

**COMPAÑÍA PARA EL DESARROLLO INTEGRAL
DE LA PENÍNSULA DE CANTERA
(A Component Unit of the
Commonwealth of Puerto Rico)**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

**COMPAÑÍA PARA EL DESARROLLO INTEGRAL
DE LA PENÍNSULA DE CANTERA
(A Component Unit of the Commonwealth of Puerto Rico)**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
**Compañía para el Desarrollo Integral
de la Península de Cantera**
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of **Compañía para el Desarrollo Integral de la Península de Cantera** (a component unit of the Commonwealth of Puerto Rico), which comprise the statement of net assets as of June 30, 2020, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Compañía para el Desarrollo Integral de la Península de Cantera as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Emphasis-of-Matters

Contingency regarding Commonwealth of Puerto Rico's Going Concern


As discussed in Note 12, the Commonwealth of Puerto Rico and its component units currently face severe fiscal, economic, and liquidity situations, including accumulated net position and fund balance deficits, lack of access to financing, and difficulties in honoring its obligations as they become due. The Company is dependent on the Commonwealth for certain resources and services, The Commonwealth and its component units are currently under the supervision of a Federal Oversight Board and are implementing fiscal plans approved by the Board in order to remediate their situation.

As discussed in Notes 3 and 9 to the financial statements the receivable from Government (Commonwealth of Puerto Rico), amounted to \$53,089,538, consists of contributions receivable from the Public Improvement Fund of the Commonwealth of Puerto Rico, to repay the outstanding balances of the Non-Revolving Lines of Credit with the Government Development Bank, amounted to \$53,089,538 as of June 30, 2020. The balance includes the principal amount amounted to \$37,791,088 and accrued interests of \$15,298,450. During the year ended June 30, 2020 no additional contributions were received from the Commonwealth of Puerto Rico, however interest due to the Government Development Bank has continued to be accumulated. No transactions related to defaults by the Commonwealth of Puerto Rico have been recognized by the Company through June 30, 2020. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


JOSÉ L. CARDONA & CO. P.S.C.
License number 31 which expires on
December 1, 2022

San Juan, Puerto Rico
August 5, 2021

The stamp number E436941 of the Puerto Rico
Society of Certified Public Accountant was affixed
to the original of this Report.



**COMPAÑÍA PARA EL DESARROLLO INTEGRAL
DE LA PENÍNSULA DE CANTERA
(A Component Unit of the Commonwealth of Puerto Rico)**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2020

Our discussion and analysis of the Compañía para el Desarrollo Integral de la Península de Cantera (the Company) financial performance provides an overview of the Company's financial activities of the fiscal year ended on June 30, 2020. Please read it in conjunction with the Company's audited basic financial statements, beginning on page 7.

The Company is a public corporation and a governmental instrumentality of the Commonwealth of Puerto Rico, created by Law No. 20 of July 10, 1992, as amended. The main purpose of the Company is to establish and implement a comprehensive development plan for the Peninsula of Cantera area. The main function of Company is to supervise and coordinate governmental efforts and also promote and manage private sector initiatives.

FINANCIAL HIGHLIGHTS:

- 1) Total assets of Company as of June 30, 2020, were \$63,790,917, compared with \$61,577,301 at June 30, 2018. The net change, amounting to \$2,213,616, is mostly related to
 - Increase in accounts receivable from Government by \$2,645,376, regarding the contributions receivable for the repayment of the debt with the Government Development Bank for Puerto Rico;
 - Increase in accrued interest payable to Government line of credit by \$2,645,376.
- 2) The Company's assets exceed liabilities by \$9,306,384 as of June 30, 2020.
- 3) Total operating expenses increased by \$69,437, mostly related to increase in administrative operation expenses by \$101,073.

USING THE ANNUAL REPORT:

This annual report consists of a series of basic financial statements. The Statement of Net Assets, the Statement of Activities and the Statement of Cash Flows provide information about the activities of the Company as a whole and present a view of the Company's finances. These statements show how these services were financed in the short-term as a well as what remains for future activities.

OVERVIEW OF THE FINANCIAL STATEMENTS:

The Company is a component unit of the Commonwealth of Puerto Rico and is presented in the Commonwealth's government wide financial statements as a public corporation.

The Company's basic financial statements are presented attached to this document and are accompanied by notes to the Basic Financial Statements, which provide information essential to their full understanding.

**COMPAÑÍA PARA EL DESARROLLO INTEGRAL
DE LA PENÍNSULA DE CANTERA
(A Component Unit of the Commonwealth of Puerto Rico)**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED):

Statement of Net Assets:

The Statement of Net Assets presents the Company's financial position as of June 30, 2020, showing information that includes all of the Company's assets and liabilities, as well as the net assets.

Statement of Activities and Changes in Net Assets:

The statement of activities and changes in net assets shows how Company's net assets change during the fiscal year. All current fiscal year revenues and expenses are included regardless of when cash is received or paid.

Statement of Cash Flows:

The statement of cash flows presents the sources and uses of cash divided in three categories: operating activities, capital and related financial activities and investing activities. The statement reconciles net cash equivalents at the beginning and end of year and reconciles the change in net assets with the cash provided by operating activities to provide an explanation of cash and non-cash activities within the statement of activities.

A summary of the Company's cash flows is as follows:

Net cash used by operating activities	\$ (34,980)
Net cash used in investing activities	<u>(22,752)</u>
Net decrease in cash and cash equivalents	(57,732)
Cash and cash equivalents at beginning of year	<u>1,438,072</u>
Cash and cash equivalents at end of year	<u>\$ 1,380,340</u>

The cash used in investing activities is related to the net changes in notes receivable and the acquisition of equipment.

FINANCIAL ANALYSIS OF THE COMPANY AS A WHOLE:

Our analysis presented below focuses on net assets (Table 1) and change in net assets (Table 2) for the Company's activities compared to prior year.

**COMPAÑÍA PARA EL DESARROLLO INTEGRAL
DE LA PENÍNSULA DE CANTERA
(A Component Unit of the Commonwealth of Puerto Rico)**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2020

Table 1 – Statement of Net Assets, as of June 30, 2020 and 2019

	2020	2019	Change
Assets:			
Current assets	\$ 54,731,709	\$ 52,056,978	\$ 2,674,731
Non-current assets	<u>9,059,208</u>	<u>9,520,323</u>	<u>(461,115)</u>
Total assets	<u>\$ 63,790,917</u>	<u>\$ 61,577,301</u>	<u>\$ 2,213,616</u>
Liabilities – Current	<u>\$ 54,484,533</u>	<u>\$ 51,797,189</u>	<u>\$ 2,687,344</u>
Net Assets:			
Invested in capital assets	1,985,637	2,450,266	(464,629)
Restricted	497,338	497,338	-
Unrestricted	<u>6,823,409</u>	<u>6,832,508</u>	<u>(9,099)</u>
Total net assets	<u>9,306,384</u>	<u>9,780,112</u>	<u>(473,728)</u>
Total liabilities and net assets	<u>\$ 63,790,917</u>	<u>\$ 61,577,301</u>	<u>\$ 2,213,616</u>

As observed from table above, Company has experienced an increase in its current assets and its current liabilities of \$1,912,827 and \$2,625,478, respectively. This change was primarily due to an increase in accounts receivable and interest payable, as more fully explained in Financial Highlights section.

Table 2 – Statement of Activities

	2020	2019	Change
Operating expenses:			
Salaries, wages and benefits	\$ 880,513	\$ 690,635	\$ (189,878)
Improvements and development costs	125,406	133,467	8,061
Acquisition and relocation costs	1,846	25,421	23,575
Other program expenses	246,442	335,247	88,805
Interest on debt	<u>2,645,376</u>	<u>2,645,376</u>	<u>-</u>
Total operating expenses	<u>(3,899,583)</u>	<u>(3,830,146)</u>	<u>(69,437)</u>
Operating grants and contributions	3,875,998	3,794,439	81,559
General revenues and interest income	35,740	57,649	(21,909)
Depreciation expense	<u>(485,883)</u>	<u>(480,991)</u>	<u>(4,892)</u>
Changes (decrease) in net assets	<u>\$ (473,728)</u>	<u>\$ (459,049)</u>	<u>\$ (14,679)</u>

**COMPAÑÍA PARA EL DESARROLLO INTEGRAL
DE LA PENÍNSULA DE CANTERA
(A Component Unit of the Commonwealth of Puerto Rico)**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2020

CAPITAL ASSETS

Capital assets consist mostly of land and structures, which were used to establish Company's premises. Other capital assets include equipment and vehicles.

CONTACTING THE ADMINISTRATION AND FINANCE DEPARTMENT

The financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of Company's finance and to show Company's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the Administration and Finance Director at (787) 268-3138.

**COMPAÑÍA PARA EL DESARROLLO INTEGRAL
DE LA PENÍNSULA DE CANTERA
(A Component Unit of the Commonwealth of Puerto Rico)**

STATEMENT OF NET ASSETS

JUNE 30, 2020

ASSETS

CURRENT ASSETS

Cash		\$ 1,380,340
Accounts receivable (Note 3):		
Commonwealth of Puerto Rico	\$ 53,089,538	
Grant receivable	244,651	
Others	504	53,334,693
Notes receivable other, current portion (Note 4)		8,175
Prepaid expenses		8,501
Total current assets		54,731,709

NON-CURRENT ASSETS

Note receivable related party (Notes 4 and 6)		5,278,667
Notes receivable other, long-term (Note 4)		236,404
Capital assets, net of accumulated depreciation of \$4,707,574 (Notes 1 and 7)		1,985,637
Properties held for development and rehabilitation (Note 8)		1,061,162
Other assets – donated land (Note 10)		497,338

TOTAL ASSETS \$ 63,790,917

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Lines of credit (Note 9)		\$ 37,791,088
Accrued interest		15,298,450
Accounts payable		1,294,507
Accrued liabilities		100,488
Total current liabilities		54,484,533

NET ASSETS (NOTES 1 AND 10)

Invested in capital assets		1,985,637
Restricted		497,338
Unrestricted		6,823,409
Total net assets		9,306,384

TOTAL LIABILITIES AND NET ASSETS \$ 63,790,917

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

**COMPAÑIA PARA EL DESARROLLO INTEGRAL
DE LA PENÍNSULA DE CANTERA, INC.**
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2020

	Administration	Improvements and Development	Debt Service	Total
Operating expenses:				
Salaries, wages and fringe benefits	\$ 880,513	\$ -	\$ -	\$ 880,513
Improvements and development costs	-	125,406	-	125,406
Acquisition and relocation costs	-	1,846	-	1,846
Other program expenses	246,442	-	-	246,442
Interests on debt	-	-	2,645,376	2,645,376
Total operating expenses	1,126,955	127,252	2,645,376	3,899,583
Program revenues (Notes 1, 2 and 9)				
Operating grants and contributions	1,230,622	-	2,645,376	3,875,998
Net program revenues (expenses)	<u>\$ 103,667</u>	<u>\$ (127,252)</u>	<u>\$ -</u>	<u>(23,585)</u>
General revenues and expenses (Notes 1 and 2)				
Grant and contributions not restricted to specific programs				6,839
Interest income				28,901
Depreciation expense				(485,883)
Total general revenues and expenses, net				(450,143)
Change in net assets				(473,728)
Net assets, beginning of year, as restated				9,780,112
Net assets at end of year				<u>\$ 9,306,384</u>

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

**COMPAÑÍA PARA EL DESARROLLO INTEGRAL
DE LA PENÍNSULA DE CANTERA
(A Component Unit of the Commonwealth of Puerto Rico)**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Change (decrease) in net assets		\$ (473,728)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense		485,883
Changes in assets and liabilities:		
Increase in receivables	\$ (2,727,816)	
Increase in prepaid expenses	(6,663)	
Increase in accounts payable	20,992	
Increase in accrued liabilities and interest payable	<u>2,666,352</u>	<u>(47,135)</u>
Net cash used by operating activities		<u>(34,980)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Increase in notes receivable, net		(1,498)
Purchase of capital assets		<u>(21,254)</u>
Net cash used in investing activities		<u>(22,752)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (57,732)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 1,438,072

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 1,380,340

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

**COMPAÑÍA PARA EL DESARROLLO INTEGRAL
DE LA PENÍNSULA DE CANTERA
(A Component Unit of the Commonwealth of Puerto Rico)**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

1. NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

Compañía para el Desarrollo Integral de la Península de Cantera (the Company) is a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico (the Commonwealth) created on July 10, 1992 pursuant to Act. No. 20. The Company will exist during a period of 20 years with, if granted by an executive order of the Governor of Puerto Rico, an extension of 5 additional years. The Company was created to establish and implement a comprehensive development plan for the Península de Cantera area. Its main function is to supervise and coordinate governmental efforts and also promote and manage private sector initiatives for the improvements and rehabilitation of the aforementioned area. Under the entity concept, the Company is a component unit of the Commonwealth's financial statements. On April 4, 2013, effective and from July 10, 2013, the Governor of Puerto Rico issued an executive order extending the life of the Company for three years. On July 5, 2013 was signed Law No. 53-2013 which amends Act No. 20 of 1992. This Law extends the life of the Company for a period of 20 years until 2033.

The significant accounting policies consistently applied in the preparation of the accompanying financial statement follows:

Basis of Accounting

The financial statements have been prepared on the accrual method of accounting.

Revenues Recognition

Operating Purposes - Funds restricted by the government, donor, grantor, or other outside party for particular operating purposes are deemed to be earned and reported as revenues when the Corporation has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as restricted deferred revenues. Unrestricted donations subject to matching requirements are deemed earned when the matching requirements are met.

Capital Expenditures - Donations received to finance capital projects are recorded as contributed capital and not as revenues.

Receivables - Future donations are recorded as revenues when the written commitment from donor is received. The notes and accounts receivable are stated at their net realizable value.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**COMPAÑÍA PARA EL DESARROLLO INTEGRAL
DE LA PENÍNSULA DE CANTERA
(A Component Unit of the Commonwealth of Puerto Rico)**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2020

**1. NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fair Value of Financial Instruments

The carrying amount of cash approximates fair values due to the short-term maturities of these instruments. The carrying amount of the pledges, accounts receivables, accounts payable and accrued liabilities approximate fair market values based on similar instruments negotiated in the marketplace.

Capital Assets

The Company defines capital assets, which include land, building, furniture and fixtures and equipment, as assets with an initial, individual cost of \$500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Building	10 years
Equipment	5 years
Furniture and fixtures	5 years
Vehicles	5 years
Leasehold improvements	5 years

The Company's capital assets are reviewed for impairment in accordance with FASB ASC 360 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", (formerly SFAS No. 144), whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. There were no impairment losses for the year ended June 30, 2020.

Liability for Compensated Absences

Employees are allowed to accrue monthly 2.5 days for vacation and 1.5 days for sick leave with a limit, not to exceed 60 days for vacation and 90 days for sick leave. Any excess over these amounts is paid to the employees during March of the next fiscal year and recorded as a current liability and expenditure in the financial statements as of June 30, 2020. Employees with ten years or more of service are entitled to receive sick leave accrued upon retirement.

Employees Retirement Benefits

The employees of the Company are not entitled to participate in the Commonwealth's retirement plan, but any employee transferred to the Company from another government entity who is covered by the Commonwealth's plan will retain all benefits vested until that moment and may continue participating in the Commonwealth's retirement plan while in the service of the Company. On September 20, 2011, the Company adopted a bonus plan for the retirement and retention of its employees (See Note 13).

**COMPAÑÍA PARA EL DESARROLLO INTEGRAL
DE LA PENÍNSULA DE CANTERA
(A Component Unit of the Commonwealth of Puerto Rico)**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2020

**1. NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. CONCENTRATION OF RISK

Compañía para el Desarrollo Integral de la Península de Cantera maintains its cash accounts in higher rated commercial banks located in Puerto Rico. Commercial bank accounts are insured by the Federal Deposit Insurance Company (FDIC) up to \$250,000. As of June 30, 2020, the significant concentration of credit risk for the insured cash amounted to \$909,846.

3. RECEIVABLES

At June 30, 2020, the receivable from Government (Commonwealth of Puerto Rico) consists of contributions receivable from the Public Improvement Fund of the Commonwealth of Puerto Rico, to repay the outstanding balances of the Non-Revolving Lines of Credit with the Government Development Bank. The balance includes the principal amount amounting to \$37,791,088 and accrued interests of \$15,298,450.

4. NOTES RECEIVABLE

Related party

Effective on July 5, 2007 the Company subscribed a promissory note in the amount of \$5,711,935 due from a related party, Península Housing Investment Associates, SE (the Partnership), to formalize the outstanding balances of receivables and accrued interests. The note shall be collected in an installment, not later than July 12, 2032. The note bears interest at .5% per annum compounded semi-annually and the accrued interest shall be paid by the Partnership within seventy-five (75) days of the close of each calendar year. In connection with the transaction the Company entered into a Deed of Second Mortgage with the Partnership, to create a mortgage on the Partnership's property to guaranteed and secure the full and complete payment of the principal and interests on note. As of June 30, 2020, the balance of the note amounted to \$5,278,667, including accrued interests amounting to \$223,107.

Other

During the year 2010, the Company entered into non-interest financing agreements with residents of housing units granted by the Company. The notes are guaranteed by real properties, located in Condominium Paseo del Conde. Principal payments on notes are due monthly until maturity at June 30, 2036. (See Note 13)

**COMPAÑÍA PARA EL DESARROLLO INTEGRAL
DE LA PENÍNSULA DE CANTERA
(A Component Unit of the Commonwealth of Puerto Rico)**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2020

4. NOTES RECEIVABLE (CONTINUED)

Principal contractual maturities are as follows:

<u>Year ending June 30,</u>	
2021	\$ 8,175
2022	26,852
2023	26,852
2024	26,852
Thereafter	<u>155,848</u>
	244,579
Less current portion	<u>(8,175)</u>
	<u>\$ 236,404</u>

5. LONG-TERM ACCOUNTS RECEIVABLE

The long-term accounts receivable consists of advances or payments made by the Company on behalf of Apoyo Empresarial para la Península de Cantera, Inc. (a related party) in the ordinary course of business. As of June 30, 2020, the net balance of long-term accounts receivable amounted to \$0 (\$972,821 less allowance for doubtful account amounted to \$972,821).

6. RELATED PARTY

Apoyo Empresarial para la Península de Cantera, Inc. (Apoyo), a not-for-profit corporation incorporated in April 1992, is dedicated to promoting programs and projects to improve the quality of live of the Península de Cantera area. Its main function is to bring resources, support and funding available to it and will complement the work of the Company regarding this area.

Península Housing Investment Associates, SE (the Partnership) is a limited partnership organized on December 15, 1998 as a real estate development partnership to develop and manage a low-income housing tax credit development located in San Juan, Puerto Rico, known as Parque Victoria (the "Project").

The Project consists of six multi-story building containing one hundred two (102) residential apartment units and provides affordable housing to eligible low-income tenants. The units are rented to residents of the area where the Project is located. Costs incurred for the development and construction of the housing project have been financed principally through advances from the Company. On December 20, 2001, the Company entered into an agreement with the Partnership to make advances from time to time in aggregate amount not to exceed \$11.5 million.

**COMPAÑÍA PARA EL DESARROLLO INTEGRAL
DE LA PENÍNSULA DE CANTERA
(A Component Unit of the Commonwealth of Puerto Rico)**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2020

6. RELATED PARTY (CONTINUED)

Approximately \$9 million of this loan will be repaid from capital contributions to be made by limited investors once the construction of the project is completed and certain conditions are met. The remaining balance of the loan, (expected to reach approximately \$2.5 million at project completion) plus accrued interest at the rate of one half percent (.005) per year starting January 1, 2002, shall be payable in one installment thirty years from the date of receipt of a certificate of occupancy from the Regulations and Permits Administration, but in no event, later than December 31, 2032. This loan is also secured by a mortgage over the rental units.

The original partners of the entity were Península Housing, Inc. (the Managing Partner), a corporation organized under the laws of the Commonwealth of Puerto Rico (with .01% ownership), as managing general partner and Apoyo as limited partner (with 99.99% ownership). The Company's actual Executive Director is also the President of the Board of Director of the Managing Partner. Effective December 20, 2001 the partnership agreement was amended to go into effect the admission of ESIC Citigroup CCDE Investment Fund LP as limited partnership, and the withdrawal of Apoyo as limited partner, and set forth more fully the rights and obligations of the general and limited partners. Apoyo became the developer, administrator and social services providers of the project.

7. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020, was as follows:

Description	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 80,300	\$ -	\$ -	\$ 80,300
Building, facilities and infrastructures	5,718,023	-	-	5,718,023
Furniture and fixtures	211,802	-	-	211,802
Equipment	451,353	21,254	-	472,607
Software	55,194	-	-	55,194
Vehicles	152,636	-	-	152,636
Leasehold improvements	<u>2,649</u>	-	-	<u>2,649</u>
Total capital assets	<u>6,671,957</u>	<u>\$ 21,254</u>	<u>\$ -</u>	<u>6,693,211</u>
Less: Accumulated depreciation:				
Building	\$ 3,473,521	\$ 448,896	\$ -	\$ 3,922,417
Furniture and fixtures	211,802	-	-	211,802
Equipment	367,558	25,563	-	393,121
Software	53,940	456	-	54,396
Vehicles	112,221	10,968	-	123,189
Leasehold improvements	<u>2,649</u>	-	-	<u>2,649</u>
Total accumulated depreciation	<u>4,221,691</u>	<u>\$ 485,883</u>	<u>\$ -</u>	<u>4,707,574</u>
Capital assets, net	<u>\$ 2,450,266</u>			<u>\$ 1,985,637</u>

**COMPAÑÍA PARA EL DESARROLLO INTEGRAL
DE LA PENÍNSULA DE CANTERA
(A Component Unit of the Commonwealth of Puerto Rico)**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2020

8. PROPERTY HELD FOR DEVELOPMENT AND REHABILITATION

As of June 30, 2020, the property held for development and rehabilitation is summarized as follows:

Land	\$	399,225
Housing units		<u>661,937</u>
		<u>\$ 1,061,162</u>

9. NOTES PAYABLE

On December 26, 2000, the Company entered into a Non-Revolving Line of Credit Agreement (the Loan Agreement) with the Government Development Bank (the Lender), as authorized by the Joint Resolution No. 20 approved on February 16, 2000 by the Legislature of the Commonwealth of Puerto Rico, to finance the development and construction of low cost residential housing projects at the Península de Cantera area. The Loan Agreement provides for borrowings through June 30, 2040 (the Maturity Date) up to an amount of \$38,000,000, the maximum amount of borrowings that may be outstanding under the Loan Agreement.

On October 12, 2004, the Legislature of the Commonwealth of Puerto Rico approved a Joint Resolution No. 2199 to authorize the Company to incur in obligations in an amount not to exceed \$40,000,000 for the payments of costs incurred or to be incurred for the permanent improvements projects in the communities and sectors that constitute the Community of the Cantera Península. As a result, the Company entered into an additional non-revolving line of credit agreement with the lender. The Loan Agreement provides for borrowings through June 30, 2040 (the Maturity Date) up to a maximum amount of \$40,000,000.

Under both agreements, borrowings bear interest at a variable rate and will be repaid, including the outstanding balance of borrowings, from appropriations from the Public Improvements Fund of the Commonwealth of Puerto Rico and as agreed by the Lender and the Office of Management Budget. The interest rate was 7% during the year ended June 30, 2020.

The changes in notes payable were as follows:

	Beginning Balance	Borrowings	Repayments	Ending Balance
\$38 million line of credit	\$ 8,797,014	\$ -	\$ -	\$ 8,797,014
\$40 million line of credit	<u>28,994,074</u>	<u>-</u>	<u>-</u>	<u>28,994,074</u>
Total	<u>\$ 37,791,088</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,791,088</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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9. NOTES PAYABLE (CONTINUED)

The changes in accrued interest were as follows:

	Beginning Balance	Additions	Payments	Ending Balance
\$38 million line of credit	\$ 2,978,591	\$ 615,791	\$ -	\$ 3,594,382
\$40 million line of credit	<u>9,674,483</u>	<u>2,029,585</u>	<u>-</u>	<u>11,704,068</u>
Total	<u>\$ 12,653,074</u>	<u>\$ 2,645,376</u>	<u>\$ -</u>	<u>\$ 15,298,450</u>

On November 29, 2018, Government Development Bank for Puerto Rico (“GDB”) completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the “Qualifying Modification”). Pursuant to the Qualifying Modification an Act No. 109-2017, as amended (the “GDB Restructuring Act”), claims on accounts on deposits held by the above-referenced entity at GDB were applied to the payment of debts, if any, that the above-referenced entity had at such date with GDB (the “Set-Off Transaction”). As per Qualifying Modification, there were certain loans that the GDB retained (the “Retained Loans”). GDB had retained loans referenced and previously described in this Note.

10. CONTRIBUTED CAPITAL

In 1999 the Company received grants from the Commonwealth of Puerto Rico for the development of low cost residential housing projects in the area known as Península de Cantera, San Juan, Puerto Rico. The grants were in cash (\$2,000,000) and various tracts of land (\$591,890). The Company did not consider practical to perform an appraisal of the land. The land value was estimated at \$15.52/square meter based on a potential transaction for real estate in a tract of land close to the site of the donated land. Approximately \$589,000 of the funds received were used to complete the "Centro Comunitario" including the acquisition of office equipment and perform other payments. This amount will be reimbursed from future unrestricted funds.

11. SUBSEQUENT EVENTS

Financial Statements

Management of Company has evaluated subsequent event through August 4, 2021, the date which the financial statements were available to be issued.

Impact of COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a new coronavirus (COVID-19) as a pandemic that continues to spread. Starting on March 15, 2020, the Governor of the Commonwealth of Puerto Rico issued various executive orders which, among other things, imposed an overnight curfew, ordered schools, non-essential businesses, nonprofit entities and Commonwealth and Municipal governmental organizations to close or partially operate.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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11. SUBSEQUENT EVENTS (CONTINUED)

Uncertainties have arisen in all economic sectors about the final impact the pandemic, including on the operating activities of the Company, including taken several measures to ensure continuity of services while protecting employees from this virus. The occurrence and extent of such an impact will depend on future developments, including the duration and future spread of the outbreak.

12. CONTINGENCY

Puerto Rico Fiscal Agency and Financial Advisory Authority – Act No. 2 of 2017

On January 18, 2017, the Commonwealth of Puerto Rico approved Act No. 2 “The Puerto Rico Fiscal Agency and Advisory Authority (FAFAA)” in order to empower the Authority to oversee compliance with the certified budget and fiscal plan approved pursuant to the Puerto Rico Oversight, Management and Economic Stability Act of 2016 (PROMESA); to delegate to the Authority the power to revise matters including, but not limited to, agreements, transactions and regulations of the agencies and instrumentalities of the Government of Puerto Rico; to provide that it shall be the only entity authorized to enter into creditors’ agreement, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body including, but not limited to, agencies, boards, commissions, instrumentalities, public corporations or applicable political subdivision; to provide that the Executive Director of the Authority shall be the legal successor of the President of the Government Development Bank of Puerto Rico (GDB) in every Board, Committee, Commission or Council; to repeal Chapter 6 of Act No. 21-2016, as amended, and the Puerto Rico Fiscal Oversight and Recovery Organic Act, Act No. 208-2015; and for other related purposes.

The FAFAA will act as fiscal agent, financial advisor and reporting agent of all entities of the Government of Puerto Rico. It shall be the governmental entity responsible for the collaboration, communication and cooperation between the Government of Puerto Rico and the Fiscal Oversight Board created under PROMESA. To such effect, the FAFAA is empowered to collaborate in conjunction with the Governor of Puerto Rico and his representatives in the creation, execution, supervision and oversight of any Fiscal Plan and any Budget as defined by the terms of PROMESA. In addition, the Authority shall be the government entity charged with supervising, executing and administering the Fiscal Plan approved and certified in accordance with PROMESA and shall ensure that all the entities of the Government of Puerto Rico comply with the approved Fiscal Plan.

In addition, the FAFAA shall assume all fiscal agency, financial advisory and reporting functions of the GDB under Act No. 272 of May 15, 1945, as amended. It shall oversee all matters related to the restructuring, renegotiation or adjustment of any existing or future obligation, and the liability management transactions for any existing or future obligation of the Government of Puerto Rico. The Authority shall be governed by Board of Directors composed of five (5) members, including the Executive Director of the FAFAA, appointed by the Governor, one (1) representative of the Senate of the Puerto Rico, and one (1) representative of the House of Representatives of Puerto Rico, who shall be designated by the Presiding Officer of each Legislative House. The remaining two members shall be appointed by the Governor.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2020

12. CONTINGENCY (CONTINUED)

Puerto Rico Financial Emergency and Fiscal Responsibility Act – Act No. 5 of 2017

On January 29, 2017, the Commonwealth of Puerto Rico approved Act No. 5 “Puerto Rico Financial Emergency and Fiscal Responsibility Act” to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the FAFAA, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. This Act Authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as “essential services”, in accordance with the Constitution of Puerto Rico. This Act amends and repeals portions of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act No. 21-2016, as amended by Act No. 40-2016 and Act No. 68-2016 (the Moratorium Act”) and of certain Executive Orders issued by then Governor of Puerto Rico that provided for emergency periods and a temporary stay of litigation, thus negating the timely payment of the Government’s obligations and the initiation of a voluntary negotiation process with the creditors of the Commonwealth and its instrumentalities. It also suspends or cancels, or both, all special appropriations not budgeted in the fiscal year 2016-17 that may have been multi-year authorizations from prior fiscal years. The Emergency Period will begin with the effective date of this Act and end in May 1, 2017, and may be extended by the Governor pursuant to an executive order for one additional period of three (3) months.

During the Emergency Period declared by this Act, the Governor has the power to designate services provided by the Commonwealth and its instrumentalities as essential services or services that are not essential services and utilize available resources to provide for the satisfaction of obligations of the Commonwealth and its instrumentalities, while also recognizing the need to provide for the services essential to the health, safety and welfare of the residents of Puerto Rico. The Governor shall pay debt service to the extent a) possible after all essential services of the Commonwealth have been provided for; or b) ordered to do so by the Oversight Board or any board created under federal law.

In addition, the Governor may issue executive orders requiring the use of available resources to be deposited in a lockbox account under the sole control of the FAFAA to pay for essential services as he deems necessary to protect the health, safety and welfare of the residents of Puerto Rico; and he may take all actions deemed reasonable and necessary to preserve the ability of the Commonwealth or an instrumentality of such to continue providing essential services. To that end, the Governor may issue executive orders establishing priority rules for the disbursement of public funds when resources available for a fiscal year are insufficient to cover the appropriations made for the fiscal year. Notwithstanding Section 4(c) of Act No. 147 of June 18, 1980, as amended, the Governor may reprioritize services and expenses described in Section 4(c)(3) to a higher payment priority than as listed in Section 4(c). Finally, the Governor may issue executive orders as he deems necessary or advisable to assure the payment of a debt obligation of the Commonwealth or an instrumentality of such.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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12. CONTINGENCY (CONTINUED)

With regards to the emergency measures related to the Government Development Bank (GDB), the Governor may take any actions he deems reasonable and necessary to permit the GDB to continue carrying out its operations, including 1) prescribing such conditions or restrictions for the conduct of the business of the GDB, including dispensing with the compliance, in whole or in part, of any requirement prescribed by otherwise applicable law (i.e. the requirement of maintaining deposit reserves levels); 2) ordering the limitation, postponement or suspension of any payment, in whole or in part, of any obligation pursuant to terms the Governor prescribes to address the GDB's liquidity needs or facilitate its ability to carry out its operations; 3) suspending payments on any obligation guaranteed by the Bank, on any letter of credit and on any obligation or commitment to lend or extend money or credit; 4) taking any action with respect to the GDB as provided for in Act No. 17 of September 23, 1948, as amended, or Act No. 22 of July 24, 1985, as amended, as applicable; and 5) delegating to the Bank, its Board or its employees' authority to take actions in furtherance of these emergency measures.

If any restriction is placed on disbursements made by the GDB regarding these measures, the Bank shall not, without the authorization of the Governor, 1) disburse any loans or credit facility; 2) honor requests to withdraw or transfer any deposit, including by check or other means, of an agency, public corporation or instrumentality of the Commonwealth (other than those listed in point three (3)); 3) subject to the availability of funds and the aggregate disbursements established by the Governor, honor any request to withdraw or transfer any deposit held by, or request to honor any check written by, the Legislative and Judicial Branches, the University of Puerto Rico, the Office of the Comptroller, the Office of the Electoral Comptroller, the State Elections Commission, the Government Ethics Office, the Independent Prosecutors Panel, or a Municipality of the Commonwealth, provided, however, than an authorized officer of the requesting entity certifies along with supporting documentation that such funds will be used for the payment of essential services. If any restriction is placed on disbursements from the GDB, then any value disbursed to a creditor after such restriction is imposed shall be subtracted from the value of any distribution that such creditor is entitled to receive, as of the first date of the restriction, if the GDB is subsequently liquidated or placed into a receivership.

Filing of Title III of PROMESA for the District of Puerto Rico

On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico approved and certified the filing in the United States District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA for the Commonwealth of Puerto Rico. This filing was necessary due to the expiration on May 1, 2017 of the stay against litigation provided by PROMESA, and thus making the government vulnerable to lawsuits by its creditors. The voluntary filing under Title III would preclude those lawsuits while allowing the possibility of consensual negotiations to continue.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2020

13. BONUS PLAN FOR RETIREMENT AND RETENTION OF EMPLOYEES

On September 20, 2011, the Company adopted a Bonus Plan for the Retirement and Retention of Employees (The Plan). The purpose of the Plan is to act as an incentive for the employees to stay with the Company until the end of its legal life span or cease of operations. To be eligible to participate in the Plan, employees must be working for the Company as of September 20, 2011 and remain working for the same until the end of its legal life and cease of operations, as stated by the Act. Those employees that resign voluntarily or that terminated for reasons established in the Plan will not be eligible to participate. Employees that start working for the Company after September 20, 2011 will also not be eligible.

Eligible employees will receive the following benefits, among others:

- (a) The Company's initial contribution to establish a defined contribution plan (1165 (c)), which is equivalent to 9.275% of eligible employees' salary over the years of service in the Company. Additionally, beginning on July 1, 2012, employees shall receive a Company contribution of a maximum of 3% of their annual salary up to \$10,000, while the Company exists. Eligible executive and management employees shall receive a discretionary bonus according to the defined contribution plan approved by the Board of Directors, which is equivalent to 8.275% of the total compensation paid over the eligible employees' year of service in the Company from July 2002 to July 10, 2012. The Company's total contribution to the defined contribution plan amounted to approximately \$20,944 in 2012. No additional contribution was made after 2012.
- (b) At the time to complete and terminate their functions, those eligible employees shall receive a bonus equivalent to one-month salary plus one week for each full year of service, not to exceed three months' salary. Eligible employees that performed essential functions in the Company shall receive a discretionary bonus in accordance to the parameters established in Sections 8.2 (4) (b) and 8.3 under Act No. 184, of August 3, 2004, as amended, not to exceed 25% of their salary.
- (c) Eligible employees are entitled to other benefits, such as, Christmas bonus and the contribution to a health insurance plan for one year.