal years 2021 and 2020:

Commonwealth of Puerto Rico				
Agricultural Enterprises Development Administration				
Capital Assets, Net				
As of June 30,				
Description	2021	2020	Dollar Change	Percentage Change
Governmental Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 546,678	\$ 546,678	\$ -	0.0%
Depreciable Capital Assets (Net):				
Buildings	1,334,268	1,388,977	(54,709)	-3.9%
Equipment	2,045,232	2,491,488	(446,256)	-17.9%
Furniture & Fixtures	984,145	954,524	29,621	3.1%
Motor Vehicles	216,188	247,933	(31,745)	-12.8%
Other	7,915	7,915	0	0.0%
Total Governmental Capital Assets	5,134,427	5,637,515	(503,089)	-8.9%
Business-Type Activities:				
Non-Depreciable Capital Assets:				
Land	3,192,804	3,192,804	(0)	0.0%
Depreciable Capital Assets (Net):				
Buildings	8,531,086	8,905,364	(374,278)	-4.2%
Equipment	2,798,034	3,206,494	(408,460)	-12.7%
Furniture & Fixtures	190,397	200,045	(9,648)	-4.8%
Motor Vehicles	851,554	565,385	286,169	50.6%
Other	13,736	13,770	(34)	-0.2%
Total Business-Type Capital Assets	15,577,611	16,083,862	(506,251)	-3.1%
Total	\$ 20,712,038	\$21,721,377	\$ (1,009,340)	-4.6%

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NONCURRENT LIABILITIES

At year-end, AEDA had \$205.7 million in outstanding debt including the line of credit, notes payable, payroll-related liabilities, legal claims, and pension liability. This amount represents an increase of \$23.3 million or (13%) with respect to the prior year. Following is a summary of AEDA's outstanding long-term debts as of June 30, 2021, and 2020:

Commonwealth of Puerto Rico				
Agricultural Enterprises Development Administration				
Outstanding Long-Term Debts				
As of June 30,				
	2021	2020	Dollar Change	Percentage Change
Governmental Activities:				
Line of Credit	71,728	71,728	\$ -	0.0%
Notes Payable	771,554	416,416	355,138	85.3%
Legal Claims	674,162	278,347	395,815	142.2%
Compensated Absences	738,438	750,268	(11,830)	-1.6%
Voluntary Termination Benefits	3,397,840	4,342,490	(944,650)	-21.8%
Total Other Postemployment Benefits	2,373,238	2,272,972	100,266	4.4%
Total Pension Liability	66,936,894	57,992,499	8,944,395	15.4%
Total	\$ 74,963,853	\$ 66,124,720	\$ 8,839,133	13.4%
Business-Type Activities:				
Compensated Absences	\$ 853,869	\$ 824,460	\$ 29,409	3.6%
Voluntary Termination Benefits	6,670,541	8,275,408	(1,604,867)	-19.4%
Total Other Postemployment Benefits	4,219,089	4,040,839	178,250	4.4%
Total Pension Liability	118,998,919	103,097,775	15,901,144	15.4%
Total	\$ 130,742,419	\$ 116,238,482	\$ 14,503,937	12.5%

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, 2020, 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 in the 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.

CURRENTLY KNOWN FACTS

The following is a summary description of currently known facts, decisions, and conditions that have had, or are expected to have, an impact on AEDA’s financial position and results of operations.

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.

Accordingly, because AEDA is part of the Commonwealth, and depends on the contributions of the Commonwealth, that creates uncertainty about AEDA’s ability to continue as a going concern.

COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization - WHO - declared the coronavirus disease (COVID-19) 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 governments, in order to alleviate the heavy impact of this pandemic on economic activity. As the Commonwealth observes and assesses the results of the 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.

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ASSETS	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Current Assets			
Cash and Cash Equivalents	\$ 49,418,572	\$ 75,863,754	\$ 125,282,326
Receivables, net			
Trade	10,591	93,152	103,743
Due from Commonwealth	24,003	7,982,726	8,006,729
Inventory	120,464	5,222,760	5,343,224
Prepaid Expenses	860,241	27,115	887,356
Total Current Assets	50,433,871	89,189,507	139,623,378
Non-Current Assets			
Due from Commonwealth's Component Unit	3,475,941	-	3,475,941
Capital Assets, net	5,134,427	15,577,611	20,712,038
Total Non-Current Assets	8,610,368	15,577,611	24,187,979
TOTAL ASSETS	59,044,239	104,767,118	163,811,357
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	12,118,060	21,543,218	33,661,278
Other Post-Employment Benefits Related	177,624	315,775	493,399
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 12,295,684	\$ 21,858,993	\$ 34,154,677

(Continues)

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

	PRIMARY GOVERNMENT		TOTAL
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
LIABILITIES			
Current Liabilities			
Accounts Payable- Trade	\$ 7,565,551	\$ 11,035,328	\$ 18,600,879
Accounts Payable- Farmers	5,094,188	-	5,094,188
Accrued Expenses	5,659,951	4,894,958	10,554,909
Line of Credit-FIDA	71,728	-	71,728
Notes Payable- FIDA	771,554	-	771,554
Accrued Interest	145,521	-	145,521
Compensated Absences	413,525	478,167	891,692
Voluntary Termination Benefits Payable	961,520	1,369,598	2,331,118
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	24,238,015	24,097,120	48,335,135
Non-Current Liabilities			
Reserve for Legal Claims	674,162	-	674,162
Compensated Absences	324,913	375,702	700,615
Voluntary Termination Benefits Payable	2,436,320	5,300,943	7,737,263
Total Other Post-Employment Benefits Liability	2,195,614	3,903,314	6,098,928
Total Pension Liability	63,560,040	112,995,625	176,555,665
Total Noncurrent Liabilities	69,191,049	122,575,584	191,766,633
TOTAL LIABILITIES	93,429,064	146,672,704	240,101,768
DEFERRED INFLOWS OF RESOURCES- Pension related	3,295,264	5,858,241	9,153,505
Total liabilities and deferred inflows of resources	96,724,328	152,530,945	249,255,273
NET POSITION			
Investment in Capital Assets	5,134,427	15,577,611	20,712,038
Unrestricted (Deficit)	(30,518,832)	(41,482,445)	(72,001,277)
TOTAL NET POSITION (DEFICIT)	\$ (25,384,405)	\$ (25,904,834)	\$ (51,289,239)

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, 2021

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	\$ 45,334,364	\$ -	\$ 36,828,575	\$ (8,505,789)	\$ -	\$ (8,505,789)
General Government - Administrative and Operating	33,101,995	-	25,730,500	(7,371,495)	-	(7,371,495)
Interest on Long-Term Debt	8,423	-	-	(8,423)	-	(8,423)
Total Governmental Activities	78,444,782	-	62,559,075	(15,885,707)	-	(15,885,707)
Business-Type Activities						
Agricultural Services	41,634,327	69,699,860	6,931,000	-	34,996,533	34,996,533
Total Business-Type Activities	41,634,327	69,699,860	6,931,000	-	34,996,533	34,996,533
Total Primary Government	\$ 120,079,109	\$ 69,699,860	\$ 69,490,075	(15,885,707)	34,996,533	19,110,826
General Revenue:						
Rent				21,867	-	21,867
Interest				8,442	43,352	51,794
Other Income				94,293	40,450	134,743
Transfer in (out)				18,008,709	(18,008,709)	-
Total General Revenue and Transfers				18,133,311	(17,924,907)	208,404
CHANGES IN NET POSITION				2,247,604	17,071,626	19,319,230
Net Position (Deficit) – Beginning of Year, as Adjusted				(27,632,009)	(42,976,460)	(70,608,469)
NET POSITION (DEFICIT)– END OF YEAR				\$ (25,384,405)	\$ (25,904,834)	\$ (51,289,239)

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, 2021

	GENERAL FUND	INCENTIVES FUND	JOINT RESOLUTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and Cash Equivalents	\$ 23,798,393	\$ 10,245,659	\$ 12,988,436	\$ 2,386,084	\$ 49,418,572
Receivables, net					
Trade	10,591	-	-	-	10,591
Due from Commonwealth	20,200	3,803	-	-	24,003
Inventory	120,464	-	-	-	120,464
Prepaid Expenses	857,497	-	-	2,744	860,241
Total Assets	\$ 24,807,145	\$ 10,249,462	\$ 12,988,436	\$ 2,388,828	\$ 50,433,871
LIABILITIES					
Accounts Payable - Trade	\$ 345,192	\$ 3,435,572	\$ 3,784,144	\$ 643	\$ 7,565,551
Accounts Payable - Farmers	-	5,094,188	-	-	5,094,188
Accrued Expenses	892,983	4,757,824	9,144	-	5,659,951
Line of Credit-FIDA	71,728	-	-	-	71,728
Notes Payable-FIDA	-	771,554	-	-	771,554
Interest Payable	18,333	127,188	-	-	145,521
Total Liabilities	1,328,236	14,186,326	3,793,288	643	19,308,493
FUND BALANCES					
Nonspendable	977,961	-	-	2,744	980,705
Unassigned (Deficit)	22,500,948	(3,936,864)	9,195,148	2,385,441	30,144,673
Total Fund Balances	23,478,909	(3,936,864)	9,195,148	2,388,185	31,125,378
Total Liabilities and Fund Balances	\$ 24,807,145	\$ 10,249,462	\$ 12,988,436	\$ 2,388,828	\$ 50,433,871

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, 2021**

Total Fund Balances of Governmental Funds		<u>\$ 31,125,378</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	20,156,873	
Accumulated Depreciation	<u>(15,022,446)</u>	
Total Capital Assets		5,134,427
Notes Receivable from Commonwealth's Component Unit	<u>3,475,941</u>	
Total Notes Receivable from Commonwealth's Component Unit		3,475,941
Deferred Outflows of Resources in Governmental Activities are paid in the current available period and therefore are reported in the funds.		
	12,295,684	
Deferred Inflows of Resources in Governmental Activities corresponded to future period and therefore are not reported in the funds.		
	<u>(3,295,264)</u>	
Total Deferral of Resources		9,000,420
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Reserve for Legal Claims	(674,162)	
Compensated Absences	(738,438)	
Voluntary Termination Benefits Payable	(3,397,840)	
Total Other Postemployment Liability	(2,373,238)	
Total Pension Liability	<u>(66,936,893)</u>	
Total Long-Term Liabilities		<u>(74,120,571)</u>
Total Net Position (Deficit) of Governmental Activities		<u><u>\$ (25,384,405)</u></u>

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 REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

REVENUE	GENERAL FUND	INCENTIVES FUND	JOINT RESOLUTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Contributions from Commonwealth	\$ 25,730,500	\$ 36,797,000	\$ 31,575	\$ -	\$ 62,559,075
Rent	21,867	-	-	-	21,867
Interest	8,442	-	-	-	8,442
Other	65,877	906	-	27,510	94,293
Total Revenue	25,826,686	36,797,906	31,575	27,510	62,683,677
EXPENDITURES					
Incentives, Subsidies and Other Services	-	43,375,620	1,560,947	-	44,936,567
General Government - Administrative and Operating Activities	31,738,815	373,735	-	28,969	32,141,519
Capital Outlays	226,973	-	-	-	226,973
Debt Service:					
Principal	-	416,416	-	-	416,416
Interest	8,423	80,220	-	-	88,643
Total Expenditures	31,974,211	44,245,991	1,560,947	28,969	77,810,118
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	(6,147,525)	(7,448,085)	(1,529,372)	(1,459)	(15,126,441)
OTHER FINANCIAL SOURCES (USES)					
Transfer In (Out)	17,133,750	(240,018)	1,049,543	65,434	18,008,709
Total Other Financial Sources (Uses)	17,133,750	(240,018)	1,049,543	65,434	18,008,709
Net Change in Fund Balances (Deficiency)	10,986,225	(7,688,103)	(479,829)	63,975	2,882,268
Fund Balances (Deficit) - Beginning of year, as Adjusted	12,492,684	3,751,239	9,674,977	2,324,210	28,243,110
FUND BALANCES (DEFICIT) – End of Year	\$ 23,478,909	\$ (3,936,864)	\$ 9,195,148	\$ 2,388,185	\$ 31,125,378

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

Net Change in Fund Balances of Governmental Funds **\$ 2,882,268**

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	(609,573)	
Capital Outlays	<u>226,973</u>	
Excess of Depreciation Expense over Capital Outlays		(382,600)

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:		416,416
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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.		(120,488)
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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	(395,815)	
Change in Accrued Compensated Absences Liability	11,830	
Change in Voluntary Termination Benefits Liability	944,650	
Change in Accrued Interest	28,651	
Change in Total Other Postemployment Benefits Liability	(100,266)	
Change in Total Pension Liability	<u>(1,037,042)</u>	

Total Change in Expenses		<u>(547,992)</u>
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Change in Net Position of Governmental Activities **\$ 2,247,604**

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

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 75,863,754
Receivables, net:	
Trade	93,152
Due from Commonwealth	7,982,726
Inventories	5,222,760
Prepaid Expenses	27,115
Total Current Assets	<u>89,189,507</u>

Noncurrent Assets

Capital Assets	
Land	3,192,804
Property, Plant and Equipment, Net	12,384,807
Total Non Current Assets	<u>15,577,611</u>

TOTAL ASSETS **104,767,118**

DEFERRED OUTFLOWS OF RESOURCES

Pension Related	21,543,218
Other Postemployment Benefits Related	315,775

TOTAL DEFERRED OUTFLOWS OF RESOURCES **21,858,993**

(Continues)

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

LIABILITIES	
Current Liabilities	
Accounts Payable - Trade	\$ 11,035,328
Accrued Expenses	4,894,958
Compensated Absences	478,167
Voluntary Termination Benefits Payable	1,369,598
Total Other Postemployment Benefits Liability	315,775
Total Pension Liability	6,003,294
Total Current Liabilities	24,097,120
Noncurrent Liabilities	
Compensated Absences	375,702
Voluntary Termination Benefits Payable	5,300,943
Total Other Postemployment Benefits Liability	3,903,314
Total Pension Liability	112,995,625
Total Noncurrent Liabilities	122,575,584
DEFERRED INFLOWS OF RESOURCES - Pension Related	5,858,241
NET POSITION	
Investment in Capital Assets	15,577,611
Unrestricted (Deficit)	(41,482,445)
TOTAL NET POSITION (DEFICIT)	\$ (25,904,834)

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

OPERATING REVENUE

Sales of Goods	\$ 69,699,860
Other	40,450
	<hr/>
Total Operating Revenue	69,740,310
	<hr/>

OPERATING EXPENSES

Cost of Sales	30,804,671
Administrative and Operating Expenses	9,891,067
Depreciation	938,589
	<hr/>
Total Operating Expenses	41,634,327
	<hr/>
Operating Income	28,105,983
	<hr/>

NON-OPERATING REVENUE (EXPENSES)

Grants and Contributions	6,931,000
Interest	43,352
	<hr/>
Total Non-Operating Revenue (Expenses)	6,974,352
	<hr/>

TRANSFERS:

Transfer Out	<hr/> (18,008,709)
Net Change in Net Position	17,071,626
Net Position (Deficit) - Beginning of Year, as adjusted	<hr/> (42,976,460)
	<hr/>
NET POSITION (DEFICIT) - END OF YEAR	<hr/>\$ (25,904,834)

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

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers and Users	\$ 74,935,792
Payments to Suppliers	(41,307,992)
Payments to Employees	(6,909,933)
Net Cash Provided by Operating Activities	<u>26,717,867</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfer to Other Funds	(18,008,709)
Intergovernmental Grants and Contributions	6,931,000
Net Cash Used in Noncapital Financing Activities	<u>(11,077,709)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisitions of Property and Equipment, Net	(486,118)
Net Cash Used in Capital and Financing Activities	<u>(486,118)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received	43,352
Net Cash Provided by Investing Activities	<u>43,352</u>

Net Increase in Cash and Cash Equivalents **15,197,392**

Cash and Cash Equivalents at Beginning of Year 60,666,362

Cash and Cash Equivalents at End of Year **\$ 75,863,754**

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating Income	\$ 28,105,983
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	938,589
Bad Debt Expense	173,577
Loss on Disposal	53,780
Net Change in Assets and Liabilities:	
Accounts Receivable	5,195,831
Inventory and supplies	(2,639,657)
Prepaid Expenses	3,404
Deferred Outflows of Resources	(12,239,394)
Accounts Payable	(5,154,449)
Accrued Expenses	(405,615)
Compensated Absences Liability	29,409
Voluntary Termination Benefits Liability	(1,604,867)
Other Postemployment Benefits Liability	178,251
Total Pension Liability	15,901,143
Deferred Inflows of Resources	(1,818,118)
Net Cash Provided by Operating Activities	\$ 26,717,867

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

ASSETS	
Cash and Cash Equivalents	<u>\$478,432</u>
TOTAL ASSETS	<u>478,432</u>
NET POSITION	
Restricted for Incentives and subsidies	<u>478,432</u>
TOTAL NET POSITION	<u>\$478,432</u>

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

ADDITIONS	
Contributions from Department of Agriculture	\$ 14,121,237
DEDUCTIONS	
Incentives and subsidies	<u>(13,735,601)</u>
Net increase in Net Position	385,636
NET POSITION - Beginning of Year, as restated	<u>92,796</u>
NET POSITION - End of Year	<u><u>\$ 478,432</u></u>

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”) on 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 of Agriculture: (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.

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 by the government-mandated non-exchange transaction or a voluntary non-exchange transaction) and, therefore, should be classified as deferred inflows of resources until the resources are first permitted to be used.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, cont.

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 on June 30, 2021, all revenue 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, 2021, 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 Generally Accepted Accounting Principles (GAAP) 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.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, cont.

Basis of Presentation, cont.

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 in annual vacation and sick leave are recorded as expenditures when matured. The unmatured amount of accumulated annual vacation leave as of June 30, 2021, 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, like 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., the sale and distribution of coffee).

Government-Wide Financial Statements ("GWFS")

The GWFS (i.e., statement of net position, statement of activities) reports information on 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

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, cont.

Government-Wide Financial Statements (“GWFS”), cont.

rely to a significant extent on charges for services or which are financed and operated in a manner like private business enterprises.

The GWFS is prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the way GFFS are prepared. Therefore, GFFS includes 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:

- *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 used 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 unrestricted resources as they are needed. Designations solely imposed by AEDA’s management are not presented as restricted net position.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, cont.

Government-Wide Financial Statements (“GWFS”), cont.

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) provides 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 in 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.

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.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, cont.

Governmental Funds Financial Statements (“GFFS”), cont.

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, 2021:

- *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 Resolutions Fund* - This major 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* – Includes the following funds: Federal and Capital Project Fund. The Federal Fund accounts for 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 the construction of buildings.

The GFFS are the following:

- *Balance Sheet* – Reports information as of June 30, 2021, 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 ending June 30, 2021. The measurement focus of the GFFS is on decreases in 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.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, cont.

Governmental Funds Financial Statements (“GFFS”), cont.

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 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 the 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 ordinary activities and which are not expected to occur frequently or regularly are reported as non-operating transactions. This fund accounts for those

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, cont.

Enterprise Funds, cont.

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 individuals, 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 a Custodial Fund. These are custodial in nature and do not involve measurement of the results of operations.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, cont.

Risk Management

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 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. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited more than the amounts insured by the Federal Deposit Insurance Corporation.

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 an original maturity of three (3) months or less when purchased to be cash equivalents. The cash balances are available to meet the 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 by 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 corporations) represent amounts owed to AEDA pursuant to charges for services and state contributions. Accounts payable represent amounts, including salaries and wages, payable for goods and services received prior to year-end.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, cont.

Significant Accounting Policies, cont.

Receivables and Payables, cont.

Intergovernmental receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based on past collection experience and current economic conditions. This intergovernmental revenue is recognized 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.

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

During its operations, AEDA has activities among the funds that represent flows of assets without equivalent flows of assets in return and without the requirement for repayment are reported as interfund transfers. These are reported as "transfer-out" in the fund that issues the transfers and as "transfer-in" in the fund receiving the transfers. 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.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, cont.

Significant Accounting Policies, cont.

Capital Assets

Capital assets, which include buildings and improvements, equipment, furniture and fixtures, motor vehicles, and others, 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 essential 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 properties, 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, 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.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, cont.

Significant Accounting Policies, cont.

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, and other noncurrent liabilities (e.g., employees' vacations, claims, and judgments, and noncurrent liabilities to other governmental entities and third parties). Expenditures for principal and interest payments of the government 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 a leave of absence that: (i) is attributable to services already rendered on or before June 30, 2021; 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.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, cont.

Significant Accounting Policies, cont.

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 like 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 10 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 post-employment 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.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, cont.

Significant Accounting Policies, cont.

Other Postemployment Benefits

GASB 75 requires that such proportionate share should be consistent with the way the 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, 2021:

- 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. Please refer to Note 14.
- 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 adoption of the statement does not have any impact on AEDA's basic financial statements.

Recently Issued Accounting Pronouncements

The following new accounting standards have been issued but are not yet effective for the fiscal year ended June 30, 2021:

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, cont.

Recently Issued Accounting Pronouncements, cont.

- 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.
- 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 costs 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.
- 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.
- 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 the 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 post-employment 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 post-employment benefits; the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to post-employment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, cont.

Recently Issued Accounting Pronouncements, cont.

GASB Statement No. 92, *Omnibus 2020, cont.*

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.

- 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.
- 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.
- 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.
- 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 post-employment benefit (OPEB) plans, and other employee benefit plans, by clarifying the financial burden criteria in Statement No. 84, *Fiduciary Activities*; and 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.
- 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 the 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.
- GASB Statement No. 99, *Omnibus 2022*. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, cont.

Recently Issued Accounting Pronouncements, cont.

- GASB Statement No. 99, *Omnibus 2022*, cont - (1) practice issues that have been identified during the implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements of this Statement are effective for fiscal years ending after June 15, 2022.
- GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for fiscal years ending after June 15, 2023.
- GASB Statement No. 101, *Compensated Absences*. This Statement updates the recognition and measurement guidance for compensated absences. The requirements of this Statement are effective for fiscal years ending after December 15, 2023.

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 – 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 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 more than the amounts insured by the Federal Deposit Insurance Corporation.

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NOTE 2 – CASH AND CASH EQUIVALENTS, cont.

AEDA’s cash and cash equivalents as of June 30, 2021, consist of the following:

	<u>Book Balance</u>	<u>Depository Bank Balance</u>
<u>GOVERNMENTAL FUNDS</u>		
Cash deposited in commercial banks	\$ 49,418,572	\$ 38,827,439
<u>ENTERPRISE FUNDS</u>		
Cash deposited in commercial banks	75,863,754	88,701,796
Total of cash and equivalents	<u>\$ 125,282,326</u>	<u>\$ 127,529,235</u>

AEDA follows the provisions of GASB Accounting Standards Codification Section C20, *Cash Deposit with Financial Institutions*, related to cash deposits and interest-earning investment contracts 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, 2021.

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, 2021, AEDA has invested only in cash equivalents of \$125,282,326 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 more than the FDIC coverage. Neither investments in debt nor equity securities were made during the fiscal year ended on June 30, 2021. 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, 2021. Custodial Credit Risk Reserve

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 with the FDIC to minimize the custodial credit risk.

NOTE 2 – CASH AND CASH EQUIVALENTS, cont.

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, 2021; (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, 2021, 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, 2021.

Fiduciary Fund

Cash equivalents of the fiduciary fund as of June 30, 2021, consist of the following:

	<u>Book Balance</u>	<u>Depository bank balance</u>
<u>CUSTODIAL FUND</u>		
Cash and cash equivalents	<u>\$ 478,432</u>	<u>\$ 534,790</u>

As of June 30, 2021, AEDA has on behalf of the fiduciary fund the amount of \$478,432 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 more than 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, 2021.

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NOTE 3 – NOTES AND ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2021, consist of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current Assets:			
Trade	\$ 4,140,526	\$ 6,065,366	\$ 10,205,893
Due from Commonwealth	41,690	6,429	48,119
Due from Other Governmental Entities	852,359	28,278,039	29,130,398
Notes Receivable	2,609,586	-	2,609,586
Other	4,430,730	568,533	4,999,263
Total	<u>12,074,891</u>	<u>34,918,367</u>	<u>46,993,259</u>
Non-Current Assets:			
Due from Commonwealth's Public Corporation	3,475,941	-	3,475,941
Total	<u>3,475,941</u>	<u>-</u>	<u>3,475,941</u>
Less: Allowance for doubtful accounts	<u>(12,040,297)</u>	<u>(26,842,489)</u>	<u>(38,882,786)</u>
Loans and accounts receivable, net	<u>\$ 3,510,535</u>	<u>\$ 8,075,878</u>	<u>\$ 11,586,414</u>

Changes in the allowance for doubtful accounts during the year ended June 30, 2021, are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Allowance for doubtful accounts, beginning of year	\$ 11,978,977	\$ 26,668,912	\$ 38,647,889
Plus: Provision for doubtful accounts	61,320	173,577	234,897
Allowance for doubtful accounts, end of year	<u>\$ 12,040,297</u>	<u>\$ 26,842,489</u>	<u>\$ 38,882,786</u>

Note Receivable:

Due From Commonwealth's Public Corporation

Due from Commonwealth's Public Corporation balance as of June 30, 2021, for the Governmental Activities is composed of the following:

- Note Receivable of \$5,000,000 with the "Corporación de Seguros Agrícolas" with a maturity date of Three (3) months after the expenditure was made by AEDA, no annual interest rate. The balance as of June 30, 2021 is \$3,475,941.

NOTE 4– INVENTORIES

Inventories, including supplies, are stated at the lower cost or market determined using the first-in, first-out valuation method. The inventory balance by location as of June 30, 2021, is as follows:

<u>Description</u>	<u>Location</u>	<u>Valuation</u>
Coffee - Yahuecas	Adjuntas	\$4,256,775
Other	Various	<u>965,985</u>
Total Inventory		5,222,760
Supplies	Various	<u>120,464</u>
Total Inventory and supplies		<u><u>\$5,343,224</u></u>

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NOTE 5 – CAPITAL ASSETS

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

Description	Balance at June 30, 2020	Additions	Retirements	Balance at June 30, 2021
Governmental Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 546,678	-	-	\$ 546,678
Depreciable Capital Assets:				
Buildings	3,307,252	-	-	3,307,252
Equipment	11,630,348	1,842	(581,651)	11,050,539
Furniture & Fixtures	3,934,281	225,131	(1,217)	4,158,195
Motor Vehicles	1,015,064	-	(2)	1,015,062
Other	79,147	-	-	79,147
Total Depreciable Capital Assets	19,966,092	226,973	(582,870)	19,610,195
Less: accumulated depreciation				
Buildings	\$ (1,918,275)	\$ (54,709)	\$ -	\$ (1,972,984)
Equipment	(9,138,861)	(327,732)	461,286	(9,005,307)
Furniture & Fixtures	(2,979,758)	(195,386)	1,094	(3,174,050)
Motor Vehicles	(767,131)	(31,745)	2	(798,874)
Other	(71,232)	-	-	(71,232)
Total Accumulated Depreciation	(14,875,256)	(609,573)	462,382	(15,022,446)
Total Depreciable Capital Assets (Net)	5,090,837	(382,600)	(120,488)	4,587,749
CAPITAL ASSETS, NET	\$ 5,637,515	\$ (382,600)	\$ (120,488)	\$ 5,134,427

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NOTE 5 – CAPITAL ASSETS, cont.

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

Description	Balance at June 30, 2020	Additions	Retirements	Balance at June 30, 2021
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	10,274,843	82,921	(89,333)	10,268,431
Furniture & Fixtures	1,372,815	12,345	(11,672)	1,373,489
Motor Vehicles	4,770,088	390,852	(313,111)	4,847,829
Other	137,610	-	(259)	137,351
Total Depreciable Capital Assets	36,789,465	486,118	(414,375)	36,861,208
Less: accumulated depreciation				
Buildings	(11,328,744)	(374,278)	-	(11,703,022)
Equipment	(7,068,349)	(470,105)	68,057	(7,470,397)
Furniture & Fixtures	(1,167,338)	(26,256)	10,504	(1,183,090)
Motor Vehicles	(4,210,135)	(67,940)	281,800	(3,996,275)
Other	(123,840)	(9)	233	(123,615)
Total Accumulated Depreciation	(23,898,407)	(938,589)	360,594	(24,476,401)
Total Depreciable Capital Assets (Net)	12,891,058	(452,471)	(53,780)	12,384,807
CAPITAL ASSETS, NET	\$ 16,083,862	\$ (452,471)	\$ (53,780)	\$ 15,577,611

Depreciation expenses of Governmental Activities were charged to general governmental administrative and operating functions. Depreciation expenses of Business-Type Activities were charged to agricultural services for the year ended June 30, 2021.

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 the impairment of capital assets. A capital asset is considered impaired when the utility of its service 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 a 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, 2021, no capital assets were considered impaired by AEDA.

NOTE 6 – FIDA TRANSACTIONS

Line of Credit

Line of credit balance as of June 30, 2021, 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, 2021 is \$71,728 of principal and \$18,333 of accrued interest.

Notes payable

Notes payable balance as of June 30, 2021 for the Governmental Activities is composed of the following:

- Debt obligation originally 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, 2021 is \$771,554 of principal and \$127,188 of accrued interest which was classified as payable due within one year since its past due for this audited period.

NOTE 7 – LONG TERM OBLIGATIONS

The following summarizes the activities of the long-term obligations as of June 30, 2021:

	Balance at June 30, 2020	Increase	Decrease	Balance at June 30, 2021	Due within One (1) Year	Due after One (1) Year
Governmental Activities:						
Line of Credit	\$ 71,728	\$ -	\$ -	71,728	\$ 71,728	\$ -
Notes Payable	416,416	355,138	-	771,554	771,554	-
Legal Claims	278,347	395,815	-	674,162	-	674,162
Compensated Absences	750,268	-	(11,830)	738,438	413,525	324,913
Voluntary Termination Benefits	4,342,490	-	(944,650)	3,397,840	961,520	2,436,320
Total Other Postemployment Benefits	2,272,972	100,266	-	2,373,238	177,624	2,195,614
Total Pension Liability	57,992,499	8,944,394	-	66,936,893	3,376,853	63,560,040
TOTAL	\$ 66,124,720	\$ 9,795,613	\$ (956,480)	\$ 74,963,853	\$ 5,772,803	\$ 69,191,049
Business-Type Activities:						
Compensated Absences	\$ 824,460	\$ 29,409	\$ -	\$ 853,869	\$ 478,167	\$ 375,702
Voluntary Termination Benefits	8,275,408	-	(1,604,867)	6,670,541	1,369,598	5,300,943
Total Other Postemployment Benefits	4,040,839	178,251	-	4,219,089	315,775	3,903,314
Total Pension Liability	103,097,775	15,901,143	-	118,998,919	6,003,294	112,995,625
TOTAL	\$ 116,238,482	\$16,108,804	\$ (1,604,868)	\$ 130,742,418	\$ 8,166,834	\$ 122,575,584

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 from the benefits granted to participants in this program was the recognition within AEDA's financial statements of liability of \$7,990,455 in the statement of net position as of June 30, 2021. As of June 30, 2021, unpaid long-term benefits granted on this program were discounted at .115%.

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, 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 who 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 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 that 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, 2021, the total liability related to these termination benefits was approximately \$2,077,926. 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 12, 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 post-employment 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 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 \$6,592,327 as of June 30, 2021. The total OPEB liability as of June 30, 2021, was determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020 (measurement date). As of June 30, 2021, AEDA's proportion was 0.75373%, which resulted in a decrease of 0.00493% from its proportion as of June 30, 2019 (using the measurement date as of June 30, 2018). AEDA recognized an OPEB expense of approximately \$300,794 during the year ended June 30, 2021. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Proportion June 30, 2019	0.75866%
Proportion June 30, 2020	<u>0.75373%</u>
Change - Increase (Decrease)	<u>-0.00493%</u>

Discount Rate

The discount rate for June 30, 2020 (measurement date) was 2.21%. 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.

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

Mortality

- a) *Pre-retirement Mortality* — For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females projected to reflect Mortality Improvement Scale MP-2020 from the 2006 base year and projected forward using MP- 2020 on a generational basis. For members covered under Act No. 127, PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. As generational tables, they reflect mortal improvements both before and after the measurement dates. 100% of deaths while in active service are assumed to be occupational for members covered under Act 127.
- b) *Post-retirement Healthy Mortality* — Rates that vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan’s experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% of the rates for Males and 110% for Females, are projected using Mortality Improvement Scale MP-2020 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 that vary by gender are assumed for disabled retirees based on a study of the Plan’s experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates were adjusted by 80% of the rates for Males and 100% for Females. The base rates are projected using Mortality Improvement Scale MP-2020 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, 2021, calculated using the current discount rate of 2.21% as well as 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 (1.21%) or one percentage point higher (3.21%) than the current rate:

Description	At 1% decrease (1.21%)	At current discount rate (2.21%)	At 1% increase (3.21%)
OPEB liability	\$ 7,315,528	\$ 6,592,327	\$ 6,060,824

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

Deferred Outflows of Resources

The deferred outflows of resources related to OPEB Plan resulting from AEDA's benefits payments made after the measurement date amounting to \$493,399 as of June 30, 2021, will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2021. 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.

NOTE 10 – 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, 2021, were approximately \$9.3 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 like 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, 2021, the accumulated balance on the accounts of the prior pension programs was transferred to the individual member accounts in the New Defined Contribution Plan.

NOTE 10 – EMPLOYEE’S RETIREMENT PLAN, cont.

Act No. 106-2017, among other things, amended Act No. 447 with respect to the Plan's governance, funding, and benefits for active members of the actual program and newly 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.

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NOTE 10 – EMPLOYEE’S RETIREMENT PLAN, cont.

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 July 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 July 30, 1957	56	64
July 1, 1955 to July 30, 1956	57	63
July 1, 1954 to July 30, 1955	58	62
Before July 1, 1954	59 and up	61

NOTE 10 – EMPLOYEE’S RETIREMENT PLAN, cont.

Service Retirement Annuity Benefits

An annuity is 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, 2021, AEDA reported a liability of approximately \$185.9 million for its proportionate share of the total pension liability.

AEDA’s total pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the total pension liability was determined by an actuarial valuation as of June 30, 2019, rolled forward to the measurement date of June 30, 2020. 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 benefit payments for allocation paid by all participating entities during the year ending on the measurement date.

As of June 30, 2021, AEDA's proportion was 0.66241%, which was the June 30, 2020 base as required by GASB No. 73:

Proportion June 30, 2019	0.64824%
Proportion June 30, 2020	<u>0.66241%</u>
Change - Increase (Decrease)	<u>0.01417%</u>

Actuarial Assumptions and Methods:

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

NOTE 10 – EMPLOYEE’S RETIREMENT PLAN, cont.

Actuarial Assumptions and Methods, cont.

Discount Rate

The discount rate for June 30, 2020, was 2.21%. 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 June 30, 2020; actuarial valuation was as follows:

a) *Pre-retirement Mortality*

For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Act No. 127, PubS-2010 Employee Mortality Rates are assumed for males and females, projected forward using MP-2020 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 that vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan’s experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for Males and 110% for Females, are projected using Mortality Improvement Scale MP-2020 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 that vary by gender are assumed for disabled retirees based on a study of the Plan’s experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates were adjusted by 80% of the rates for Males and 100% for Females. The base rates are projected using Mortality Improvement Scale MP-2020 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, 2020

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, because of Act No. 3-2017, a four-year extension of Act No. 66-2014, and the current general economy.

NOTE 10 – EMPLOYEE’S RETIREMENT PLAN, cont.

Sensitivity of AEDA's proportionate share of the total pension liability to changes 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 2.21% as well as what AEDA’s proportion 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 (1.21%)	At current discount rate (2.21%)	At 1% increase (3.21%)
Total pension liability	\$ 188,917,085	\$ 185,935,812	\$ 145,159,444

For the year ended June 30, 2021, AEDA recognized a pension expense of approximately \$5.7 million. As of June 30, 2021, 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	\$ -	\$ 4,185,585
Change in assumptions	21,388,031	3,191,719
Changes in Proportion	2,893,101	1,776,201
Benefits paid subsequent to measurement date	9,380,146	-
	<u>33,661,278</u>	<u>9,153,505</u>

Deferred outflows of resources related to pension benefit payments made by AEDA subsequent to the measurement date amounted to approximately \$9.4 million, will be recognized as a reduction of the total pension liability for the ended June 30, 2021.

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NOTE 10 – EMPLOYEE’S RETIREMENT PLAN, cont.

Sensitivity of AEDA's proportion of the total pension liability to changes in the discount rate

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2021, will be recognized in the pension expense (benefit) for the following five years period:

Year ending June 30,	Amount
2021	3,937,670
2022	3,937,670
2023	3,937,670
2024	3,314,616
Total	<u>\$ 15,127,626</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 and 5 years for 2019 and 2020.

NOTE 11– COMPONENTS OF FUND BALANCE

Fund balances are presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned. A detailed schedule of fund balances on June 30, 2021, is as follows:

	GENERAL FUND	INCENTIVES FUND	JOINT RESOLUTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Nonspendable:	\$ 977,961	\$ -	\$ -	\$ 2,744	\$ 980,705
Unassigned (Deficit)	<u>22,500,948</u>	<u>(3,936,864)</u>	<u>9,195,148</u>	<u>2,385,441</u>	<u>30,144,673</u>
Total Fund Balances	<u>\$ 23,478,909</u>	<u>\$ (3,936,864)</u>	<u>\$ 9,195,148</u>	<u>\$ 2,388,185</u>	<u>\$ 31,125,378</u>

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NOTE 12 – TRANSFER IN/OUT TRANSACTIONS

Transfer in/out of funds

The transfers in/out present General Fund expenses that are covered permanently with internal resources from the current operations of the Enterprise Fund and Other Governmental Funds.

Transfer (Out) / In

Transfer In / (Out)	Governmental Funds			Enterprise Fund	Total
	General Fund	Incentive Fund	Other Governmental Funds	Agricultural Services Fund	
General Fund	\$ -	\$ (343,981)	\$ 458,740	\$ 17,018,991	\$ 17,133,750
Incentive Fund	343,981	-	(458,740)	(125,259)	(240,018)
Other Governmental Funds	(458,740)	458,740	-	1,114,977	1,114,977
	<u>\$ (114,759)</u>	<u>\$ 114,759</u>	<u>\$ -</u>	<u>\$ 18,008,709</u>	<u>\$ 18,008,709</u>

NOTE 13 – NET POSITION / FUND BALANCE RESTATEMENTS

1) Net Position

The following schedule reconciles the June 30, 2020 Net Position (Deficit), as previously reported, to Beginning Net Position (Deficit), as Restated, July 1, 2020, for Governmental and Business-Type Activities.

	Governmental Activities	Business-Type Activities	Total
Beginning Net Position, As Previously Reported, June 30, 2020	\$ 9,233,772	\$ (79,842,241)	\$ (70,608,469)
Adjustment due to change in accounting policy	<u>(36,865,781)</u>	<u>36,865,781</u>	<u>-</u>
Beginning Net Position, As Adjusted July 1, 2020	<u>\$ (27,632,009)</u>	<u>\$ (42,976,460)</u>	<u>\$ (70,608,469)</u>

2) Fund Balances

The following schedule reconciles the June 30, 2020 Fund Balance, as previously reported, to Beginning Fund Balance, as Restated, July 1, 2020, for Governmental Funds.

	General Fund	Incentives Fund	Joint Resolution Fund	Other Governmental Funds	Total
Beginning Net Position, As Previously Reported, June 30, 2020	\$ (141,122,526)	\$ 230,906,950	\$ (22,411,528)	\$ 1,211,936	\$ 68,584,832
Adjustment to eliminate of Long Term Note receivable from fund financial statements	(3,475,941)	-	-	-	(3,475,941)
Adjustment due to change in accounting policy	<u>157,091,151</u>	<u>(227,155,711)</u>	<u>32,086,505</u>	<u>1,112,274</u>	<u>(36,865,781)</u>
Beginning Net Position, As Adjusted July 1, 2020	<u>\$ 12,492,684</u>	<u>\$ 3,751,239</u>	<u>\$ 9,674,977</u>	<u>\$ 2,324,210</u>	<u>\$ 28,243,110</u>

NOTE 14 – CHANGE IN ACCOUNTING POLICY

During Fiscal Year 2021, AEDA elected to change its policy of reporting interfund activity as inter-fund loans to interfund transfers. AEDA believes that reporting interfund activity as inter-fund transfers is preferable as it better reflects the nature of the operations moving forward. Management determined that interfund balances would not be repaid, thus eliminating the requirement for repayment. AEDA believes this will improve the reliability and relevancy of accounting information.

NOTE 15 – ADOPTION OF NEW ACCOUNTING PRINCIPLE

During Fiscal Year 2021, AEDA implemented GASB Statement No. 84, Fiduciary Activities, which establishes criteria for identifying fiduciary activities focusing on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. Activities meeting the criteria are reported in a fiduciary fund in the basic financial statements.

Governments with activities meeting the criteria present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. GASB Statement No. 84 describes four fiduciary funds that should be reported, if applicable:

- a. pension and other employee benefit trust funds,
- b. investment trust funds,
- c. private-purpose trust funds, and
- d. custodial funds.

Net Position Restatement

	<u>Custodial Fund</u>
Net Position, June 30, 2020, previously reported	\$ -
To increase net position as a result of GASB 84	92,796
Net Position, June 30, 2020, as restated	<u>\$ 92,796</u>

NOTE 16 – 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, expiring through November 2026. Future minimum noncancelable lease payments on existing operating leases as of June 30, 2021, which have an initial term of one year or more, are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2022	46,681
2023	46,681
2024	46,681
2025	46,681
2026	46,681
2027	<u>19,450</u>
	<u>\$ 252,855</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 \$674,162 to cover its exposure to lawsuits.

NOTE 17 – SUBSEQUENT EVENTS

AEDA has evaluated all transactions occurring after the statement of net position as of June 30, 2021, for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through November 30, 2022, the date the accompanying financial statements were available to be issued. The following events were noted:

Hurricane Fiona

On September 17, 2022, Puerto Rico was directly impacted by Hurricane Fiona leaving in its path the destruction of homes, knocking out power across the entire island, and flooding many streets and roads. The Governor of Puerto Rico submitted to the Government of the United States a request for a declaration of a major disaster and the activation of funds from the Public Assistance program of FEMA. At the date of the issuance of the Financial Statements, the effects that Hurricane Fiona may have on AEDA cannot be reasonably estimated.

NOTE 18 – GOING CONCERN

The financial condition of AEDA has been weakened by a reduction in the Commonwealth of Puerto Rico's contributions to finance AEDA's operations, increasing operating costs, and past recurring operating losses, which have affected its ability to pay its suppliers and other creditors on a regular basis. As of June 30, 2021, AEDA has a total deficit of approximately \$51.3 million. These conditions raise substantial doubt about AEDA's ability to continue as a going concern. AEDA's operations will depend on the following management plans and critical factors to partially subsidize existing and future operating losses:

- Maximize collections from agricultural services clients.
- Maintain and improve the control of costs and maximization of the resources available.
- Implement digital solutions to maximize financial efficiency.

The ability of AEDA to continue as a going concern is dependent on the success of management's plans. The financial statements do not include any adjustments that might be necessary if AEDA is unable to continue as a going concern.

NOTE 19 – COVID PANDEMIC

On March 11, 2020, the World Health Organization declared the coronavirus disease ("COVID-19") 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 governments, to alleviate the heavy impact of this pandemic on economic activity. As the Commonwealth observes and assesses the results of the 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, 2021

Description	2021*	2020*	2019*	2018*
Proportion of Total Pension Liability	0.66241%	0.64824%	0.64925%	0.66073%
Proportionate Share of Total Pension Liability	\$ 185,935,812	\$ 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.

There are no assets accumulated in a trust for payment of defined pension benefits participants, and the plan is not administered through a trust or equivalent arrangement

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, 2021**

Description	2021*	2020*	2019*	2018*
Proportion of Total Other Post Employment Benefit Liability	0.75373%	0.75866%	0.75475%	0.75772%
Proportionate Share of Total Other Post Employment Benefit Liability	\$ 6,592,327	\$ 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.

On August 23, 2017, the Governor of the Commonwealth of Puerto Rico signed into law the Act to Guarantee the Payment to Our Pensioners and Establish New Plan Defined Contributions for Public Servants (Act No. 106-2017). Act No. 106-2017 established the pay-as-you-go mechanism effective July 1, 2017, for all the Commonwealth's pension plans. Accordingly, no assets are accumulated in a qualifying trust.

Changes in actuarial assumptions

There was a change in the actuarial assumptions or inputs in the determination of the total pension liability as a result of the decrease in the discount rate as follows:

In the revised June 30, 2020 actuarial valuation, there was a decrease relating to the discount rate from 3.50% in 2019 to 2.21% in 2020.

In the revised June 30, 2019 actuarial valuation, there was a decrease relating to the discount rate from 3.87% in 2018 to 3.50% in 2019.

In the revised June 30, 2018 actuarial valuation, there was an increase relating to the discount rate from 3.58% in 2017 to 3.87% in 2018.

In the revised June 30, 2017 actuarial valuation, there was an increase relating to the discount rate from 2.85% in 2016 to 3.58% in 2017.

Also, there the postretirement and preretirement mortality assumptions were revised as follows:

The postretirement mortality assumptions were revised based on an experience study covering the period from July 1, 2013, through June 30, 30, 2018. The base mortality rates reflect the Society of Actuaries Pub-2010 mortality tables, which were published in January 2019 and are based on public experience. For healthy retirees and beneficiaries prior to the member's death, the postretirement mortality rates were revised to 100% and 110% of the Pub-2010 general healthy retiree mortality table for males and females, respectively. For disabled retirees, the postretirement mortality base rates were revised to 80% and 100% of the Pub-2010 general disabled retiree mortality table for males and females, respectively. For beneficiaries after the retirees' death, the postretirement mortality base rates were revised to 110% and 120% of the Pub-2010 general below median contingent survivor mortality table for males and females, respectively.

The preretirement mortality assumption was also revised. For general employees not covered under Act 127-1958, the preretirement mortality base rates were revised to 100% and 110% of the Pub-2010 general employee mortality table for males and females, respectively. For members covered under Act 127-1958, the preretirement mortality base rates were revised to the Pub-2010 public safety employee rates.

In addition, the projected mortality improvement scale was updated from Scale MP-2019 to Scale MP-2020.

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

To the Administrator of the
Agricultural Enterprise Development Administration
(A Component Unit of the Commonwealth of Puerto Rico)
San Juan, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Agricultural Enterprise Development Administration (A Component Unit of the Commonwealth of Puerto Rico) (AEDA) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise AEDA's basic financial statements, and have issued our report thereon dated November 30, 2022.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether AEDA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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



ROMAN TORO & CO., CPA, CSP
LICENSE #35 – IN FORCE

Yauco, Puerto Rico
November 30, 2022

Stamp No. E508203 of the
Puerto Rico of Certified Public Accountants
was affixed to the original report