González Torres & Co., CPA, PSC

1250 Ponce de León Ave. ♦ Suite 801 ♦ San Juan, PR 00907-3912
tels. 787.993.4360 ♦ 787.993.4364
info@gtcpapr.com ♦ www.gtcpapr.com

# CORPORACIÓN PARA EL FINANCIAMIENTO EMPRESARIAL DEL COMERCIO Y DE LAS COMUNIDADES (COFECC)

## AUDITED FINANCIAL STATEMENTS AND SINGLE AUDIT REPORT

## FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

**COFECC**

**TABLE OF CONTENTS**

**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**



GTC

González Torres & Co., CPA, PSC

1250 Ponce de León Ave. ♦ Suite 801 ♦ San Juan, PR 00907-3912
tels. 787.993.4360 ♦ 787.993.4364
info@gtcpapr.com ♦ www.gtcpapr.com

# INDEPENDENT AUDITORS' REPORT

To the Board of Directors
COFECC
San Juan, Puerto Rico

## Report on the Financial Statements

We have audited the accompanying financial statements of "Corporación para el Financiamiento Empresarial del Comercio y de las Comunidades" (COFECC, a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019 and the related statements of activities and changes in net assets, functional expenses and cash flows for the years 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 COFECC as of June 30, 2020 and 2019 and the changes in its net assets, functional expenses and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2020 on our consideration of COFECC'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.

GTC

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

The purpose of that report is 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 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 COFECC's internal control over financial reporting and compliance.

San Juan, Puerto Rico
October 9, 2020

The stamp number 2774646 was affixed to the original of this report.

CPA GONZALEZ TORRES & CO. CSP
CONTADORES PÚBLICOS AUTORIZADOS
Lic. 96
PUERTO RICO

González Torres & Co., CPA, PSC

GONZÁLEZ TORRES & CO., CPA, PSC
License 96
Expires December 31, 2023

GTC

**COFECC**
**Statement of Financial Position**
**June 30, 2020 and 2019**

| | 2020 | 2019 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash | $ 2,121,547 | $ 2,343,170 |
| Loans receivable, net of allowance for losses of $338,542 and $93,135 in 2020 and 2019, respectively | 2,046,535 | 1,966,144 |
| Grants receivable | 121,209 | 56,730 |
| Commissions receivable | 72,215 | 63,807 |
| Accrued interest receivable | 17,847 | 12,714 |
| Other current assets | 18,825 | 18,447 |
| **Total current assets** | 4,398,178 | 4,461,012 |
| Property and equipment, net of accumulated depreciation | 1,857 | 2,714 |
| **Total assets** | **$ 4,400,035** | **$ 4,463,726** |
| **LIABILITIES AND NET ASSETS** | | |
| **Current liabilities:** | | |
| Accounts payable and accrued expenses | $ 205,937 | $ 141,784 |
| Unearned revenue | 23,884 | 236,346 |
| Current portion of long - term debt | 159,578 | 202,177 |
| **Total current liabilities** | 389,399 | 580,307 |
| Non - current portion of long - term debt | 1,420,435 | 1,593,346 |
| **Total liabilities** | 1,809,834 | 2,173,653 |
| **Net assets:** | | |
| Without donor restrictions | 994,519 | 959,201 |
| With donor restrictions | 1,595,682 | 1,330,872 |
| **Total net assets** | 2,590,201 | 2,290,073 |
| **Total liabilities and net assets** | **$ 4,400,035** | **$ 4,463,726** |

The accompanying notes are an integral part of this statement.

GTC

**COFECC**
**Statement of Activities and Changes in Net Assets**
**For the Years Ended June 30, 2020 and 2019**

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| **SUPPORT AND REVENUES:** | **Without donor restrictions** | **With donor restrictions** | **Total** | **Without donor restrictions** | **With donor restrictions** | **Total** |
| **Support:** | | | | | | |
| Federal grants | $ - | $ 677,453 | $ 677,453 | $ - | $ 177,356 | $ 177,356 |
| **Total support** | - | 677,453 | 677,453 | - | 177,356 | 177,356 |
| **Program income:** | | | | | | |
| Interest | 18 | 156,485 | 156,503 | 68 | 155,810 | 155,878 |
| Servicing fees | 343,137 | 18,720 | 361,857 | 336,586 | 16,122 | 352,708 |
| Contributions | 3,013 | 46,889 | 49,902 | 70,827 | 81,839 | 152,666 |
| Other income | 7,207 | 23,134 | 30,341 | 27,871 | 27,080 | 54,951 |
| **Total program income** | **353,375** | **245,228** | **598,603** | **435,352** | **280,851** | **716,203** |
| **Net assets released from restrictions** | **657,871** | **(657,871)** | **-** | **486,022** | **(486,022)** | **-** |
| **TOTAL SUPPORT AND REVENUES** | **1,011,246** | **264,810** | **1,276,056** | **921,374** | **(27,815)** | **893,559** |
| **EXPENSES:** | | | | | | |
| Program services | 657,871 | - | 657,871 | 486,022 | - | 486,022 |
| Support services | 318,057 | - | 318,057 | 417,288 | - | 417,288 |
| **TOTAL EXPENSES** | **975,928** | **-** | **975,928** | **903,310** | **-** | **903,310** |
| **CHANGE IN NET ASSETS** | **35,318** | **264,810** | **300,128** | **18,064** | **(27,815)** | **(9,751)** |
| **Net assets at beginning of year** | **959,201** | **1,330,872** | **2,290,073** | **941,137** | **1,358,687** | **2,299,824** |
| **Net assets at end of year** | **$ 994,519** | **$ 1,595,682** | **$ 2,590,201** | **$ 959,201** | **$ 1,330,872** | **$ 2,290,073** |

The accompanying notes are an integral part of this statement.

GTC

**COFECC**
**Statement of Cash Flows**
**For the Years Ended June 30, 2020 and 2019**

| | 2020 | 2019 |
|---|---|---|
| **Cash flow from operating activities:** | | |
| Changes in net assets | $ 300,128 | $ (9,751) |
| Adjustments to reconcile changes in net assets to net cash used in operating activities: | | |
| Depreciation expense | 857 | 9,154 |
| Provision for bad debts | 260,977 | 47,009 |
| Loan write-offs | (15,570) | (85,256) |
| Direct loan origination costs | (15,812) | (10,509) |
| Decrease (increase) in assets: | | |
| Grants receivable | (64,479) | (9,703) |
| Commissions receivable | (8,408) | 15,288 |
| Other receivable | (5,133) | 4,770 |
| Other assets | (379) | (91) |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | 64,153 | (64,023) |
| Unearned revenue | (212,462) | 172,506 |
| **Net cash provided by operating activities** | **303,872** | **69,394** |
| **Cash flow from investing activities:** | | |
| Net (repayment) proceeds of loans receivable | (309,986) | 118,663 |
| **Net cash (used) provided by investing activities** | **(309,986)** | **118,663** |
| **Cash flow from financing activities:** | | |
| Net (repayment) proceeds from long-term debt | (215,509) | 60,335 |
| **Net cash (used) provided by financing activities** | **(215,509)** | **60,335** |
| **Net (decrease) increase in cash** | **(221,623)** | **248,392** |
| **Cash at beginning of year** | **2,343,170** | **2,094,778** |
| **Cash at end of year** | **$ 2,121,547** | **$ 2,343,170** |

**ADDITIONAL DISCLOSURES:**

| | | |
|---|---|---|
| **Interest paid** | **$ 11,868** | **$ 12,819** |

The accompanying notes are an integral part of this statement.

GTC

**COFECC**
**Statement of Functional Expenses**
**For The Years Ended June 30, 2020 And 2019**

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| **Functional Expense Description** | **Program Services** | **Support Services** | **Total** | **Program Services** | **Support Services** | **Total** |
| Salaries | $ 180,909 | $ 126,684 | $ 307,593 | $ 186,403 | $ 127,688 | $ 314,091 |
| Payroll taxes and fringe benefits | 66,298 | 45,622 | 111,920 | 56,349 | 39,910 | 96,259 |
| Uncollectible loans | 260,977 | - | 260,977 | 122,711 | - | 122,711 |
| Occupancy, utilities and maintenance | 40,860 | 27,699 | 68,559 | 38,340 | 26,170 | 64,510 |
| Professional fees and contractual services | 48,700 | 12,855 | 61,555 | 26,461 | 23,977 | 50,438 |
| Interest | 11,852 | 16 | 11,868 | 12,819 | - | 12,819 |
| Equipment leases, repairs and maintenance | 13,177 | 9,587 | 22,764 | 12,231 | 8,781 | 21,012 |
| Travel | 8,970 | 9,474 | 18,444 | 8,632 | 11,222 | 19,854 |
| Insurance | 9,125 | 6,182 | 15,307 | 8,301 | 5,639 | 13,940 |
| Telephone, internet access and postage | 5,278 | 3,850 | 9,128 | 4,033 | 2,779 | 6,812 |
| Meeting expenses | 2,402 | 11,869 | 14,271 | 2,908 | 10,850 | 13,758 |
| Supplies | 4,055 | 9,014 | 13,069 | 1,852 | 10,582 | 12,434 |
| Bank charges | 1,714 | 2,708 | 4,422 | 1,672 | 3,400 | 5,072 |
| Stipends to microborrowers | - | - | - | - | 50,000 | 50,000 |
| Depreciation and amortization | - | 857 | 857 | - | 9,154 | 9,154 |
| Grant and loan matching | - | 46,889 | 46,889 | - | 81,839 | 81,839 |
| Others | 3,554 | 4,751 | 8,305 | 3,310 | 5,297 | 8,607 |
| **Total expenses** | **$ 657,871** | **$ 318,057** | **$ 975,928** | **$ 486,022** | **$ 417,288** | **$ 903,310** |

The accompanying notes are an integral part of this statement.

## NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

### The Organization

"Corporación para el Financiamiento Empresarial del Comercio y las Comunidades" (COFECC, by its Spanish acronym) ("the Organization") was incorporated under the laws of the Commonwealth of Puerto Rico in 1982. The Organization is a Certified Community Development Financial Institution (CDFI) under the U.S. Department of the Treasury; a Microlender under the U.S. Small Business Administration (SBA), a successful grantee under the program Rural Business Enterprise Grants from the U.S. Department of Agriculture; and a Certified Development Company (CDC) under Small Business Administration 504 Program. The Organization also is a recipient of funds granted by the U.S. Department of Health and Human Services (DHHS) to create a Women Entrepreneur Financial Empowerment Center.

The Organization provides loans from $500 to $5,500,000 to small businesses in Puerto Rico and the U.S. Virgin Islands, and is authorized to offer the SBA Microloan in Puerto Rico, the U.S. Virgin Islands, and certain areas in the state of Florida. In addition, the Organization, as a DHHS grantee, launched a program directed to low-income women known as "*Foreversuccessful*". The Organization has been engaged in offering business loans and business technical assistance services to Puerto Rico and U.S. Virgin Islands low income population and investment areas, using its existing programs and resources, under the certifications and authorities mentioned above.

The Organization's mission is to promote, facilitate and execute economic development, community revitalization, long-term job creation and retention, self-employment, business and credit education, and entrepreneurship through the establishment or expansion of micro, small, and medium-sized enterprises. Through a partnership with the National Association of Development Companies (NADCO) and SBA, in 2013, the Organization launched the Vet Loan Advantage initiative, being the only institution in Puerto Rico and the U.S. Virgin Islands that has joined NADCO and SBA in providing veterans with reduced fees in its SBA 504 and Microloan Programs.

The Organization manages funds and programs under contracts with the U.S. Small Business Administration, Rural Development Agency, U.S. Department of the Treasury, and the Department of Health and Human Services, as well as funds granted by the Puerto Rico Community Foundation. Program general description and objectives are as follows:

> **Microloan Program** – The Microloan Program is a program under the SBA, in which the Organization acts as an intermediary. The objective of the Microloan Program is to assist women, low-income, and minority entrepreneurs, business owners, and other individuals possessing the capability to operate successful business concerns and to assist small business concerns in those areas suffering from a lack of credit due to economic downturns.

**Community Development Financial Institutions (CDFI) -** The purpose of the CDFI Program is to use Federal resources to invest in, and build the capacity of, CDFIs to help them serve low-income people and communities that lack access to affordable financial products and services.

**Rural Business Enterprise Grants (RBEG) –** The objective of the RBEG Program is to facilitate the development of small and emerging private businesses, industry, and related employment for improving the economy in rural communities. Funds may be used to create, expand or operate rural distance learning networks or programs that provide educational or job training instruction related to potential employment or job advancement to adult students.

**Intermediary Relending Program (IRP) –** The objective of the IRP Program is to alleviate poverty and increase economic activity and employment in rural communities. Under the program, loans are provided to local organizations (intermediaries) for the establishment of revolving loan funds. These revolving loan funds are used to assist with financing business and economic development activity to create or retain jobs in disadvantaged and remote communities. Intermediaries are encouraged to work in association with State and Regional strategies, and in partnership with other public and private organizations that can provide complementary resources.

**Community Service Block Grant Discretionary Award –** The main objective is to support program activities to alleviate the causes of poverty in distressed communities, which assist businesses in creating jobs for low-income individuals i.e., develop employment and business development opportunities for low-income individuals.

**Puerto Rico Community Foundation/Doral Fund –** The Puerto Rico Community Foundation Doral Fund was started to support community economic development, convinced of the leadership potential and entrepreneurship capacity on individuals to increase community capital. The fund was established in fiscal year 2015, and includes resources donated by Doral Bank through the Foundation. These resources are used for the provision of small business loans to women entrepreneurs to establish or enhance their business ventures.

**Community Advantage -** A new pilot loan program introduced by the U.S. Small Business Administration (SBA) to meet the credit, management, and technical assistance needs of small businesses in undeserved markets. Community Advantage provides mission-based lenders access to 7(a) loan guaranties as high as 85% for loans up to $250,000.

## Summary of Significant Accounting Policies

**Basis of Accounting –** Basis of accounting refers to the point at which revenues and expenditures are recognized in the accounts and reported in the statement of activities. It is related to the timing of the measurements made, regardless of the measurement focus applied.

The accrual basis of accounting is followed by net assets without donor restrictions. Under this basis revenues are recorded when earned, independently of when they are collected and expenses are recorded when incurred, independently of when they are paid.

**Basis of Presentation –** Financial statement presentation follows the requirements of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC 958-210), Financial Statements of Not-for-Profit Organizations. For the fiscal years ended June 30, 2020 and 2019, the entity implemented the Accounting Standard Update 2016-14 (ASU No. 2016-14) amendments to the Presentation of Financial Statements of Not-for-Profit Entities which required to report information regarding its financial position and activities for two classes of net assets, as follows:

> **Net Assets With Donor Restrictions** – The part of net assets of the entity that is subject to donor-imposed restrictions. A donor stipulation that specifies a use for a contributed assets that is more specific than broad limits resulting from the nature of the entity, the environment in which operates and the purposes specified in its articles of incorporation or bylaws. Some donors impose restrictions that are temporary in nature, for example, stipulating resources be used after specified date, for particular programs or services, or to acquire buildings or equipment. Other donors impose restrictions that are perpetual in nature, for example, stipulating that resources be maintained in perpetuity.
>
> **Net Assets Without Donor Restrictions –** Net assets that are not subject to donor-imposed restrictions. Revenues from sources other than contributions and grants are reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions.

**Use of Estimates –** The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Fair Value Measurement -** Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

The fair value hierarchy is broken down into three levels based on the reliability of inputs as follows:

**Level 1 –** These valuations are based on a "market approach" using quoted prices in active markets for identical assets. Valuations of these products do not require a significant degree of judgment. Assets utilizing Level 1 inputs include bank deposits.

**Level 2 –** These valuations are based primarily on a "market approach" using quoted prices in markets that are not very active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Currently, the Organization has no assets or liabilities that are valued with Level 2 inputs.

**Level 3 –** These valuations are based on various approaches using inputs that are unobservable and significant to the overall fair value measurement. Certain assets are classified within Level 3 of the fair value hierarchy because they trade infrequently and, therefore, have little or no transparency. Currently, the Organization has no assets or liabilities that are valued with Level 3 inputs.

**Cash and Cash Equivalents –** For purposes of the financial statements, the Organization considers all cash and highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

**Loans Receivable –** The loans granted to small businesses are documented following the practices used in the administration of financial institutions and federal agencies requirements, which are recognized as good practices and in protection of the public interest. The loans receivable are recognized upon disbursement of the loan and the transaction is supported with a loan contract and upon compliance with the requirements established for the granting of loans, subject to the policies and/or regulations approved by the Board of Directors, federal agencies or the corresponding directing bodies.

Independently of the guarantees and collaterals offered, the Organization would not grant a loan to any person, without confirming and documenting the existence of reliable sources for the repayment of the loan in the terms agreed.

**Allowance for Uncollectible Accounts –** The Organization recognizes loan losses resulting from its lending activities when, in the judgment of the Board of Directors and Management, there is a negative financial condition of the borrower that makes the recovery of the loan unlikely and/or the execution of collateral, if any, is imminent and it is not sufficient to recover the principal amount of the loan. The allowance for loan losses is subject to significant change in the near term as results of unforeseen circumstances**.**

As of June 30, 2020 and 2019, commercial loans were evaluated individually for impairment. The methodology used contemplated the full loan amount outstanding as of the period being evaluated.

GTC

The allowance for uncollectible loans is increased through charges to the operations and reduced by loans written-off (net of recoveries). The evaluation of the sufficiency of the allowance is based on an evaluation of loans in arrears, known and inherent risks; adverse conditions that could affect the borrowers' ability to repay the loans, the estimated value of the collaterals and the actual conditions of the economy.

**Loan Origination Direct Costs –** The Organization has adopted the Accounting Standards Codification (ASC) 310-20, Non-Refundable Fees and Other Costs. This standard establishes that direct loan origination costs will be deferred and amortized and the revenues produced from the lending activity fees, will be recognized over the life of the loan.

**Property, Equipment and Depreciation –** Property and equipment are stated at cost less accumulated depreciation. Major renewals and betterments are charged to property accounts. Replacements, maintenance and repairs, which do not improve or extend the life of the respective assets are expensed currently. Upon retirement or disposal of properties, the related cost and accumulated depreciation and amortization are removed from their respective accounts in the ledger. All gains and losses on sales as well as retirement of properties are reflected in the Organization activities.

Depreciation is computed using the straight-line method over the estimated useful lives of office equipment, computers and leasehold improvements.

Property and equipment are reviewed for impairments at least annually or whenever events or circumstances indicate their carrying value may not be recoverable. If the total of the expected future undiscounted cash flows is less than the carrying value of the asset, a loss is recognized for the difference between the imputed fair value and the carrying value of the asset. There were no impairments charged during the years ended June 30, 2020 and 2019.

**Unearned Revenues –** The Organization reports unearned revenue on its balance sheet, when potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period (unavailable revenue). Unearned revenue also arises when the Organization receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Organization has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

**Revenue Recognition –** The Organization recognizes revenue to the extent that it is probable that the economic benefits will flow to the Organization and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms. If there are restrictions imposed to the contribution received, the revenue is classified as either a change in net assets with donor restriction or net assets without donor restriction.

Interest revenue from loans is billed on a monthly basis and is recognized following the accrual basis of accounting using the declining balance method. No interest is accrued on loans receivable for which there is a doubt as to ultimate collection, specifically for loans on default over 90 days.

**Federal Grants and Contracts –** The Organization receives its grants and contracts support and revenues primarily from the U.S. Small Business Administration, U.S. Department of Agriculture, U.S. Department of Health and Human Services, and other federal agencies.

Grants and contracts are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

All grants and contracts are considered to be available for unrestricted use unless specifically restricted by the grantor. Amounts received that are designated for future periods or restricted by the grantor for specific purposes are reported as net assets with donor restrictions support that increases this net asset class. When a temporary restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

**Functional Allocation of Expenses –** The costs of providing program and supporting services have been summarized on a functional basis in the statement of functional expenses. Expenses are charged directly to the respective categories based on specific identification, and certain indirect expenses have been allocated based on level of effort, as determined by management's judgment.

**Income Taxes –** The Organization is a nonprofit organization exempt from federal and state income tax under Section 501 (c)(3) of the Internal Revenue Code and Section 1101(8) of the Puerto Rico Tax Code.

**Reclassifications –** Certain amounts in the 2019 financial statements have been reclassified for comparative purposes to conform to the presentation in financial statements as of June 30, 2020.

## NOTE 2 – LIQUIDITY AND AVAILABILITY

The following reflects COFECC's financial assets as of the balance sheet date, reduced by amounts not available for general use because of donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts set aside for loans disbursements to small businesses. As part of COFECC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

| | 2020 | 2019 |
|---|---|---|
| Cash | $ 2,121,547 | $ 2,343,170 |
| Receivables | 2,257,806 | 2,099,395 |
| Financial assets, at year end | 4,379,353 | 4,442,565 |
| Net assets with donor restrictions | (1,595,682) | (1,330,872) |
| **Financial assets available to meet cash needs for general expenditures within one year** | **$ 2,783,671** | **$ 3,111,693** |

## NOTE 3 – CASH

The Small Business Administration (SBA) has a lien upon the balance of ten (10) bank accounts and the loans receivable portfolio presented on the Microloan Fund to secure the repayment of the notes payable owed to the SBA, which lien shall be paramount to any lien or claim of the bank with respect to such amounts. The Microloan revolving loan fund accounts are restricted for withdrawals other than transfers to the loan loss reserve accounts, loan disbursements, and amortization of notes payable. The loan loss reserve accounts shall maintain a minimum balance of 15% of the total outstanding principal balance on all notes receivable current within 120 days, made under the Microloan Program. As of June 30, 2020 and 2019, the Microloan revolving loan funds totaled $222,650 and $401,067; respectively, and the loan loss reserve accounts totaled $160,600 and $130,586; respectively.

Rural Development has a lien upon the balance of the revolving fund and loans receivable portfolio presented on the IRP Fund to secure the repayment of the notes payable owed to Rural Development. As of June 30, 2020 and 2019, the balance on the revolving loan fund amounted to $348,664 and $334,441; respectively.

In compliance with Community Advantage requirements, COFECC maintains a loan loss reserve account with a minimum balance of 5% of the total uninsured outstanding principal balance on all loans receivable made under the Community Advantage Program. As of June 30, 2020 and 2019, the loan loss reserve accounts totaled $3,523 and $1,538; respectively.

### Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts at high credit quality financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC). The balances exceed the federal insurance limit, which is $250,000 per financial institution. As of June 30, 2020 and 2019 the Organization exceed the insured limit by $1,702,670 and $1,877,776; respectively.

GTC

## NOTE 4 – LOANS RECEIVABLE

Loans receivable by program as of June 30, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Microloan Program | $ 672,759 | $ 672,573 |
| Rural Business Enterprise Grants | 78,057 | 81,792 |
| Community Development Financial Institution Fund | 237,548 | 326,554 |
| Intermediary Relending Program | 740,129 | 767,743 |
| Community Advantage | 463,979 | - |
| Community Service Block Grant | 62,948 | 96,772 |
| Puerto Rico Community Foundation | 15,156 | 15,156 |
| **Total loans** | **2,270,576** | **1,960,590** |
| **Allowance for loan losses** | (338,542) | (93,135) |
| **Direct loan origination costs** | 114,501 | 98,689 |
| **Total loans receivable, net of allowance** | **$ 2,046,535** | **$ 1,966,144** |

### Allowance for loan losses

The allowance for loan losses for the years ended June 30, 2020 and 2019 was as follows:

| | 2020 | 2019 |
|---|---|---|
| **Allowance for loan losses:** | | |
| Beginning balance | $ 93,135 | $ 131,382 |
| Provision for bad debts | 260,977 | 47,009 |
| Loan write - offs | (15,570) | (85,256) |
| **Total allowance for loan losses ending balance** | **$ 338,542** | **$ 93,135** |

**Installment notes receivable**

Microloan Program Fund

As of June 30, 2020 and 2019 there were 45 and 40 loans outstanding totaling $672,759 and $672,573, respectively; due mostly from small businesses suffering from a lack of credit due to economic downturn. These loans are personally guaranteed by the borrowers and mortgages on real estate and/or chattel mortgages over machinery and equipment. The Small Business Administration (SBA) has a lien upon the balance of the Microloan Program portfolio as a guarantee of the repayment of the notes payable owed to SBA.

Rural Business Enterprise Grant Fund

As of June 30, 2020 and 2019 there was 1 loan outstanding, for $78,057 and $81,792, respectively. Collateral for this loan consists of a first mortgage on real estate.

Intermediary Relending Program Fund

As of June 30, 2020 and 2019 there were 12 loans outstanding totaling $740,129 and $767,743, respectively. Collateral for these loans consists principally of either first or second mortgages on real estate and personal property. Rural Development has a lien upon the balance of the portfolio derived from the proceeds of the notes payable owed to Rural Development.

Community Development Financial Institution Fund

As of June 30, 2020 and 2019 there were 6 and 8 loans outstanding totaling $237,548 and $326,554, respectively. Collateral for these loans consists principally of either first or second mortgages on real estate and personal property.

Community Service Block Grant Discretionary Award

As of June 30, 2020 and 2019 there were 9 and 17 loans outstanding totaling $62,948 and $96,771; respectively. Collateral for these loans consists principally of liens on personal property.

Puerto Rico Community Foundation (Doral Fund)

As of June 30, 2020 and 2019 there were 5 loans outstanding totaling $15,156 and $15,156; respectively.

SBA Community Advantage

As of June 30, 2020 there were 4 loans outstanding totaling $463,979.

**Commercial Credit Quality Indicators**

The Organization manages a consistent process for assessing commercial loan credit quality. Commercial loans are subject to individual risk assessment using borrower payment history, communication, and delivery time quality ratings. The Organization uses the following risk rating definitions to assess risk within the portfolio:

> **Superior –** Payments are current; zero late payments since inception; excellent client communication; and client delivers all requested documents within zero to seven (7) days.
>
> **Special mention –** Payments are current; one (1) to two (2) late payments since inception; satisfactory client communication; and client delivers all requested documents within eight (8) to fifteen (15) days.
>
> **Troubled debt –** Borrower pays as agreed pursuant to an Organization catch up plan; poor client communication; and client delivers all requested documents within fifteen (15) to thirty (30) days.
>
> **Doubtful -** Payments are in default; loan has been charged off; no communication with the client; and client delivers all requested documents within thirty (30) days or more.

The following table presents outstanding commercial loans by risk category and for each type fund:

*This space was left in blank intentionally.*

**As of June 30, 2020**

| | Superior | Special mention | Troubled debt | Doubtful | Total |
|---|---|---|---|---|---|
| **Fund:** | | | | | |
| Microloan Program | $ 548,052 | $ 74,037 | $ 33,510 | $ 17,160 | $ 672,759 |
| Rural Business Enterprise Grants | 78,057 | - | - | - | 78,057 |
| Community Development Financial Institution | 166,596 | - | - | 70,952 | 237,548 |
| Intermediary Relending Program | 636,280 | 103,849 | - | - | 740,129 |
| Community Advantage Program | 463,979 | - | - | - | 463,979 |
| Community Service Block Grant and PRCF | 60,617 | 17,487 | - | - | 78,104 |
| **Total commercial portfolio** | **$ 1,953,581** | **$ 195,373** | **$ 33,510** | **$ 88,112** | **$ 2,270,576** |

**As of June 30, 2019**

| | Superior | Special mention | Troubled debt | Doubtful | Total |
|---|---|---|---|---|---|
| **Fund:** | | | | | |
| Microloan Program | $ 272,736 | $ 381,278 | $ 18,560 | $ - | $ 672,574 |
| Rural Business Enterprise Grants | - | 81,792 | - | - | 81,792 |
| Community Development Financial Institution | 156,877 | 49,909 | 48,816 | 70,952 | 326,554 |
| Intermediary Relending Program | 147,309 | 620,434 | - | - | 767,743 |
| Community Service Block Grant and PRCF | 29,917 | 50,344 | 18,483 | 13,183 | 111,927 |
| **Total commercial portfolio** | **$ 606,839** | **$ 1,183,757** | **$ 85,859** | **$ 84,135** | **$ 1,960,590** |

The Organization monitors past-due status for the purpose of managing credit risk for the portfolio outstanding. The following table provides past-due information for each type of fund:

| | As of June 30, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Past-due Status | | | | | |
| **Fund:** | **Current or 0-30** | **31-60** | **61-90** | **91-120** | **120+& Accumulated** | **Total** |
| Microloan Program | $ 671,955 | $ 270 | $ 268 | $ 266 | $ - | $ 672,759 |
| Rural Business Enterprise Grants | 78,057 | - | - | - | - | 78,057 |
| Community Development Financial Institution | 213,180 | 4,292 | 871 | 865 | 18,340 | 237,548 |
| Intermediary Relending Program | 740,129 | - | - | - | - | 740,129 |
| Community Advantage Program | 463,979 | - | - | - | - | 463,979 |
| Community Service Block Grant | 70,594 | 595 | 592 | 441 | 5,882 | 78,104 |
| **Total portfolio** | **$ 2,237,894** | **$ 5,157** | **$ 1,731** | **$ 1,572** | **$ 24,222** | **$ 2,270,576** |

| | As of June 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Past-due Status | | | | | |
| **Fund:** | **Current or 0-30** | **31-60** | **61-90** | **91-120** | **120+& Accumulated** | **Total** |
| Microloan Program | $ 672,343 | $ 63 | $ 63 | $ 104 | $ - | $ 672,573 |
| Rural Business Enterprise Grants | 81,792 | - | - | - | - | 81,792 |
| Community Development Financial Institution | 308,524 | 1,288 | 1,288 | 1,288 | 14,166 | 326,554 |
| Intermediary Relending Program | 767,743 | - | - | - | - | 767,743 |
| Community Service Block Grant | 107,226 | 602 | 147 | 147 | 3,806 | 111,928 |
| **Total portfolio** | **$ 1,937,628** | **$ 1,953** | **$ 1,498** | **$ 1,539** | **$ 17,972** | **$ 1,960,590** |

GTC

**Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") Related to the SBA Microloan and Community Advantage Programs**

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (the CARES Act) was enacted to provide emergency and immediate national economic relief and assistance across the American economy, including to small businesses, workers, families, and the health-care system, to alleviate the severe economic hardships and public health threat created by the 2019 Novel Coronavirus pandemic. Under section 1112 of the CARES Act, SBA will provide debt relief to borrowers in the 7(a), 504, and Microloan Programs.

In accordance with section 1112(c), SBA will pay the principal, interest, and any associated fees that borrowers owe on a "covered loan" in a "regular servicing status" to SBA Microloan Program Intermediary Lenders (Intermediaries) and Community Advantage Lenders, for a 6-month period.

## NOTE 5 - GRANTS AND CONTRACTS RECEIVABLE

Grants receivable as of June 30, 2020 and 2019 consist of:

| | 2020 | 2019 |
|---|---|---|
| U.S. Small Business Administration Microloan Program | $ 59,929 | $ 56,730 |
| U.S. Department of Agriculture Rural Business Development Grants | 61,280 | - |
| **Total** | **$ 121,209** | **$ 56,730** |

*This space was left in blank intentionally.*

## NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2020 and 2019 consists of the following:

| | 2020 | 2019 |
|---|---|---|
| **Depreciable assets:** | | |
| Office equipment | $ 2,776 | $ 2,776 |
| Computers and software | 42,878 | 42,878 |
| Leasehold improvements | 49,632 | 49,632 |
| **Total depreciable assets** | **95,286** | **95,286** |
| Accumulated depreciation | (93,429) | (92,572) |
| **Total depreciable assets, net** | **$ 1,857** | **$ 2,714** |
| **Total depreciation expense** | **$ 857** | **$ 9,154** |

## NOTE 7 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued expenses as of June 30, 2020 and 2019 consist of the following:

| | 2020 | 2019 |
|---|---|---|
| Accounts payable to suppliers | $ 124,325 | $ 66,763 |
| Accrued expenses | 81,612 | 75,021 |
| **Total accounts payable and accrued liabilities** | **$ 205,937** | **$ 141,784** |

## NOTE 8 – LONG TERM DEBT

Long-term debt as of June 30, 2020 consists of loans payable to U.S. Small Business Administration (SBA) and to U.S. Department of Agriculture Rural Development. Loans payable to SBA are secured by funds held in the Microloan Revolving Funds and Loan Loss Reserve Funds, and by all microloan notes made as a result of funding received under the Microloan Program. Loans payable to Rural Development are secured by its IRP Revolving Fund and by notes receivable derived from the proceeds of these loans. The amount of interest cost incurred and charged to expense for years ended June 30, 2020 and 2019 amounted to $11,868 and $12,819; respectively.

**Long-term debt with Small Business Administration**

| | |
|---|---|
| Loan payable to U.S. Small Business Administration, in monthly installments of $3,124.81 including interest at 0.00% due on March 2023, collateralized by funds held in the Microloan Revolving Fund and Loan Loss Reserve Fund, and all microloan notes receivable. | $ 103,119 |
| Loan payable to U.S. Small Business Administration, in monthly installments of $5,660.49 including interest at 0.375% due on September 2024, collateralized by funds held in the Microloan Revolving Fund and Loan Loss Reserve Fund, and all microloan notes receivable. | 269,120 |
| Loan payable to U.S. Small Business Administration, in monthly installments of $2,604.17 including interest at 0.000% due on October 2026, collateralized by funds held in the Microloan Revolving Fund and Loan Loss Reserve Fund, and all microloan notes receivable. | 197,917 |
| **Total long-term debt** | **570,156** |
| **Current portion** | **134,372** |
| **Long-term portion** | **$ 435,784** |

*This space was left in blank intentionally.*

**Long-term debt with Department of Agriculture Rural Development**

| | | |
|---|---|---|
| Loan payable to USDA Rural Development with an original principal amount of $165,000, payable in annual installments of $7,005 including interest at 1.0% due on May 2042, collateralized by its IRP Revolving Fund, and all notes receivable derived from the proceeds of this loan. Principal and interest is payable in 27 equal annual installments beginning on May 2016, including interest accrued during the first three years of the loan disbursement. | $ | 137,681 |
| Loan payable to USDA Rural Development due on December 2043, with an original principal amount of $750,000, a loan bears interest at 1.0%, and is collateralized by its IRP Revolving Fund and all notes receivable derived from the proceeds of this loan. Principal and interest is payable in 27 annual installments of $31,838 beginning on December 2017, including interest accrued during the first three years after loan disbursement. | | 675,290 |
| Loan payable to USDA Rural Development due on February 15, 2048, with a principal sum of $486,861 of which $196,886 had been received as of June 30, 2020 including interest at 1.0%, collateralized by its IRP Revolving Fund, and all notes receivable derived from the proceeds of this loan. Principal and interest will be paid in 27 equal annual installments, including interest accrued during the first three years after loan disbursement. | | 196,886 |
| **Total long-term debt** | | **1,009,857** |
| **Current portion** | | **25,206** |
| **Long-term portion** | **$** | **984,651** |

*This space was left in blank intentionally.*

The total long-term debt owed to U.S. Small Business Administration and USDA Rural Development as of June 30, 2020 is summarized as follows:

| | SBA | Rural | Total |
|---|---|---|---|
| **Principal payments:** | | | |
| 2021 | $ 134,372 | $ 25,206 | $ 159,578 |
| 2022 | 134,615 | 43,294 | 177,909 |
| 2023 | 125,486 | 43,351 | 168,837 |
| 2024 | 97,607 | 43,409 | 141,016 |
| 2025 and thereafter | 78,076 | 854,597 | 932,673 |
| **Total long-term debt** | **$ 570,156** | **$ 1,009,857** | **$ 1,580,013** |

## NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2020 and 2019, net assets with donor restrictions are restricted for the following purposes:

| | 2020 | 2019 |
|---|---|---|
| **Subject to expenditure for lending activity:** | | |
| Microloan | $ 282,372 | $ 296,907 |
| RBEG | (110,992) | (111,119) |
| CDFI | 1,321,924 | 954,547 |
| IRP | (10,608) | 35,217 |
| DHHS | 97,830 | 140,164 |
| PRCF | 15,156 | 15,156 |
| **Total net assets with donor restrictions** | **$ 1,595,682** | **$ 1,330,872** |

As of June 30, 2020 and 2019, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time or occurrence of other events specified by donors.

| | 2020 | 2019 |
|---|---|---|
| **Purpose restrictions accomplished:** | | |
| Microloan expenses | $ 344,383 | $ 305,147 |
| RBEG expenses | 4,980 | 12,214 |
| RBDG expenses | 39,896 | - |
| CDFI expenses | 133,120 | 63,905 |
| IRP expenses | 97,376 | 47,848 |
| DHHS expenses | 38,116 | 56,139 |
| PRCF expenses | - | 769 |
| **Total restrictions released** | **$ 657,871** | **$ 486,022** |

## NOTE 10 CONTINGENCIES AND COMMITMENTS

### Contingencies

Programs supported by federal and state grants are subject to additional audits by the grantor agencies in order to determine if expenditures comply with the terms and conditions of such grants. The Organization is subject to operational audits by the U.S. Small Business Administration, the U.S. Department of Agriculture-Rural Development, the U.S. Department of the Treasury and the U.S. Department of Health and Human Services. It is Management's opinion that no material unrecorded liabilities will arise from audits previously performed or to be performed. The Organization maintains several claims against third parties, principally related to debt collections. Collection efforts have not been referred by the Organization's counsel to the attention of Management, which would require accrual in the current year. Any losses related to these claims will affect net assets in the years that they occur.

### Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") Related to the SBA Microloan and Community Advantage Programs

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (the CARES Act) was enacted to provide emergency and immediate national economic relief and assistance across the American economy, including to small businesses, workers, families, and the health-care system, to alleviate the severe economic hardships and public health threat created by the 2019 Novel Coronavirus pandemic. Under section 1112 of the CARES Act, SBA will provide debt relief to borrowers in the 7(a), 504, and Microloan Programs.

In accordance with section 1112(c), SBA will pay the principal, interest, and any associated fees that borrowers owe on a "covered loan" in a "regular servicing status" to SBA Microloan Program Intermediary Lenders (Intermediaries) and Community Advantage Lenders, for a 6-month period.

There is uncertainty regarding the repayment of the Microloans after the 6-month period. The balance of the Microloan at June 30, 2020 is $672,759. Management has established additional provision of the allowance for loan losses related to this contingency.

## NOTE 11– OFF-BALANCE SHEET TRANSACTIONS

The Organization is a Certified Development Company (CDC) by the U.S. Small Business Administration (SBA) to act as an intermediary for the SBA 504 Loan Program. The SBA 504 Program is intended to provide financing to eligible small businesses to acquire real estate or capital equipment primarily used by those businesses, and designed to mitigate private sector risk by providing junior financing behind a conventional commercial loan.

After approval of a loan application by the SBA, the Organization closes the loan and issues a debenture equal to the approved loan amount. Upon issuance of the debenture, the Organization simultaneously assigns the note to the SBA who in turn packages debentures to sell in the public marketplace. The Organization is released from liability on the loan, except in the case of fraud, gross negligence or the withholding of payments by the Organization, upon assignment of the note and guarantee of the debenture by SBA.

As of June 30, 2020 and 2019, COFECC managed an off-balance sheet loan portfolio under the SBA 504 Program of 205 loans with an original principal amount of $62,115,000 and $58,973,000 and total principal balances of $43,487,336 and $42,695,508 respectively.

The SBA 504 program-related revenues for the years ended June 30, 2020 and 2019 were as follows:

| **504 - Related Revenues:** | **2020** | **2019** |
|---|---|---|
| Processing fees (total debentures funded $4,959,000 and $2,605,000 in 2020 and 2019, respectively) | $ 82,433 | $ 79,341 |
| Servicing fees | 248,961 | 251,749 |
| Late fees | 1,293 | 1,400 |
| Escrow float interest | 11,744 | 5,497 |
| Other 504-related income (credit investigation fees) | 5,915 | 6,720 |
| **Total SBA 504 - related revenues** | **$ 350,346** | **$ 344,707** |

## NOTE 12– SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 9, 2020, the date on which the financial statements were available to be issued. Management has determined that there are no events occurring in the current period that required disclosure in, or adjustment to the accompanying financial statements.

**COFECC**
**Schedule of Expenditures of Federal Awards**
**For the Years Ended June 30, 2020 and 2019**

| Federal Grantor | Program Title | CFDA Number | Grant/Award Number | Federal Expenditures 2020 | Federal Expenditures 2019 |
|---|---|---|---|---|---|
| U.S. Small Business Administration | Microloan Demonstration Program | 59.046 | SBAHQ-19-Y-0114 | $ 484,226 | $ 550,191 |
| U.S. Department of Agriculture | Rural Business Enterprise Grants | 10.769 | N/A | 4,980 | 12,214 |
| U.S. Department of Agriculture | Rural Business Development Grants | 10.351 | N/A | 39,896 | - |
| U.S. Department of Agriculture | Intermediary Relending Program | 10.767 | N/A | 75,817 | 224,158 |
| U.S. Department of Health and Human Services | Community Service Block Grant Discretionary Award | 93.570 | 90EE1014 | 15,915 | 53,898 |
| U.S. Department of the Treasury | Community Development Financial Institution Fund | 21.020 | 092FA008380 | 91,094 | 38,905 |
| U.S. Department of the Treasury | Community Development Financial Institution Fund | 21.020 | 181FA022925 | 450,000 | - |
| **Total expenditures of federal awards** | | | | **$ 1,161,928** | **$ 879,366** |

The accompanying notes are an integral part of the schedule of expenditures of federal awards.

## NOTE 1 - GENERAL

The accompanying schedule of expenditures of federal awards presents the expenditures for the years ended June 30, 2020 and 2019, of all the federally-assisted programs of the Organization.

## NOTE 2 – ACCOUNTING BASIS

The schedule was prepared following the accrual basis of accounting, which is further explained in Note 1 to the financial statements of the Organization.

## NOTE 3 – MAJOR PROGRAMS

The OMB Compliance Supplement requires the auditor to use a risk-based approach to determine major programs. The OMB also provides an exemption to this approach on the first year of implementation of the circular and when there is a change in auditors. The auditors went through the required procedures of the risk-based approach to select the Organization's major programs for the year ended June 30, 2020.

## NOTE 4 - FEDERAL LOANS PAYABLE

At June 30, 2020, federal loans payable are those included in Note 8.

## NOTE 5 - FUNDS TO SUBRECIPIENTS

The Organization did not disburse funds to subrecipients for the years ended June 30, 2020 and 2019.

## NOTE 6 - DE MINIMIS INDIRECT COST RATE

The Organization did not elect to use the 10% de minimis indirect cost rate.

## NOTE 7 – DETERMINATION OF FEDERAL AWARDS EXPENDED

The basis used to determine the amount to be reported as program expenditures includes the following:

- Expenditure/expense transactions associated with the grants and awards.
- The value of new loans issued during the fiscal year ended June 30, 2020.

New loans issued are included as program expenditures because the Federal Government is at risk for loans until the debt is repaid. A reconciliation between expenditures as per the statement of activities and expenditures as per the schedule is as follows:

## NOTE 7 – DETERMINATION OF FEDERAL AWARDS EXPENDED (CONTINUED)

**Determination of federal award expenditures:**

| | Microloan | RBEG | RBDG | IRP | CDFI | DHHS | Total 2020 | Total 2019 |
|---|---|---|---|---|---|---|---|---|
| Expenditures | $ 344,383 | $ 4,980 | $ 39,896 | $ 97,376 | $ 133,120 | $ 38,116 | $ 657,871 | $ 485,254 |
| Less: Uncollectible loans expense | (119,840) | - | - | (59,210) | (59,726) | (22,201) | (260,977) | (121,941) |
| Loan disbursements | 259,683 | - | - | 37,651 | 467,700 | - | 765,034 | 516,053 |
| **Total federal awards expenditures** | **$ 484,226** | **$ 4,980** | **$ 39,896** | **$ 75,817** | **$ 541,094** | **$ 15,915** | **$ 1,161,928** | **$ 879,366** |

**Reconciliation to the Statement of Activities for 2020 and 2019**

| | Microloan | RBEG | RBDG | IRP | CDFI | DHHS | Totals 2020 | Totals 2019 |
|---|---|---|---|---|---|---|---|---|
| Net assets without donor restrictions | | | | | | | | |
| Interest expenses | $ 1,529 | $ - | $ - | $ 10,323 | $ - | $ - | $ 11,852 | $ 12,819 |
| Other expenses | 342,854 | 4,980 | 39,896 | 87,053 | 133,120 | 38,116 | 646,019 | 472,434 |
| Total non-federal awards expenses | - | - | - | - | - | - | - | 769 |
| **Total expenditures per SA** | **$ 344,383** | **$ 4,980** | **$ 39,896** | **$ 97,376** | **$ 133,120** | **$ 38,116** | **$ 657,871** | **$ 486,022** |

The accompanying notes are an integral part of this statement.

González Torres & Co., CPA, PSC

1250 Ponce de León Ave. ♦ Suite 801 ♦ San Juan, PR 00907-3912
tels. 787.993.4360 ♦ 787.993.4364
info@gtcpapr.com ♦ www.gtcpapr.com

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

To the Board of Directors
COFECC
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 "Corporación para el Financiamiento Empresarial del Comercio y de las Comunidades" (COFECC, a non-profit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets; functional expenses; and cash flows for the year then ended, the related notes to the financial statements, and have issued our report thereon dated October 9, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered COFECC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of COFECC's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether COFECC'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 determination of financial statement amounts. 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Juan, Puerto Rico
October 9, 2020

The stamp number 2774647 was affixed to the original of this report.

CPA GONZALEZ TORRES & CO. CSP
CONTADORES PÚBLICOS AUTORIZADOS
Lic. 96
PUERTO RICO

GONZÁLEZ TORRES & CO., CPA, PSC
License 96
Expires December 31, 2023

González Torres & Co.,CPA,PSC

1250 Ponce de León Ave. ♦ Suite 801 ♦ San Juan, PR 00907-3912
tels. 787.993.4360 ♦ 787.993.4364
info@gtcpapr.com ♦ www.gtcpapr.com

# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
COFECC
San Juan, Puerto Rico

**Report on Compliance for Each Major Federal Program**

We have audited "Corporación para el Financiamiento Empresarial del Comercio y de las Comunidades" (COFECC, a nonprofit organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of COFECC's major federal programs for the year ended June 30, 2020. COFECC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of COFECC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about COFECC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of COFECC's compliance.

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)

### Opinion on Each Major Federal Program

In our opinion, COFECC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

### Report on Internal Control over Compliance

Management of COFECC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered COFECC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of COFECC's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)**

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

San Juan, Puerto Rico
October 9, 2020

The stamp number 2774648 was affixed to the original of this report.

CPA GONZALEZ TORRES & CO. CSP
CONTADORES PÚBLICOS AUTORIZADOS
Lic. 96
PUERTO RICO

González Torres & Co., CPA, PSC

GONZÁLEZ TORRES & CO., CPA, PSC
License 96
Expires December 31, 2023

GTC

## Section I. Summary of Auditor's Results:

### Part I Financial Statements

1. Type of audit report:

   ☑ Unmodified opinion ☐ Qualified opinion

   ☐ Adverse opinion ☐ Disclaimer of opinion

2. Reportable conditions reported

   ☐ Yes ☑ No

3. Reportable condition reported as a major weakness and/or significant deficiency:

   ☐ Yes ☑ No

4. Material noncompliance disclosed:

   ☐ Yes ☑ No

### Part II Federal Awards

1. Type of report on compliance for major programs:

   ☑ Unmodified opinion ☐ Qualified opinion

   ☐ Adverse opinion ☐ Disclaimer of opinion

2. Reportable condition reported as a major weakness and/or significant deficiency:

   ☐ Yes ☑ No

3. Material noncompliance disclosed:

   ☐ Yes ☑ No

**Section I. Summary of Auditor's Results (continued):**

**Part II Federal Awards (continued):**

4. Audit findings required to be reported under the Uniform Guidance:

☐ Yes ☑ No

5. Major Programs:

| CFDA Number (s) | Federal Program Grantor and Program Name |
|---|---|
| 59.046 | U.S. Small Business Administration – Microloan Demonstration Program |
| 21.020 | U.S. Department of the Treasury – Community Development Financial Institution Fund |

6. Dollar threshold used to distinguish Type A and Type B programs: $750,000

7. Low-risk auditee

☑ Yes ☐ No

**Section II – Financial Statements Findings**

**NONE.**

**Section III – Federal Award Findings and Questioned Costs**

**NONE.**

**COFECC**
**Schedule of Prior Year Audit Findings and Questioned Costs**
**June 30, 2020**

---

**NONE**