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

AUDITED FINANCIAL STATEMENTS AND SINGLE AUDIT REPORT

FISCAL YEARS ENDED JUNE 30, 2021 AND 2020

COFECC

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FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

GTC

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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, 2021 and 2020 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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, 2021 and 2020 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 January 18, 2022 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
January 18, 2022

The stamp number 2779120 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

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License 96
Expires December 31, 2023

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COFECC
Statement of Financial Position
June 30, 2021 and 2020

	2021	2020
ASSETS		
Current assets:		
Cash	$ 2,397,258	$ 2,121,547
Loans receivable, net of allowance for losses of $253,659 and $338,542 in 2021 and 2020, respectively	2,022,076	2,046,535
Grants receivable	121,220	121,209
Commissions receivable	43,970	72,215
Accrued interest receivable	12,662	17,847
Other current assets	22,391	18,825
Total current assets	4,619,577	4,398,178
Property and equipment, net of accumulated depreciation	1,000	1,857
Total assets	**$ 4,620,577**	**$ 4,400,035**
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 211,079	$ 205,937
Unearned revenue	2,500	23,884
Current portion of long - term debt	228,053	159,578
Total current liabilities	441,632	389,399
Non - current portion of long - term debt	1,435,501	1,420,435
Total liabilities	1,877,133	1,809,834
Net assets:		
Without donor restrictions	1,039,131	994,519
With donor restrictions	1,704,313	1,595,682
Total net assets	2,743,444	2,590,201
Total liabilities and net assets	**$ 4,620,577**	**$ 4,400,035**

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, 2021 and 2020

	2021			2020		
SUPPORT AND REVENUES:	**Without donor restrictions**	**With donor restrictions**	**Total**	**Without donor restrictions**	**With donor restrictions**	**Total**
Support:						
Federal grants	$ -	$ 192,990	$ 192,990	$ -	$ 677,453	$ 677,453
Total support	-	192,990	192,990	-	677,453	677,453
Program income:						
Interest	105	169,830	169,935	18	156,485	156,503
Servicing fees	289,385	14,939	304,324	343,137	18,720	361,857
Contributions	5	110,419	110,424	3,013	46,889	49,902
Other income	71,200	26,019	97,219	7,207	23,134	30,341
Total program income	**360,695**	**321,207**	**681,902**	**353,375**	**245,228**	**598,603**
Net assets released from restrictions	**405,566**	**(405,566)**	**-**	**657,871**	**(657,871)**	**-**
TOTAL SUPPORT AND REVENUES	**766,261**	**108,631**	**874,892**	**1,011,246**	**264,810**	**1,276,056**
EXPENSES:						
Program services	405,566	-	405,566	657,871	-	657,871
Support services	316,083	-	316,083	318,057	-	318,057
TOTAL EXPENSES	**721,649**	**-**	**721,649**	**975,928**	**-**	**975,928**
CHANGE IN NET ASSETS	**44,612**	**108,631**	**153,243**	**35,318**	**264,810**	**300,128**
Net assets at beginning of year	**994,519**	**1,595,682**	**2,590,201**	**959,201**	**1,330,872**	**2,290,073**
Net assets at end of year	**$ 1,039,131**	**$ 1,704,313**	**$ 2,743,444**	**$ 994,519**	**$ 1,595,682**	**$ 2,590,201**

The accompanying notes are an integral part of this statement.

GTC

COFECC
Statement of Cash Flows
For the Years Ended June 30, 2021 and 2020

	2021	2020
Cash flow from operating activities:		
Changes in net assets	$ 153,243	$ 300,128
Adjustments to reconcile changes in net assets		
to net cash used in operating activities:		
Depreciation expense	857	857
Provision for bad debts	19,058	260,977
Loan write-offs	(103,941)	(15,570)
Direct loan origination costs	(3,027)	(15,812)
Decrease (increase) in assets:		
Grants receivable	(12)	(64,479)
Commissions receivable	28,246	(8,408)
Other receivable	5,185	(5,133)
Other assets	(3,566)	(379)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	5,142	64,153
Unearned revenue	(21,384)	(212,462)
Net cash provided by operating activities	**79,801**	**303,872**
Cash flow from investing activities:		
Net (repayment) proceeds of loans receivable	112,369	(309,986)
Net cash (used) provided by investing activities	**112,369**	**(309,986)**
Cash flow from financing activities:		
Net (repayment) proceeds from long-term debt	83,541	(215,509)
Net cash (used) provided by financing activities	**83,541**	**(215,509)**
Net (decrease) increase in cash	**275,711**	**(221,623)**
Cash at beginning of year	**2,121,547**	**2,343,170**
Cash at end of year	**$ 2,397,258**	**$ 2,121,547**
ADDITIONAL DISCLOSURES:		
Interest paid	**$ 6,330**	**$ 11,868**

The accompanying notes are an integral part of this statement.

COFECC
Statement of Functional Expenses
For The Years Ended June 30, 2021 And 2020

	2021			2020		
Functional Expense Description	**Program Services**	**Support Services**	**Total**	**Program Services**	**Support Services**	**Total**
Salaries	$ 181,679	$ 130,438	$ 312,117	$ 180,909	$ 126,684	$ 307,593
Payroll taxes and fringe benefits	76,731	55,111	131,842	66,298	45,622	111,920
Uncollectible loans	19,058	-	19,058	260,977	-	260,977
Occupancy, utilities and maintenance	40,115	27,580	67,695	40,860	27,699	68,559
Professional fees and contractual services	36,179	19,663	55,842	48,700	12,855	61,555
Interest	6,330	-	6,330	11,852	16	11,868
Equipment leases, repairs and maintenance	9,521	8,197	17,718	13,177	9,587	22,764
Travel	7,233	5,149	12,382	8,970	9,474	18,444
Insurance	9,246	6,619	15,865	9,125	6,182	15,307
Telephone, internet access and postage	7,472	5,263	12,735	5,278	3,850	9,128
Meeting expenses	3,456	5,901	9,357	2,402	11,869	14,271
Supplies	3,865	10,717	14,582	4,055	9,014	13,069
Bank charges	2,235	2,251	4,486	1,714	2,708	4,422
Depreciation and amortization	-	857	857	-	857	857
Grant and loan matching	-	35,419	35,419	-	46,889	46,889
Others	2,446	2,918	5,364	3,554	4,751	8,305
Total expenses	**$ 405,566**	**$ 316,083**	**$ 721,649**	**$ 657,871**	**$ 318,057**	**$ 975,928**

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 (RBEG) 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. This program is not active. Loan repayments are used to cover administrative expenses and for the provision of technical assistance to borrowers.

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.This program is not active. Loan repayments are used to cover administrative expenses and for the provision of technical assistance to borrowers.

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, 2021 and 2020, 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.

GTC

As of June 30, 2021 and 2020, commercial loans were evaluated individually for impairment. The methodology used contemplated the full loan amount outstanding as of the period being evaluated.

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, 2021 and 2020.

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, 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 2020 financial statements have been reclassified for comparative purposes to conform to the presentation in financial statements as of June 30, 2021.

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.

	2021	2020
Cash	$ 2,397,258	$ 2,121,547
Receivables	2,199,928	2,257,806
Financial assets, at year end	4,597,186	4,379,353
Net assets with donor restrictions	(1,704,313)	(1,595,682)
Financial assets available to meet cash needs for general expenditures within one year	**$ 2,892,873**	**$ 2,783,671**

NOTE 3 – CASH

The Small Business Administration (SBA) has a lien upon the balance of twelve (12) 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, 2021 and 2020, the Microloan revolving loan funds totaled $498,321 and $222,650; respectively, and the loan loss reserve accounts totaled $202,764 and $160,600; 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, 2021 and 2020, the balance on the revolving loan fund amounted to $488,254 and $348,664; 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, 2021 and 2020, the loan loss reserve accounts totaled $5,900 and $3,523; 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, 2021 and 2020, the Organization exceed the insured limit by $1,982,794 and $1,702,670; respectively.

NOTE 4 – LOANS RECEIVABLE

Loans receivable by program as of June 30, 2021 and 2020 are as follows:

	2021	2020
Microloan Program	$ 579,950	$ 672,759
Rural Business Enterprise Grants	104,257	78,057
Community Development Financial Institution Fund	134,140	237,548
Intermediary Relending Program	571,757	740,129
Community Advantage	727,853	463,979
Community Service Block Grant	25,094	62,948
Puerto Rico Community Foundation	15,156	15,156
Total loans	**2,158,207**	**2,270,576**
Allowance for loan losses	(253,659)	(338,542)
Direct loan origination costs	117,528	114,501
Total loans receivable, net of allowance	**$ 2,022,076**	**$ 2,046,535**

Allowance for loan losses

The allowance for loan losses for the years ended June 30, 2021 and 2020 are as follows:

	2021	2020
Allowance for loan losses:		
Beginning balance	$ 338,542	$ 93,135
Provision for bad debts	19,058	260,977
Loan write - offs	(103,941)	(15,570)
Total allowance for loan losses ending balance	**$ 253,659**	**$ 338,542**

Installment notes receivable

Microloan Program Fund

As of June 30, 2021 and 2020, there were 41 and 45 loans outstanding totaling $579,950 and $672,759, 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, 2021 and 2020, there were 2 and 1 loan outstanding totaling $104,257 and $78,057, respectively. Collateral for this loan consists of a first mortgage on real estate.

Intermediary Relending Program Fund

As of June 30, 2021 and 2020, there were 10 loans outstanding totaling $571,757 and $740,129, 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, 2021 and 2020, there were 4 and 6 loans outstanding totaling $134,140 and $237,548, 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, 2021 and 2020, there were 6 and 9 loans outstanding totaling $25,094 and $62,948; respectively. Collateral for these loans consists principally of liens on personal property.

Puerto Rico Community Foundation (Doral Fund)

As of June 30, 2021 and 2020, there were 1 loans outstanding totaling $15,156 and $15,156; respectively.

SBA Community Advantage

As of June 30, 2021 there were 4 loans outstanding totaling $727,853.

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 (0) 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:

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	As of June 30, 2021				
	Superior	**Special mention**	**Troubled debt**	**Doubtful**	**Total**
Fund:					
Microloan Program	$ 347,750	$ 99,401	$ 132,799	$ -	$ 579,950
Rural Business Enterprise Grants	72,679	31,578	-	-	104,257
Community Development Financial Institution	134,140	-	-	-	134,140
Intermediary Relending Program	517,599	54,158	-	-	571,757
Community Advantage Program	551,689	140,164	36,000	-	727,853
Community Service Block Grant and PRCF	29,598	10,652	-	-	40,250
Total commercial portfolio	**$ 1,653,455**	**$ 335,953**	**$ 168,799**	**$ -**	**$ 2,158,207**

	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**

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, 2021					
	Past-due Status					
Fund:	Current or 0-30	31-60	61-90	91-120	120+& Accumulated	Total
Microloan Program	$ 579,950	$ -	$ -	$ -	$ -	$ 579,950
Rural Business Enterprise Grants	104,257	-	-	-	-	104,257
Community Development Financial Institution	134,140	-	-	-	-	134,140
Intermediary Relending Program	571,757	-	-	-	-	571,757
Community Advantage Program	727,853	-	-	-	-	727,853
Community Service Block Grant	40,250	-	-	-	-	40,250
Total portfolio	**$ 2,158,207**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 2,158,207**

	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**

NOTE 5 - GRANTS AND CONTRACTS RECEIVABLE

Grants receivable as of June 30, 2021 and 2020, consist of:

	2021	2020
U.S. Small Business Administration Microloan Program	$ 99,836	$ 59,929
U.S. Department of Agriculture Rural Business Development Grants	21,384	61,280
Total	**$ 121,220**	**$ 121,209**

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2021 and 2020, consists of the following:

	2021	2020
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	(94,286)	(93,429)
Total depreciable assets, net	**$ 1,000**	**$ 1,857**
Total depreciation expense	**$ 857**	**$ 857**

NOTE 7 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued expenses as of June 30, 2021 and 2020, consist of the following:

	2021	2020
Accounts payable to suppliers	$ 126,733	$ 124,325
Accrued expenses	84,346	81,612
Total accounts payable and accrued liabilities	**$ 211,079**	**$ 205,937**

NOTE 8 – LONG TERM DEBT

Long-term debt as of June 30, 2021, 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, 2021 and 2020 amounted to $6,330 and $11,868; 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.	$ 65,622
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.	202,203
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.	166,666

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Loan payable to U.S. Small Business Administration, in monthly installments of \$4,629.63 including interest at 0.375% due on August 25, 2030. collateralized by funds held in the Microloan Revolving Fund and Loan Loss Reserve Fund, and all microloan notes receivable.	250,000
Total long-term debt	**684,491**
Current portion	**184,759**
Long-term portion	**\$ 499,732**

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.	\$ 132,053
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.	650,123
Loan payable to USDA Rural Development due on February 15, 2048, with a principal sum of \$486,861 of which \$196,887 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.	196,887
Total long-term debt	**979,063**
Current portion	**43,294**
Long-term portion	**\$ 935,769**

The total long-term debt owed to U.S. Small Business Administration and USDA Rural Development as of June 30, 2021 is summarized as follows:

	SBA	Rural	Total
Principal payments:			
2022	$ 184,759	$ 43,294	$ 228,053
2023	180,385	43,351	223,736
2024	152,712	43,409	196,121
2025	98,279	43,467	141,746
2026 and thereafter	68,356	805,542	873,898
Total long-term debt	**$ 684,491**	**$ 979,063**	**$ 1,663,554**

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2021 and 2020, net assets with donor restrictions are restricted for the following purposes:

	2021	2020
Subject to expenditure for lending activity:		
Microloan	$ 413,445	$ 282,372
RBEG	(116,660)	(110,992)
CDFI	1,307,277	1,321,924
IRP	555	(10,608)
DHHS	84,540	97,830
PRCF	15,156	15,156
Total net assets with donor restrictions	**$ 1,704,313**	**$ 1,595,682**

As of June 30, 2021 and 2020, 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.

	2021	2020
Purpose restrictions accomplished:		
Microloan expenses	$ 225,715	$ 344,383
RBEG expenses	4,325	4,980
RBDG expenses	34,650	39,896
CDFI expenses	86,371	133,120
IRP expenses	37,487	97,376
DHHS expenses	17,018	38,116
Total restrictions released	**$ 405,566**	**$ 657,871**

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 Adjusted Debt Relief Benefit.

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 provided debt relief to borrowers in the 7(a), 504, and Microloan Programs.

In accordance with section 1112(c), SBA will paid 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.

On February 16, 2021, SBA issued Procedural Notice 5000-20095 detailing reduced debt relief benefits to 7(a), 504, and Microloan Programs due to insufficiency of funds. Congress appropriated $3.5 billion to carry out extended CARES Act Section 1112 payment subsidies under Section 325 of the Economic Aid to Hard Hit Small Businesses, Nonprofits, and Venues Act ("Economic Aid Act") enacted December 27, 2020. SBA has determined that the $3.5 billion is insufficient to make all payments for the periods originally authorized. Consequently, as authorized by the law, SBA has developed a plan to proportionally reduce the number of months of payment subsidies provided for each category of loans ("Adjustment Plan"). The Adjustment Plan is effective immediately.

A. Newly Eligible First Round Loans – For 7(a) and 504 loans approved on or before September 27, 2020 and fully disbursed on or after September 28, 2020, SBA will make Section 1112 payments for a 3-month period (instead of a 6-month period). If the loan was approved and fully disbursed on or before September 27, 2020, SBA will continue to make the Section 112 payments for a 6-month period as authorized under the original CARES Act.

B. Second Round Section 1112 Payments for 504 and 7(a) loans (except loans made under the Community Advantage Pilot Program) approved before March 27, 2020 – SBA will make Section 1112 payments for a 2-month period (instead of a 3-month period). The monthly payment remains capped at $9,000. This 2-month period of Section 1112 payments may cover amounts that are past due at the time that SBA makes the February Section 1112 payment, subject to the monthly payment limit of $9,000. For borrowers in hard-hit NAICS Codes beginning with 61, 71, 72, 213, 315, 448, 451, 481, 485, 487, 511, 512, 515, 532, or 812 (according to the records of SBA), SBA will make the Section 1112 payments for an additional 3-month period (instead of an additional 5-month period) subject to the monthly payment limit of $9,000

C. Second Round Section 1112 Payments for Community Advantage Loans and Microloans approved before March 27, 2020 – SBA will make Section 1112 payments for a 5-month period (instead of an 8-month period). For Community Advantage loans, for the February Section 1112 payments, SBA will make a maximum of 2 months which may be applied to past due amounts (not to exceed 120 days). If additional funds are needed to cover past due amounts, the remaining 3 months of payments in March may be applied to cover additional past due amounts. All payments made are subject to the monthly payment limit of $9,000.

D. New Loans Approved Beginning on February 1, 2021 and Ending on September 30, 2021 –
For a new 7(a) loan, 504 loan, or Microloan approved during the period beginning on February 1, 2021 and ending on September 30, 2021, SBA will make the Section 1112 payments for a 3- month period instead of a 6-month period, subject to the availability of funds.

E. No Second Round 1112 Payments for Loans Approved Between March 27, 2020 and September 27, 2020 – A loan that was approved during the period beginning on March 27, 2020 and ending on September 27, 2020 is eligible for the first round of Section 1112 payments either for a 6-month period if the loan was fully disbursed on or before September 27, 2020 or for a 3-month period if the loan was fully disbursed after September 27, 2020. Under the Adjustment Plan, no other Section 1112 payments will be made for these loans.

There is uncertainty regarding the repayment of the Microloans after terms established by SBA. The balance of the Microloan at June 30, 2021 is $579,950 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, 2021 and 2020, COFECC managed an off-balance sheet loan portfolio under the SBA 504 Program of 213 loans with an original principal amount of $66,962,000 and $62,115,000 and total principal balances of $44,873,715 and $43,487,336 respectively.

The SBA 504 program-related revenues for the years ended June 30, 2021 and 2020 were as follows:

504 - Related Revenues:	**2021**	**2020**
Processing fees (total debentures funded $5,485,000 and $4,959,000 in 2021 and 2020, respectively)	$ 30,394	$ 82,433
Servicing fees	258,850	248,961
Late fees	800	1,293
Escrow float interest	141	11,744
Other 504-related income (credit investigation fees)	9,800	5,915
Total SBA 504 - related revenues	**$ 299,985**	**$ 350,346**

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NOTE 12– SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 18, 2022, the date on which the financial statements were available to be issued. On March 26, 2020 the Puerto Rico Department of Housing (PRDOH) issued a notice of Funding Availability CDBG-DR-NOFA-2020-02 (NOFA) for the Workforce Training Program under the Community Development Block Grant for Disaster Recovery Program (CDBG-DR Program). The NOFA sought to select qualified applicants to administer training programs that support the development of a labor force to meet the needs of hurricane reconstruction and to build the skill capacity to push Puerto Rico into the economy of the future.

"Corporación Para el Financiamiento Empresarial Del Comercio y las Comunicdades" approved agreement in July 28, 2021, by and between the Puerto Rico Department of Housing for $565,475. With this new award of funds it is expected that COFECC can create approximately 200 jobs in five (5) years. This is a workforce development project focused on training unemployed people to accommodate them in positions available in restaurants and businesses related to the food industry in the San Juan metro area.

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COFECC
Schedule of Expenditures of Federal Awards
For the Years Ended June 30, 2021 and 2020

Federal Grantor	Program Title	CFDA Number	Grant/Award Number	Federal Expenditures 2021	2020
U.S. Small Business Administration	Microloan Demonstration Program	59.046	SBAHQ-19-Y-0114	$ 563,048	$ 484,226
U.S. Department of Agriculture	Rural Business Enterprise Grants	10.769	N/A	39,325	4,980
U.S. Department of Agriculture	Rural Business Development Grants	10.351	N/A	34,650	39,896
U.S. Department of Agriculture	Intermediary Relending Program	10.767	N/A	28,086	75,817
U.S. Department of Health and Human Services	Community Service Block Grant Discretionary Award	93.570	90EE1014	16,898	15,915
U.S. Department of the Treasury	Community Development Financial Institution Fund	21.020	092FA008380	396,050	91,094
U.S. Department of the Treasury	Community Development Financial Institution Fund	21.020	181FA022925	-	450,000
Total expenditures of federal awards				**$ 1,078,057**	**$ 1,161,928**

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, 2021 and 2020, 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, 2021.

NOTE 4 - FEDERAL LOANS PAYABLE

At June 30, 2021, 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, 2021 and 2020.

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, 2021.

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:

							Total	
	Microloan	**RBEG**	**RBDG**	**IRP**	**CDFI**	**DHHS**	**2021**	**2020**
Expenditures	$ 225,715	$ 4,325	$ 34,650	$ 37,487	$ 86,371	$ 17,018	$ 405,566	$ 657,871
Less: Uncollectible loans expense	(2,216)	-	-	(9,401)	(7,321)	(120)	(19,058)	(260,977)
Loan disbursements	339,549	35,000	-	-	317,000	-	691,549	765,034
Total federal awards expenditures	**$ 563,048**	**$ 39,325**	**$ 34,650**	**$ 28,086**	**$ 396,050**	**$ 16,898**	**$ 1,078,057**	**$ 1,161,928**

Reconciliation to the Statement of Activities for 2021 and 2020

							Totals	
	Microloan	**RBEG**	**RBDG**	**IRP**	**CDFI**	**DHHS**	**2021**	**2020**
Net assets without donor restrictions								
Interest expenses	$ 1,010	$ -	$ -	$ 5,321	$ -	$ -	$ 6,331	$ 11,852
Other expenses	224,705	4,325	34,650	32,166	86,371	17,018	399,235	646,019
Total non-federal awards expenses	-	-	-	-	-	-	-	-
Total expenditures per SA	**$ 225,715**	**$ 4,325**	**$ 34,650**	**$ 37,487**	**$ 86,371**	**$ 17,018**	**$ 405,566**	**$ 657,871**

The accompanying notes are an integral part of this statement.

GTC

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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, 2021, 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 January 18, 2022.

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
January 18, 2022

The stamp number 2779121 was affixed to the original of this report.

CPA GONZÁLEZ TORRES & CO. CSP
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GONZÁLEZ TORRES & CO., CPA, PSC
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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, 2021. 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, 2021.

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
January 18, 2022

The stamp number 2779122 was affixed to the original of this report.

GONZÁLEZ TORRES & CO., CPA, PSC
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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

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, 2021

NONE