

Puerto Rico Department of Economic
Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Basic Financial Statements for the Year Ended

June 30, 2020

Independent Auditor's Report

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INDEPENDENT AUDITORS' REPORT

The Secretary of the Department of
Economic Development and Commerce of
The Commonwealth of Puerto Rico

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinion on these financial statements based on our audit. We did not audit the financial statements of the following funds: The Special Fund for Economic Development (SFED), the Special Incentives Fund (SIE), and the Rums of Puerto Rico Fund (ROPR). These funds collectively represent 78% and 64% of total assets and revenues, respectively of the governmental activities. Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as it relates to the amounts included for those funds, are based solely on the reports of those auditors. We conducted our audits 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and business-type activities, each major fund, and the aggregate remaining fund information of the Puerto Rico Department of Economic Development and Commerce, as of June 30, 2020, and the respective changes in financial position, and, where applicable, its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Reporting Entity

As described in Note 1, the Department combined three separate funds: the Special Incentives Fund, the Special Fund of Economic Development, and the Rums of Puerto Rico Fund to its operations. This change in reporting entity represents a decrease in fund balance of approximately \$5,638,000 and a increase in net position of \$74,043,000.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The combining and individual fund financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of the other auditors, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Galíndez LLC

San Juan, Puerto Rico
August 8, 2022
License No. LLC-322
Expires December 1, 2023

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited)

For the year ended June 30, 2020

This management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of the Department of Economic Development and Commerce (the "Department") for the fiscal year ended June 30, 2020. The MD&A is intended to serve as an introduction to the Department's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements. The MD&A is designed to (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the Department's financial activities, and (c) highlight individual fund matters. The following presentation is by necessity highly summarized, and to gain an understanding of the Department's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

Financial Highlights

- The assets and deferred outflows of resources of the Department exceeded its assets and deferred inflows of resources by approximately \$57.8 million. From this amount, \$57.5 million represents the restricted net position. The General Funds' operations are mainly related to the operations of the Rums of Puerto Rico fund and the Special Fund for Economic Development.
- Governmental activity revenues exceeded its expenses for the fiscal year 2020 by \$3.5 million. Business-type activity expenses exceeded its revenues by \$5.4 million. Net change in net position amounts to (\$1.9) million for the year ended on June 30, 2020.
- The fund balances of the Department's governmental funds increased by \$77.6 million in the fiscal year 2020, mostly due to the inclusion of three governmental funds: the Special Fund for Economic Development, the Special Incentives Fund, and the Rums of Puerto Rico Fund, which accounted for approximately \$74 million.
- For the fiscal year 2020, the General Fund reported an excess of revenues over expenditures amounting to \$6.7 million. General fund balance reported an increase of \$81.1 million or 832% when compared to fiscal year 2019.
- During the fiscal year ended on June 30, 2020, the Department invested \$39.6 thousand in governmental activities and zero in business type activities, net of depreciation.
- Current and long-term debt of governmental activities such as total pension liability and accrued compensated absences increased by approximately \$2.6 million or 9%, and \$886 thousand or 33.4%, respectively, when compared to year 2019.

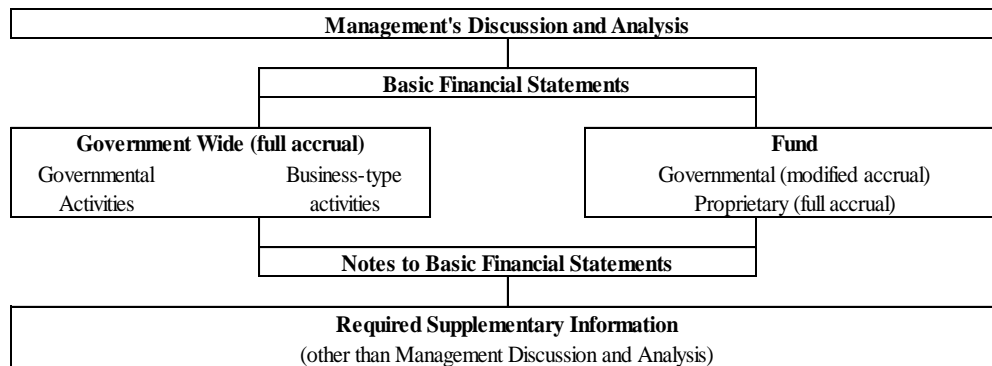
Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited) (Continued)

For the year ended June 30, 2020

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. This report includes the independent auditor's report, management's discussion and analysis, the basic financial statements, the notes that explain in more detail the information contained in the financial statements, and the required supplementary information.



Government Wide Highlights

The statement of net position and the statement of activities report information about the Department as a whole and about its activities. These statements include all assets, deferred outflows of resources, liabilities and deferred inflow of resources using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account, regardless of when cash was received or paid.

These two statements report the Department's net position and changes in it. One can think of the Department's net position - the difference between assets and deferred outflows of resources, and liabilities - as one way to measure the Department's financial health, or financial position. Over time, increases or decreases in net position is one indicator of whether its financial health is improving or deteriorating. One may need to consider other non-financial factors, such as changes in the Department's operating nature, the receipt of federal assignments, the ability to collect the administrative fees charged to the operating components for administration activities, development of the film industry activities, new laws and regulations, as well as the overall financial health of the Commonwealth of Puerto Rico (the Commonwealth), which is the Department's primary government.

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited) (Continued)

For the year ended June 30, 2020

Government Wide Highlights – (continued)

In the statement of net position and the statement of activities, operations of the Department are divided into two kinds of activities:

- *Governmental Activities* - Most of the Department's basic services are reported here, such as Workforce Innovation Opportunity Act (WIOA) programs operations financed through federal grants, Film Industry Development activities, Rums of Puerto Rico (ROPR), Special Fund for Economic Development (SFED) and Special Incentive Funds (SIF) which are finance through state funds.
- *Business-type Activities* - The Department charges fees to its operational units, which are component units of the Commonwealth, for administrative functions.

Fund Highlights

Financial statements prepared at the fund level provide additional details about the Department's financial position and activities. Funds are accounting entities with a self-balancing set of accounts created for the purpose of carrying on specific activities or achieving specific goals. Information presented in the governmental fund financial statements differs from the information presented in the government wide statements because the perspective and basis of accounting used to prepare the governmental fund financial statements are different than the perspective and basis of accounting used to prepare the government-wide statements. The Department's governmental and proprietary fund types use different perspectives and accounting bases. The funds presented in the fund financial statements are categorized as major funds as required by accounting principles generally accepted in the United States of America (GAAP).

The Department uses two fund types for operations - governmental and proprietary.

Governmental Funds

Most of the Department's basic services and expenditures are reported in governmental funds, which focus on how money flows into and out of those funds and the balances remaining at year-end that are available for spending. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. Assets and liabilities that do not impact current financial resources, such as capital assets and long-term liabilities, are not recognized in the governmental funds' statements. The governmental funds statements provide a detailed short-term view of the Department's WIOA and other smaller programs financed with federal financial assistance programs. Furthermore, it presents other programs such as

Puerto Rico Department of Economic Development and Commerce
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Management's Discussion and Analysis (Unaudited) (Continued)

For the year ended June 30, 2020

Fund Highlights – (continued)

Governmental Funds – (continued)

Rums of Puerto Rico and other activities which are finance through state funds. Governmental funds information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Department's programs. The reconciliations between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds are presented following the fund financial statements.

Proprietary Funds

These funds are utilized when the Department charges its operating components for providing administration services. The operational components are legally component units of the Commonwealth. Proprietary funds report on business-type activities, which include one internal service fund. The Department's internal service fund is the same as the business-type activities reported in the government-wide statements. Proprietary Funds statements are prepared using the economic resources measurement focus and the accrual basis of accounting. In addition to a balance sheet and a statement of revenues, expenses and changes in net position, proprietary funds are also required to report a statement of cash flows.

Notes to the Financial Statements

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

Required Supplementary Information

The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund, the schedule of Department's proportionate share of net pension liability, and Schedule of the Department Proportionate Share of the Collective Net OPEB Liability.

Financial Analysis

The following is an analysis of the financial position and changes in the financial position of the Department's activities for fiscal year 2020.

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited) (Continued)

For the year ended June 30, 2020

Net Position

Condensed financial information from the statement of net position as of June 30, 2020 and 2019, as restated, is as follows (expressed in thousands):

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------------|-------------------------|--------------------|--------------------------|-----------------|------------------|--------------------|
| | (As restated) | | (As restated) | | (As restated) | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Assets | | | | | | |
| Current and other assets | \$ 210,594 | \$ 38,990 | \$ 14,160 | \$ 6,702 | \$ 224,754 | \$ 45,692 |
| Capital assets | 343 | 416 | 21 | 16 | 364 | 432 |
| Total Assets | <u>210,937</u> | <u>39,406</u> | <u>14,181</u> | <u>6,718</u> | <u>225,118</u> | <u>46,124</u> |
| Deferred Outflows | <u>2,916</u> | <u>2,845</u> | <u>-</u> | <u>-</u> | <u>2,916</u> | <u>2,845</u> |
| Liabilities | | | | | | |
| Current and other liabilities | 122,961 | 58,337 | 14,593 | 1,928 | 137,554 | 60,265 |
| Long term liabilities | 31,113 | 1,898 | 240 | 30 | 31,353 | 1,928 |
| Total liabilities | <u>154,074</u> | <u>60,235</u> | <u>14,833</u> | <u>1,958</u> | <u>168,907</u> | <u>62,193</u> |
| Deferred Inflows | <u>1,950</u> | <u>1,776</u> | <u>-</u> | <u>-</u> | <u>1,950</u> | <u>1,776</u> |
| Net position (deficit): | | | | | | |
| Net investment in capital assets | 343 | 416 | 21 | 16 | 364 | 432 |
| Restricted | 57,532 | - | - | - | 57,532 | - |
| Unrestricted | <u>(46)</u> | <u>(20,176)</u> | <u>(673)</u> | <u>4,744</u> | <u>(719)</u> | <u>(15,432)</u> |
| Total Net Position | <u>\$ 57,829</u> | <u>\$ (19,760)</u> | <u>\$ (652)</u> | <u>\$ 4,760</u> | <u>\$ 57,177</u> | <u>\$ (15,000)</u> |

As of June 30, 2020, the Department's liabilities and deferred inflows of resources are less than its assets and deferred outflows of resources by \$57.1 million, from this amount \$719 thousand represents unrestricted net deficit and \$57.5 million are restricted for specific purposes from Special Funds for Economic Development and Rums of Puerto Rico.

The Department's net deficit includes \$364 thousand in net investment in capital assets, of which \$343 thousand pertains to the governmental activities and \$21 thousand on business type activities. Capital assets are mostly vehicles and equipment used in the operations of the Department.

The restricted net position represents resources that are subject to external restrictions on how they may be used.

Puerto Rico Department of Economic Development and Commerce
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Management's Discussion and Analysis (Unaudited) (Continued)

For the year ended June 30, 2020

Change in Net Position

Condensed financial information from the statement of activities as of June 30, 2020 and 2019, as restated, is as follows (expressed in thousands):

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|-----------------------|--------------------------|-----------------------|----------------|-----------------------|
| | 2020 | (As restated) 2019 | 2020 | (As restated) 2019 | 2020 | (As Restated) 2019 |
| Program revenues: | | | | | | |
| Operating grants and contributions | \$ 445,850 | \$ 167,599 | \$ - | \$ - | \$ 445,850 | \$ 167,599 |
| Other Revenues | 8,626 | - | 2,482 | 8,632 | 11,108 | 8,632 |
| Charges for services - fees, commissions, and others | - | - | 15,667 | - | 15,667 | - |
| Film industry development activities and other state programs | - | 38 | - | - | - | 38 |
| Total program revenues | 454,476 | 167,637 | 18,149 | 8,632 | 472,625 | 176,269 |
| Expenses | | | | | | |
| General government and other | 382,090 | 19,912 | - | - | 382,090 | 19,912 |
| Special revenue funds | 67,599 | 72,566 | - | - | 67,599 | 72,566 |
| Film industry development activities and other state programs | 502 | 841 | - | - | 502 | 841 |
| Tax incentives | 9 | - | - | - | 9 | - |
| Green Energy Incentives | 730 | 5,614 | - | - | 730 | 5,614 |
| Pension and related | - | - | 23,561 | 8,907 | 23,561 | 8,907 |
| Total expenses | 450,930 | 98,933 | 23,561 | 8,907 | 474,491 | 107,840 |
| Transfers | - | 3,069 | - | (3,069) | - | - |
| General Revenues | - | - | - | 162 | - | 162 |
| Special items | - | - | - | 2,975 | - | 2,975 |
| Changes in net position | 3,546 | 71,773 | (5,412) | (207) | (1,866) | 71,566 |
| Net position (deficit) - Beginning of year | 54,283 | (91,533) | 4,760 | 4,967 | 59,043 | (86,566) |
| Net position (deficit) - End of year | \$ 57,829 | \$ (19,760) | \$ (652) | \$ 4,760 | \$ 57,177 | \$ (15,000) |

The Department change in net position amounts to \$1.9 million for the fiscal year 2020 when compared to year 2019. Total revenues increased by \$296 million and total expenses increased by \$366 million when compared to fiscal year 2019 as a result of the addition of three new funds to the Department. For the year ended on June 30, 2020, total revenues amounted to \$472.6 million. The Operating Grants and Contributions represents 94% of total revenues, which consisted mostly of additional revenues of three new funds managed by the Department, and incentives related to COVID-19 and Earthquake events.

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Management's Discussion and Analysis (Unaudited) (Continued)

For the year ended June 30, 2020

This substantial increase is due to the inclusion of the three new funds, which represented revenue increases from ROPR, SFED and SIF of \$203.9 million, \$78 million and \$9.4 million, respectively.

Total expenses for 2020 and 2019 amounted to \$474.5 million and \$107.8 million, respectively, from which general government expenses represented 81% and 7.1% of total expenses for the years 2020 and 2019, respectively.

Financial Analysis of the Department's Major funds

Governmental Funds

Condensed financial information from the balance sheet of governmental funds as of June 30, 2020 and 2019, as restated, is as follows (expressed in thousands):

| | June 30, | | Changes | |
|--|-------------------|-----------------------|-------------------|---------|
| | 2020 | (As restated) 2019 | In Dollars | Percent |
| Assets | | | | |
| Total assets - General fund | \$ 206,969 | \$ 11,950 | \$ 195,019 | 1632% |
| Total assets - Federal | 12,223 | 15,323 | (3,100) | -20% |
| Total assets - Other governmental funds | 10,538 | 11,717 | (1,179) | -10% |
| Total assets | <u>229,730</u> | <u>38,990</u> | <u>190,740</u> | 489% |
| Liabilities | | | | |
| Total liabilities - General fund | 122,275 | 7,978 | 114,297 | 1433% |
| Total liabilities - Federal | 12,223 | 15,323 | (3,100) | -20% |
| Total liabilities - Other governmental funds | 4,402 | 5,945 | (1,543) | -26% |
| Total liabilities | <u>138,900</u> | <u>29,246</u> | <u>109,654</u> | 375% |
| Fund balances | | | | |
| Restricted | 57,532 | 9,744 | 47,788 | 490% |
| Unrestricted | 33,298 | - | 33,298 | 100% |
| Total fund balances | <u>90,830</u> | <u>9,744</u> | <u>81,086</u> | 832% |
| Total liabilities and fund balances | <u>\$ 229,730</u> | <u>\$ 38,990</u> | <u>\$ 190,740</u> | 489% |

Total fund balance of governmental funds as of June 30, 2020 amounted to \$90.8 million, which represents an increase of \$81.1 million, when compared to prior fiscal year. Unrestricted fund balance for 2020 was \$33.3 million, which represents 37% of total fund balance. Total assets of governmental funds amounted to \$229.7 million for 2020, which represents an increase of \$190.7 million, when compared to prior fiscal year. Total liabilities of governmental funds amount to \$138.9 million, which represents an increase of \$109.6 million to prior fiscal year. The increase of assets and liabilities is mostly related to the three new funds managed by the Department.

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited) (Continued)

For the year ended June 30, 2020

Net Change in Fund Balances of Governmental Funds

Condensed financial information from the statement of revenues, expenditures, and changes in fund balances of governmental funds as of June 30, 2020 and 2019, as restated, is as follows (expressed in thousands):

| | June 30, | | Changes | |
|--|------------------|-----------------------|------------------|---------|
| | 2020 | (As restated) 2019 | In Dollars | Percent |
| Revenues | | | | |
| Total revenues - General fund | \$ 317,492 | \$ 12,792 | \$ 304,700 | 2382% |
| Total revenues - Workforce Innovation and Opportunity Act Programs | 68,329 | 73,833 | (5,504) | -7% |
| Total revenues - Other governmental funds | 68,654 | 9,029 | 59,625 | 660% |
| Total revenues | <u>454,475</u> | <u>95,654</u> | <u>358,821</u> | 375% |
| Expenditures | | | | |
| Total expenditures - General fund | \$ 310,814 | \$ 8,234 | \$ 302,580 | 3675% |
| Total expenditures - Workforce Innovation and Opportunity Act Programs | 68,329 | 73,840 | (5,511) | -7% |
| Total expenditures - Other governmental funds | 68,289 | 17,173 | 51,116 | 298% |
| Total expenditures | <u>447,432</u> | <u>99,247</u> | <u>348,185</u> | 351% |
| Excess of revenues over expenditures | 7,043 | (3,593) | 10,636 | -296% |
| Transfer In/Out | - | 3,069 | (3,069) | |
| Net change in fund balances | 7,043 | (524) | 7,567 | -1444% |
| Fund balance, at beginning of year | 83,787 | 10,716 | 73,071 | 682% |
| Restatement | - | (448) | 448 | -100% |
| Fund balance, at beginning of year, as restated | <u>83,787</u> | <u>10,268</u> | <u>73,519</u> | |
| Fund balance, end of fiscal year | <u>\$ 90,830</u> | <u>\$ 9,744</u> | <u>\$ 81,086</u> | 832% |

Governmental funds change in fund balance for the year 2020 was \$7.1 million mainly to general fund operations.

Total revenues for the year amounted to \$454.5 million, which represents an increase of \$358.8 million or 375%. Total revenues for the General Fund, WIOA Fund and Other Governmental Fund represented 70%, 15% and 15%, respectively, from total revenues of governmental funds.

Total expenditures amounted to \$447.4 million which represents an increase of \$348.2 million or 351%, when compared to prior fiscal year. Total expenditures for the General Fund, WIOA Fund and Other Governmental Fund represents 69%, 15% and 15%, respectively, from total revenues of governmental funds.

Puerto Rico Department of Economic Development and Commerce
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Management's Discussion and Analysis (Unaudited) (Continued)

For the year ended June 30, 2020

Proprietary Fund Results

Proprietary Fund provides the same type of information found in the government-wide statements but in more detail. Total net position of the Department's proprietary fund decreased by \$5.4 million, during the year ended June 30, 2020. The fund's revenues and expenses increased by \$9.5 million and \$14.7 million, respectively.

Capital Assets

At the end of June 30, 2020, the Department had a net investment in capital assets amounting to \$364 thousand which includes vehicles and equipment. This amount represents a net decrease of approximately \$68 thousand or 16% when compared to the prior fiscal year.

Long-term liabilities

The Department's employees are entitled to 2.5 days per month up to maximum of 60 days for vacations, and 1.5 days per month up to maximum of 90 days for sick leave for the employees hired before the approval of the Act No. 8 of 2017. The employees that began to work after the approval of the Act No. 8 of 2017, are entitled to 1.25 days per month for vacations, and 1 days per month for Sick leave. Vacation is recorded as benefits when earned. Sick leave days not used on December 31 are eliminated.

At year end, the Department reported a balance as long-term liabilities of \$31.2 million which is composed of \$1,102 thousand in termination benefits under Act No. 70, \$28.3 million of net pension liability, \$683 thousand of other postemployment benefits (OPEB) liability and \$1.4 million in compensated absences.

Currently Known Facts

Reorganization of the Department

On July 11, 2018, the Governor signed the *Reorganization Plan of the Department of Economic Development and Commerce Execution Act of 2020 (Act No. 141)*, which implements the Reorganization Plan established on The New Government Act. With this reorganization, the following governmental entities were consolidated with the Department:

- Office of Industrial Tax Exemptions
- Commonwealth of Puerto Rico Regional Center Corporation
- Permits Management Office
- State Office of Energy Policy

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Management's Discussion and Analysis (Unaudited) (Continued)

For the year ended June 30, 2020

Also, as part of this reorganization, the following governmental entities will remain ascribed until further consolidation within the Department:

- Puerto Rico Trade and Export Company
- Puerto Rico Tourism Company
- Puerto Rico Industrial Development Company, which shall include, as ascribed, the Puerto Rico Planning Board and the Local Redevelopment Authority for Roosevelt Roads

On May 9, 2019, the Oversight Board acknowledged the above reorganization plan, in its Fiscal Plan for Puerto Rico.

Retirement System of the Central Government

Under Act No. 106, active employees will be required to contribute a minimum of 8.5% of their compensation, into a defined contribution plan. Contributions will be deposited in a separate account for each employee and invested in accordance with certain guidelines. Upon retirement, employees will receive retirement benefits accumulated until the enactment of Act No. 106, with certain limitations, plus benefits accumulated under the defined contribution plan established by said Act. See Note 14.

Request for Information

This financial report is designed to provide a general overview of the Department of Finance. Questions concerning the information provided in this report or requests for additional financial information should be addressed to the Office of the Secretary, Department of Economic Development and Commerce of Puerto Rico, P.O. Box 192159, San Juan, Puerto Rico, 00919.

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Statement of Net Position

As of June 30, 2020

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> | |
|--|---|-------------------------------------|----------------------|-----------------|
| Assets | | | | |
| Cash in commercial bank | \$ 153,002,294 | \$ - | \$ 153,002,294 | AE-1 |
| Accounts receivable: | | | | |
| Federal agencies | 12,617,885 | - | 12,617,885 | |
| Other receivables from other Governmental entities | 15,219,799 | 2,999,983 | 18,219,782 | |
| Other assets | 1,469,154 | - | 1,469,154 | |
| Due from other funds, net | (11,159,761) | 11,159,761 | - | |
| Due from Commonwealth of Puerto Rico | 39,445,000 | - | 39,445,000 | |
| Capital assets | <u>342,908</u> | <u>21,325</u> | <u>364,233</u> | |
| Total assets | <u>210,937,279</u> | <u>14,181,069</u> | <u>225,118,348</u> | |
| Deferred outflows of resources | | | | |
| Pension related | 2,857,711 | - | 2,857,711 | |
| Other postemployment benefits related | <u>58,596</u> | <u>-</u> | <u>58,596</u> | |
| Total deferred outflows of resources | <u>2,916,307</u> | <u>-</u> | <u>2,916,307</u> | |
| Liabilities | | | | |
| | <u>Due to other governmental entities</u> | | | |
| Accounts payable and accrued liabilities | Sum of a- \$66,312,433 | 51,543,480 | 14,593,340 | 66,136,820 AE-2 |
| Due to subrecipients | 7,703,046 | - | a 7,703,046 | |
| Due to US Department of Labor | 215,837 | - | l 215,837 | |
| Due to Commonwealth of Puerto Rico | 1,907,641 | - | 1,907,641 | AE-2 |
| Due to other Governmental entities | 58,394,000 | - | a 58,394,000 | |
| Total pension liability: | | | | |
| Due within one year | 1,601,920 | - | 1,601,920 | AE-2 |
| Due in more than one year | 28,292,403 | - | 28,292,403 | |
| Total OPEB liability: | | | | |
| Due within one year | 47,025 | - | 47,025 | |
| Due in more than one year | 636,945 | - | 636,945 | |
| Voluntary termination benefits: | | | | |
| Due within one year | 173,402 | 71,161 | 244,563 | |
| Due in more than one year | 928,818 | - | 928,818 | |
| Accrued compensated absences: | | | | |
| Due within one year | 1,374,574 | 22,921 | 1,397,495 | |
| Due in more than one year | <u>1,255,711</u> | <u>145,228</u> | <u>1,400,939</u> | |
| Total liabilities | <u>154,074,802</u> | <u>14,832,650</u> | <u>168,907,452</u> | |
| Deferred inflows of resources | | | | |
| Pension related | <u>1,950,017</u> | <u>-</u> | <u>1,950,017</u> | AE-2 |
| Net position (deficit): | | | | |
| Net investment in capital assets | 342,908 | 21,325 | 364,233 | AE-2 |
| Restricted | 57,532,000 | - | 57,532,000 | |
| Unrestricted (deficit) | <u>(46,141)</u> | <u>(672,906)</u> | <u>(719,047)</u> | |
| Total net position (deficit) | <u>\$ 57,828,767</u> | <u>\$ (651,581)</u> | <u>\$ 57,177,186</u> | |

See accompanying notes to the basic financial statements

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Statement of Activities

For the year ended June 30, 2020

| | Program revenue | | | Net (expenses) revenues and changes in net position | | | |
|--|-----------------------|---|--|--|----------------------------|-----------------------------|-----------------------|
| | Expenses | Charges for Services - fees, commissions, and others | Program Revenues Operating grants and contributions | Other revenues | Governmental activities | Business-type activities | Total |
| Functions/programs: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 382,090,269 | \$ - | \$ 374,319,618 | \$ 8,625,979 | \$ 855,328 | \$ - | \$ 855,328 |
| Labor development | 67,599,433 | - | 67,599,433 | - | - | - | - |
| Film industry development | 501,191 | - | 496,815 | - | (4,376) | - | (4,376) |
| Tax Incentives | 9,246 | - | - | - | (9,246) | - | (9,246) |
| Green Energy Incentives | 729,706 | - | 729,706 | - | - | - | - |
| Pension and other postemployment benefits | - | - | 2,704,325 | - | 2,704,325 | - | 2,704,325 |
| Total governmental activities | <u>\$ 450,929,845</u> | <u>\$ -</u> | <u>\$ 445,849,897</u> | <u>\$ 8,625,979</u> | <u>\$ 3,546,031</u> | <u>\$ -</u> | <u>\$ 3,546,031</u> |
| Business-type activities: | | | | | | | |
| Operating and administrative | <u>\$ 23,561,092</u> | <u>\$ 15,667,033</u> | <u>\$ -</u> | <u>\$ 2,482,695</u> | <u>\$ -</u> | <u>\$ (5,411,364)</u> | <u>\$ (5,411,364)</u> |
| Total business-type activities | <u>23,561,092</u> | <u>15,667,033</u> | <u>-</u> | <u>2,482,695</u> | <u>-</u> | <u>(5,411,364)</u> | <u>(5,411,364)</u> |
| Total functions/programs | <u>\$ 474,490,937</u> | <u>\$ 15,667,033</u> | <u>\$ ^a 445,849,897</u> | <u>\$ ^a 11,108,674</u> | <u>\$ 3,546,031</u> | <u>\$ (5,411,364)</u> | <u>\$ (1,865,333)</u> |
| | AE-3 | AE-3 | | | | | |
| Change in net position | | | Other income | | 3,546,031 | (5,411,364) | (1,865,333) |
| Net position (deficit) - Beginning of year | | | Sum of a- \$456,958,571 (366,600,049) F/S-18 (68,328,992) ↓ \$22,029,530 AE-3 | | (19,760,264) | 4,759,783 | (15,000,481) |
| Change in reporting entity | | | | | <u>74,043,000</u> | <u>-</u> | <u>74,043,000</u> |
| Net position (deficit) - End of year | | | | | <u>\$ 57,828,767</u> | <u>\$ (651,581)</u> | <u>\$ 57,177,186</u> |

See accompanying notes to the basic financial statements

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Balance Sheet - Governmental Funds

For the year ended June 30, 2020

| Assets | General Fund | Workforce Innovation Opportunity Act Fund | State Energy Program Fund | Weatherization Assistance Program Fund | Federal Contracting Center Fund | Film Industry Development Program Fund | Other Governmental Funds | Total |
|--|-----------------------|---|---------------------------------|---|--|---|--------------------------------|-----------------------|
| Cash in commercial banks | \$ 139,253,741 | \$ - | \$ 85 | \$ 2,959 | \$ - | \$ 4,581,703 | \$ 9,163,806 | \$ 153,002,294 |
| Accounts receivable: | | | | | | | | |
| Federal agencies, net | - | 12,617,885 | - | - | - | - | - | 12,617,885 |
| Other receivables from other Governmental entities, net | 13,935,770 | 1,663 | 302,384 | 425,207 | - | 519,015 | 35,760 | 15,219,799 |
| Other assets | 1,452,375 | 16,779 | - | - | - | - | - | 1,469,154 |
| Due from Commonwealth of Puerto Rico | 39,445,000 | - | - | - | - | - | - | 39,445,000 |
| Internal balances | <u>12,882,390</u> | <u>5,878,261</u> | <u>-</u> | <u>21,395</u> | <u>-</u> | <u>1,387,253</u> | <u>-</u> | <u>20,169,299</u> |
| Total assets | <u>\$ 206,969,276</u> | <u>\$ 18,514,588</u> | <u>\$ 302,469</u> | <u>\$ 449,561</u> | <u>\$ -</u> | <u>\$ 6,487,971</u> | <u>\$ 9,199,566</u> | <u>\$ 241,923,431</u> |
| Liabilities and Fund Balances | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts payable and accrued liabilities | \$ 44,543,184 | \$ 3,632,483 | \$ 221,845 | \$ 449,561 | \$ 148 | \$ 6,000 | \$ 2,690,259 | \$ 51,543,480 |
| Due to US Department of Labor | - | 215,837 | - | - | - | - | - | 215,837 |
| Due to other Governmental entities | 58,394,000 | - | - | - | - | - | - | 58,394,000 |
| Due to subrecipients | - | 7,703,046 | - | - | - | - | - | 7,703,046 |
| Internal balances | 19,135,574 | 6,963,222 | 80,624 | - | 30,411 | 685,638 | 4,433,591 | 31,329,060 |
| Due to Commonwealth of Puerto Rico | <u>201,994</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>33,014</u> | <u>1,672,633</u> | <u>1,907,641</u> |
| Total liabilities | <u>\$ 122,274,752</u> | <u>\$ 18,514,588</u> | <u>\$ 302,469</u> | <u>\$ 449,561</u> | <u>\$ 30,559</u> | <u>\$ 724,652</u> | <u>\$ 8,796,483</u> | <u>\$ 151,093,064</u> |
| Fund balances: | | | | | | | | |
| Restricted | \$ 57,532,000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 57,532,000.00 |
| Unrestricted | <u>27,162,524</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(30,559)</u> | <u>5,763,319</u> | <u>403,083</u> | <u>33,298,367</u> |
| Total fund balance | <u>84,694,524</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(30,559)</u> | <u>5,763,319</u> | <u>403,083</u> | <u>90,830,367</u> |
| Total liabilities and fund balances | <u>\$ 206,969,276</u> | <u>\$ 18,514,588</u> | <u>\$ 302,469</u> | <u>\$ 449,561</u> | <u>\$ -</u> | <u>\$ 6,487,971</u> | <u>\$ 9,199,566</u> | <u>\$ 241,923,431</u> |

See accompanying notes to the basic financial statements.

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position

For the year ended June 30, 2020

Amounts reported for governmental activities in the statement of net position are different because:

| | |
|--|----------------------|
| Total fund balances | \$ 90,830,367 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds | 342,908 |
| Deferred outflow of resources, pension related | 2,916,307 |
| Total pension liability | (29,894,323) |
| Total OPEB liability | (683,970) |
| Deferred inflow of resources, pension related | (1,950,017) |
| Accrued compensated absences liability is not to be paid with current financial resources and therefore, not reported in the fund financial statements | (2,630,285) |
| Voluntary termination benefits liability is not to be paid with current financial resources and therefore, not reported in the fund financial statements | <u>(1,102,220)</u> |
| Net position of governmental activities | <u>\$ 57,828,767</u> |

See accompanying notes to the basic financial statements

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

For the year ended June 30, 2020

| | General Fund | Workforce Innovation Opportunity Act Fund | State Energy Program Fund | Weatherization Assistance Program Fund | Federal Contracting Center Fund | Film Industry Development Program Programs | Other Governmental Funds | Total |
|---|-----------------------|--|---------------------------------|---|--|---|--------------------------------|-----------------------|
| Revenues from Commonwealth | \$ 307,068,427 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 59,531,622 | \$ 366,600,049 |
| Revenues from Federal agencies | - | 67,599,286 | 117,497 | 612,209 | - | - | - | 68,328,992 |
| Other income | 10,423,894 | - | - | - | - | 496,815 | 8,625,979 | 19,546,688 |
| Interest income on deposits placed with banks | - | 147 | - | - | - | - | - | 147 |
| Total revenues | <u>\$ 317,492,321</u> | <u>\$ 67,599,433</u> | <u>\$ 117,497</u> | <u>\$ 612,209</u> | <u>\$ -</u> | <u>\$ 496,815</u> | <u>\$ 68,157,601</u> | <u>\$ 454,475,876</u> |
| Program direct expenditures | 304,047,459 | 56,756,761 | 80,943 | 153,220 | - | - | 63,311,458 | 424,349,841 |
| Administrative expenditures | 6,547,350 | 6,682,491 | 36,554 | 86,058 | 7,766 | 501,191 | 2,462,605 | 16,324,015 |
| Salaries and fringe benefits | - | 2,645,419 | - | 357,759 | - | - | 513,118 | 3,516,296 |
| Other | 218,972 | 1,514,762 | - | - | 1,480 | - | 1,492,263 | 3,227,477 |
| Capital outlays | - | - | - | 15,172 | - | - | - | 15,172 |
| Total expenditures | <u>\$ 310,813,781</u> | <u>\$ 67,599,433</u> | <u>\$ 117,497</u> | <u>\$ 612,209</u> | <u>\$ 9,246</u> | <u>\$ 501,191</u> | <u>\$ 67,779,444</u> | <u>\$ 447,432,801</u> |
| Excess (deficiency) of revenues over expenditures and net change in fund balances | <u>6,678,540</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(9,246)</u> | <u>(4,376)</u> | <u>378,157</u> | <u>7,043,075</u> |
| Fund balance — beginning of year as previously reported | 3,972,984 | - | - | - | (21,313) | 5,767,695 | 24,926 | 9,744,292 |
| Change in reporting entity | 74,043,000 | - | - | - | - | - | - | 74,043,000 |
| Fund balance — beginning of year as restated | <u>78,015,984</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(21,313)</u> | <u>5,767,695</u> | <u>24,926</u> | <u>83,787,292</u> |
| Fund balance — end of year | <u>\$ 84,694,524</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (30,559)</u> | <u>\$ 5,763,319</u> | <u>\$ 403,083</u> | <u>\$ 90,830,367</u> |

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↓

See accompanying notes to the basic financial statements

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Reconciliation of the Statement of Revenues, Expenditures, and Change in
Fund Balances — Governmental Funds to the Statement of Activities
Year ended June 30, 2020

Amounts reported for governmental activities in the statement of activities
are different because:

| | | |
|---|-----------|--------------|
| Net changes in fund balance — total governmental funds | | \$ 7,043,075 |
| Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. In the current period these amounts are: | | |
| Capital outlays | - | |
| Less depreciation | (129,048) | |
| Subtotal | (129,048) | (129,048) |
| Increase in the accrued compensated absences reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as expenditure in the governmental funds. | | (886,366) |
| Decrease in the accrued termination benefits reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as expenditure in the governmental funds. | | 122,466 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | | (2,604,096) |
| Change in net position of governmental activities | | \$ 3,546,031 |

See accompanying notes to the basic financial statements.

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Statement of Net Position – Proprietary Fund

As of June 30, 2020

| | Administration Fund |
|--|------------------------|
| Assets | |
| Current assets: | |
| Other receivables | \$ 2,999,983 |
| Internal balances | 11,159,761 |
| Total current assets | 14,159,744 |
| Capital assets | 21,325 |
| Total assets | \$ 14,181,069 |
| Liabilities | |
| Current liabilities: | |
| Accounts payable and accrued liabilities | 14,593,340 |
| Voluntary termination benefits | 71,161 |
| Accrued compensated absences | 168,149 |
| Total liabilities | 14,832,650 |
| Net position: | |
| Net investment in capital assets | 21,325 |
| Unrestricted | (672,906) |
| Total net position | (651,581) |
| Total liabilities and net position | \$ 14,181,069 |

See accompanying notes to the basic financial statements.

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Statement of Revenue, Expenditures and Changes in Net Position – Proprietary Funds

For the year ended June 30, 2020

| | <u>Administration Fund</u> |
|---------------------------------|--------------------------------|
| Operating revenues: | |
| Administrative management fees | \$ 15,667,033 |
| Other revenues | 2,334,154 |
| Interest income | <u>148,541</u> |
| Total operating revenue | 18,149,728 |
| Operating expenses: | |
| Salaries and fringe benefits | 5,287,810 |
| Office and administrative | 15,457,974 |
| Other | 2,808,899 |
| Depreciation | <u>6,409</u> |
| Total operating expenses | <u>23,561,092</u> |
| Operating loss | (5,411,364) |
| Net position, beginning of year | <u>4,759,783</u> |
| Net position, end of year | <u><u>\$ (651,581)</u></u> |

See accompanying notes to the basic financial statements.

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Statement of Cash Flows – Proprietary Funds

For the year ended June 30, 2020

| | <u>Administration Fund</u> |
|---|--------------------------------|
| Cash flows from operating activities: | |
| Cash received from management fees | \$ 18,149,728 |
| Cash paid for expenses other than payroll | (3,375,998) |
| Cash paid for payroll and related costs | (5,149,139) |
| Other payments | <u>(5,180)</u> |
| Net cash provided by operating activities | 9,619,411 |
| Cash flows from noncapital financing activities - | |
| Net transfers-out | <u>(21,435,337)</u> |
| Net change in cash | (11,815,926) |
| Cash, beginning of year | <u>11,815,926</u> |
| Cash, end of year | <u><u>\$ -</u></u> |
| Reconciliation of operating loss to net cash provided by operating activities: | |
| Operating (loss) | (5,411,364) |
| Adjustment to reconcile operating (loss) to net cash provided by operating activities: | |
| Depreciation | 6,409 |
| Changes in operating assets and liabilities | |
| Accounts receivable | (5,180) |
| Accounts receivable other | 2,161,631 |
| Accounts payable and accrued liabilities | 12,729,244 |
| Voluntary transition program benefits | <u>138,671</u> |
| Net cash provided by operating activities | <u><u>\$ 9,619,411</u></u> |

See accompanying notes to the basic financial statements

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

As of and for the year ended June 30, 2020

Note 1 - Governmental Environment

Organization

The Department of Economic Development and Commerce (the "Department"), and the Office of the Secretary of Economic Development and Commerce (the "Secretary"), its director, were created by The Reorganization Plan No. 4 of June 22, 1994, as amended (the "Reorganization Plan"). The Department is responsible for implementing Puerto Rico's public policy on economic development in the various entrepreneurial sectors of manufacturing, commerce, tourism, services, the cooperative movement, and others. The Reorganization Plan also attached the Economic Development Administration to the Department, as an operating component. Thereafter, Act No. 203, of December 29, 1997, was enacted to transfer all functions, powers, and duties of the Economic Development Administration to the Industrial Development Company and incorporate it to Reorganization Plan.

Act No. 171 of October 2, 2014 was enacted to incorporate the Labor Development Program, the Film Industry Development Program, and the Youth Development Program under the Department, repealing certain other laws under which those activities were previously carried. Under Act No. 171, all employees, and assets of the three programs were transferred to the Department.

Labor Development Program

The Labor Development Program's (formerly, the Labor Development Administration) (LDP) main activity is the administration of federal funds received from the US Department of Labor, especially from the Workforce Innovation Opportunity Act Program ("WIOA"). The purpose of WIOA funds is to increase the employment, retention, earnings, and occupational skill attainment of US workers, particularly those individuals with barriers to employment. WIOA programs administered by the LDP are: Adult Program, Youth Activities Program, and Dislocated Worker Formula Grants.

Film Industry Development Program

The Film Industry Development Program (formerly the Corporation for the Development of the Arts, Science, and Film Industry of Puerto Rico) (FIDP) was created for the development of the arts and the film industry in Puerto Rico. Through this program, the Department provides incentives to the film industry to produce movies and for the development of the film industry within Puerto Rico by means of financing, donations, tax incentives, tax credits, among other. Its revenues consist of legislative appropriations, charges for services, consisting of a 1% application fee of the Puerto Rico production expenditures of film projects applying for tax benefits under Act No. 27 of 2011, and government appropriations related to the collections from the sales and use tax.

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 1 - Governmental Environment – (continued)

Youth Development Program

The Youth Development Program (formerly the Office of Youth Affairs) (YDP) was created to facilitate the training, employment, entertainment, and spiritual recreation of the Puerto Rican youth. By understanding the need for a coordinated and comprehensive attention to this sector of the population, young people play as framers to the future of the economic development of Puerto Rico. YDP integrates young people in the economic development of Puerto Rico through the programs: “Juvempleo” and micro-enterprises.

Business Development Office Program

The Business Development Office Program is responsible for the compliance with Law No. 73-2008, approved on May 28, 2008, as amended, known as “Law of Economic Incentives for the Development of Puerto Rico” (“Act 73”). Act 73 has as its purpose the promotion the industrial, economic and social development of the Island in alignment with the new challenges presented by a globalized economy. This, together with a new vision and new strategies of development, is one of the tools that this administration has to stand out local economy and achieve a profound transformation in Puerto Rico.

On July 10, 2018, the Governor of the Commonwealth of Puerto Rico (the Commonwealth) signed Act 141, which transfers the Oficina Exención Contributiva Industrial (OEI), Oficina de Permisos (OGPe) and Política Pública Energética (PPE) to the Department of Economic Development (DEDC).

The Public Energy Policy Program (PEPP)

The Public Energy Policy Program (PEPP) of the Department of Economic Development and Commerce is responsible for developing and promulgating the public energy policy of the Government of Puerto Rico, by virtue of Law No. 141 of July 11, 2018, also known as the Law on the Execution of the Reorganization Plan of the Department of Economic Development and Trade, of 2018. Among its many functions, it is responsible for managing and operating different federal programs, including the Weatherization Assistance Program (WAP), the State Energy Program (SEP) and the State Program of the Green Energy Fund, with the main purpose of promoting energy efficiency and introducing renewable energies to Puerto Rico's electricity grid. Under Law 17-2019, it is intended to mitigate Puerto Rico's dependence on centralized fossil fuel plants and optimize the available energy resources to build resilience and, ultimately, make it easier for the island to obtain 100% of its energy from renewable sources by 2050.

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 1 - Governmental Environment – (continued)

The Office of Permit Management (OGPe)

The Office of Permit Management (OGPe) is created under Law 161 of December 1, 2009, known as the "Law for the Reform of the Permit Process of Puerto Rico." This law establishes that the OGPe will be the office in charge of issuing final determinations and permits, licenses, inspections, certifications and any other authorization or procedure that is necessary to meet the requests of citizens, in order to facilitate and promote the integral, economic, social and sustainable physical development of Puerto Rico that will result in the growth of more, better and diverse industries and the creation of jobs in the private sector.

The Office of Incentives Codes (OECI)

The Office of Incentive Codes was (previously Tax Exemption Office) was created to supervise the compliance of the terms and conditions of incentives that forgo tax revenues to companies that establish their operations in Puerto Rico. The Incentive Code will create a model to evaluate the incentives and measure the return on investments (ROI) and maintain recent data of the return by economic sector. Incentive Code will facilitate the analysis of the incentives to determine if they will be held, modified or discontinue some incentives that are obsolete or results in a negative return.

The following Acts were enacted to provide incentives with the purpose of making Puerto Rico competitive:

Act No. 60 - (effective July 1, 2019) – On July 1, 2019 the Commonwealth enacted Act No. 60-2019 known as the Puerto Rico Incentives Code (the Incentives Code), which compiles all current and outstanding tax incentives laws into a single code. Qualifying industries such as scientific research and development, manufacturing operations, export services, financial and insurance services, green and efficient energy production, recycling businesses, technology, film, agriculture, hospital facilities, hotels and related tourist activities are eligible to apply for certain preferential tax rates, tax credits, cash grants, and full or partial exemptions from income, property, municipal, and other taxes.

Aiming to codify incentives granted for diverse purposes throughout decades in one code and foster economic development more effectively, the Incentives Code establishes a Return on Investment (ROI) methodology as a measurement tool to grant tax incentive benefits. Since January 1, 2020, all tax incentive applications are submitted under the Incentives Code, however, the previous incentives issued under provisions from deprecated acts are still subject to the provisions of the acts they were issued under.

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 1 - Governmental Environment – (continued)

The Office of Incentives Codes (OECI) – (continued)

The Incentives Code adopts a legal and administrative framework for the application, evaluation, and grant or denial of incentive benefits by the Commonwealth. The following are some of the standard terms and benefits provided by the Incentives Code to eligible businesses and individuals:

- 4% fixed income tax rate on eligible income
- 75% exemption on property taxes
- 50% exemption on municipal taxes
- research and development tax credits of up to 50%

Pursuant to Act No. 60, all economic incentives are centralized in the Department. The following funds issue separate financial statements and are presented in the basic financial statements as part of governmental funds:

- The Special Fund for Economic Development (SFED) was created through Act No. 8 dated January 24, 1987, amended with Act No. 135 dated January 1, 1998. It was created to strengthen and enhance Puerto Rico's economic development through economic incentive grants to private enterprises. The source of funding is from the contributions of the Commonwealth which are budgeted every fiscal year as part of the Commonwealth's general fund budget process.
- The Special Incentives Fund (SIF) was created through Act No. 381 of May 8, 1951 and was created to enhance Puerto Rico's economic development through economic incentive grants to private enterprises. The source of funding, each year, is provided by contributions from the Commonwealth through the approval of legislative resolutions and the Special Fund for Economic Development (SFED). The Fund did not receive any funding directly from the Commonwealth.
- The Rums of Puerto Rico (ROPR) Fund was created through Act No. 1 of January 1, 2011, as amended. It was created to encourage the production and promotion of the Puerto Rican rum, including, and without limitation, promoting and marketing the rum of Puerto Rico in foreign markets, promoting the investment in infrastructure of agricultural, industrial or commercial projects necessary for the development of the rum industry of Puerto Rico, to support participants of the local rum industry by granting incentives for production, marketing and promoting incentives for construction and infrastructure improvements, including incentives to subsidiaries and/or affiliates of such participants for use in benefit of the local industry, with the objective of increasing the funds allocated annually for that purpose by the Commonwealth.

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 1 - Governmental Environment – (continued)

The Office of Incentives Codes (OEI) – (continued)

Section 7652 of Title 26 of the United States Internal Revenue Code provides that all excise taxes collected on rum imported into the United States which has been produced in Puerto Rico shall have been "covered-over" or transferred to the Commonwealth. The Commonwealth uses the transferred funds to finance infrastructure and public work programs, support its expenditures, preserve and improve the environment by protecting vital ecosystems, market and promote efforts of the Puerto Rican rums in the United States, and support the development of the science and technology industry, among other uses related to the socioeconomic development of Puerto Rico. The source of funding for the ROPR fund is provided by legislative appropriations from the Commonwealth.

Act No. 20 – Incentive Act the services export. The purpose of Act No 20 is to develop Puerto Rico as a center of international services. Also, the Act promote the permanence and return of local professionals and attract foreign capital achieving the way an economic development for Puerto Rico.

Act No. 22 – Incentive Act for the transfer of individuals to Puerto Rico. The purpose of this incentive is to promote that individual who are not residents of Puerto Rico in the last 15 years and held investments on or outside of United States establish a residence in Puerto Rico. To incentive the transfer of these individuals to Puerto Rico, this Act totally exempts the payment of income tax in Puerto Rico the passive income accrued by these individuals with respect to their investments. In addition, the long-term capital gains are exempt of income taxes.

Act No.14 – Incentive for the retention and return of medical professionals. The doctor who has a decree under this law will be subject to a fixed tax rate of 4% over their income from medical services. In addition, they can make voluntary contributions after the payment of income tax until 25% of net income in retirement plans (Keogh) or 25% of their income in corporate retirement plans.

Act No. 27 - (consolidated into Act No. 60) – See previous reference to the Film Industry Development Program.

Act No. 73 - (consolidated into Act No. 60, and until that date administered by PRIDCO) – The Industrial Incentive Act was established to help promote economic development in Puerto Rico, improve the local industry and attract foreign investment by providing numerous tax incentives to businesses that are engaged in eligible activities in Puerto Rico.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 1 - Governmental Environment – (continued)

The Department also oversees several governmental instrumentalities that include agencies and public corporations focused on different economic sectors and initiatives to achieve its public policy goals. Each instrumentality is a component unit of the Commonwealth of Puerto Rico (the Commonwealth) and respond to the Secretary in administrative matters only, as stipulated by the Reorganization Plan. The following instrumentalities are defined as operational components created by independent laws:

Industrial Agencies

- Economic Development Administration operates under Act No. 203 of December 29, 1997.
- Puerto Rico Industrial Company (“PRIDCO”) operates under Act No. 188 of May 11, 1942, as amended.
- Puerto Rico Tourism Company (“PRTC”) operates under Act No. 10 of June 18, 1970, as amended.
- Puerto Rico Trade and Export Company (“PRTEC”) operates under Act No. 323 of December 28, 2003, as amended.
- Horse Racing Sport & Industry Administration (“HRSIA”) operates under Act No. 83 of July 2, 1987.
- Office of Industrial Tax Exemption (“OITE”) operates under Act No. 73 of May 28, 2008, as amended.
- Politic Public Energetic Program (PPE) operates under Act No. 141 of July 11, 2018.
- Office Management of Permission (OGPe) operates under Act No. 161 of December 1, 2009, as amended.
- Office of Industrial Tax Exemption (OECI) operates under Act No. 73 of 2008 as amended.

Regional Development Agencies

- Puerto Rico Land Administration (“PRLA”) operates under Act No. 13 of May 16, 1962, as amended.
- Local Redevelopment Authority Roosevelt Roads (“LRA-RR”) operates under Act No. 508 of September 29, 2004, as amended.
- Puerto Rico Convention District Authority (“PRCCDA”) operates under Act No. 351 of September 2, 2000, as amended.
- Port of the Americas operates under Act No. 171 of August 11, 2002, as amended.
- Puerto Rico Cooperative Development Commission (“PRCDC”) operates under Act No. 247 of August 10, 2008 as amended.
- Ponce Ports Authority (PPA) Act No. 240 of 2011.

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies

The accounting policies of the Department conform to accounting principles generally accepted in the United States of America (US GAAP) for governments, as prescribed by the Government Accounting Standards Board (GASB).

The accompanying basic financial statements present the financial position of the Department, the results of its operations and its various funds, and the cash flows of the proprietary fund. It does not intend to and does not present fairly the financial position and changes in financial position of the Commonwealth in conformity with accounting principles generally accepted in the United States of America. The basic financial statements are presented as of June 30, 2020 and for the year then ended.

Financial Reporting Entity

The Department includes all funds and functions that have been determined to meet the requirement for inclusion in the Department's financial reporting entity. The Department has considered all potential component units for which it is financially accountable, other organizations which are fiscally dependent on the Department, and the significance of their relationship with the Department is such that exclusion would be misleading or incomplete.

GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing an organization's governing body voting majority and the ability of the State to impose its will over that organization or the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Department. Based on the above criteria, there are no potential component units that should be included in the basic financial statements.

Basis of Presentation

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements - The statement of net position and the statement of activities report information of all the activities of the Department. The effect of interfund balances has been from the government-wide statement of net position, except for the residual amounts due between governmental and business-type activities. Interfund charges for services among functions of the government-wide statement of activities have not been eliminated. The Department's activities are distinguished between governmental and business-type activities. Governmental activities are generally supported by intergovernmental revenue and certain taxes are reported separately from business-type activities, which rely to a significant extent on management fees charged to the operational components, previously listed for administrative services.

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Basis of Presentation – (continued)

Government-Wide and Fund Financial Statements – (continued)

The statement of net position presents the Department's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

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

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, and then unrestricted resources as they are needed.

The accompanying statement of activities presents the Department's results of operations by showing how the net position changed during the fiscal year. The statement presents the cost of each function/program as well as the extent to which each of the Department's functions, programs or other services either contributes to or draws from the Department's general revenues.

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are general government, WIOA and other governmental programs.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Basis of Presentation – (continued)

Government-Wide and Fund Financial Statements – (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include (i) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment and (ii) management fees charged to the operational components for administrative services. Other items not meeting the definition of program revenues are instead reported as general revenues.

Program's revenues are generated directly from a program itself or may come from parties outside the Department. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at the net cost of the function/program that must be financed from the Department's general revenues. The accompanying statement of activities reports the following categories of program revenues:

- Charges for Services, Fees, Commissions, and Others – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use, or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged to its operational units, which are component units of the Commonwealth, for administrative functions.
- Program-Specific Operating Grants and Contributions – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Restricted operating grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Department. They are reported net of estimated uncollectible amounts.

Governmental Fund Financial Statements – Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Basis of Presentation – (continued)

Government-Wide and Fund Financial Statements – (continued)

The financial activities of the Department that are reported in the accompanying basic financial statements have been classified into governmental and proprietary funds. Major funds are determined using a predefined percentage of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenue, or expenditures/expenses of either the fund category or the governmental and proprietary funds combined. The nonmajor funds are combined in a single column in the fund financial statements.

Governmental Funds

Governmental funds focus on the sources and uses of funds and provide information on near-term inflows, outflows, and balances of available resources. The Department reports the following governmental funds:

- *General Fund* – This fund is used to account for and report all financial resources received and used for those services traditionally provided by a government, except for those required to be accounted for and reported in another fund. The financial resources received and used in this fund mostly include budgeted resources (such as charges for services), as approved by the Commonwealth Legislature and as adjusted for timing and basis of accounting differences, and other financial resources outside the General Fund budget such as: federal funds, other special revenue and general-type funds.
- *Workforce Innovation and Opportunity Act (“WIOA”) Program Fund* – This special revenue fund is used to account for the specific revenue sources related to the WIOA Programs. WIOA reforms federal job training programs and creates a new, comprehensive workforce investment system.
- *Film Industry Development Program Fund* – Accounts for incentives to the film industry to produce movies and for the development of the film industry within Puerto Rico by means of financing, donations, tax incentives, tax credits, among others.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Basis of Presentation – (continued)

Governmental Funds – (continued)

Weatherization Assistance Program Fund (“WAP”) – Accounts for funds that are used to improve the energy performance of dwellings families in need, using the most advanced technologies and testing procedures available in the housing industry.

- *State Energy Program Fund (“SEP”)* – Accounts for funds received to promote innovative approaches for local clean energy development that will reduce energy bills for families and businesses, protect the environment by reducing carbon emissions, and increase our energy security.
- *Puerto Rico Federal Contracting Center Fund (“FECC”)* – Accounts for funds that are used to assist local businesses to sell their products and services to the Federal Government.

Non-major governmental funds are reported within a single column and include several special revenue funds. These funds are used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditure for specified purposes other than the WIOA, SEP, FECC and WAP Funds.

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

- *Non-Spendable* – Amounts that are not in a spendable form or are legally or contractually required to be maintained intact. Such balance is associated with inventories, prepaid and long-term loans and notes receivable, and property held for re-sale (unless the proceeds are restricted, combined, or assigned).
- *Restricted* – Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for a specific purpose.
- *Committed* – Amounts that are constrained for specific purposes that are internally imposed by the government’s formal action at the highest level of decision-making authority and do not lapse at year-end. The highest level of decision authority for the Department is the Secretary, and the formal action is the passage of a law specifying the purposes for which amounts can be used.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Basis of Presentation – (continued)

Governmental Funds – (continued)

- *Assigned* – includes fund balance amounts that are constrained by the Department and are intended to be used for specific purposes that are neither considered restricted or committed.
- *Unassigned* – is the residual classification for the General Fund. In a governmental fund other than the General Fund, a negative amount indicates that the expenditures incurred for a specific purpose exceeded the amounts in the fund that are restricted, committed, and assigned to that purpose.

The Department uses restricted amounts first when both restricted and unrestricted fund balances are available, unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, unless required by law or agreement, the Department would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Department does not have a formal minimum fund balance policy.

The Department reduces restricted amounts, committed amounts, assigned amounts and unassigned amounts at different times depending on the nature of the particular expenditure in question.

Proprietary Fund

This fund accounts for those activities, which are financed and operated in a manner similar to private business enterprises. Management intends to recover, primarily through user charges, the cost of providing goods or services to its operational components.

The following business-type activities of the Department is reported as major proprietary fund:

- *Administration Fund* – The Administration Fund accounts for and reports the administrative services provided to its operational components.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Basis of Presentation – (continued)

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon they are both measurable and available.

Revenues are considered to be available when they are collectible within the current period, or soon enough thereafter to pay the liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 90 days after the end of the fiscal year. Principal revenue sources are recorded in the accounting period in which they are expended. Intergovernmental revenues, representing annual appropriations from the Commonwealth are recorded when measurable and available.

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

- Employees vested annual vacation are recorded as expenditures when matured. The unmatured amount of accumulated annual vacation and unpaid on June 30, 2020 is reported only in the government-wide financial statements.
- General capital asset acquisitions are reported as expenditures (capital outlays) in governmental funds.
- Other expenses that do not require the use of current financial resources are reported only in the government-wide financial statements.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Basis of Presentation – (continued)

Measurement Focus and Basis of Accounting – (continued)

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

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

Proprietary Fund Financial Statements – The basic financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above. The proprietary fund accounts for those activities for which the intent of management is to recover, primarily through fees charged and, the cost of providing goods or services to its operational components.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing the services that correspond to the proprietary fund's principal ongoing operations. Operating revenues are generated from administrative fees charged to the Department's operational components. Operating expenses include the operational components of the Department's related expenses, and all general and administrative expenses, among others. Revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Use of Estimates

The Department has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with US GAAP. Significant items subject to such estimates and assumptions included the valuation of film rights and notes receivable. Actual results could differ from those estimates.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Basis of Presentation – (continued)

Cash

For deposits, custodial credit risk is the risk that in the event of bank failure, the Department's deposits may not be recovered. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amounts deposited in excess of federal depository insurance generally provided by the Federal Deposit Insurance Corporation (FDIC). All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth, but not in the Department's name. The custodial credit risk, the availability, and recoverability of cash is evaluated continuously by the Department.

All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth, but not in the Department's name. The custodial credit risk, the availability, and recoverability of cash is evaluated continuously by the Department.

The Department is required, by law, to deposit funds only in institutions approved by the Puerto Rico Treasury Department, and such deposits required to be kept in separate accounts in the name of the specific Program.

The Puerto Rico Commissioner of Financial Institutions requires that Puerto Rico's private financial institutions deposit collateral securities to secure the deposits of the Commonwealth and all other governmental entities in each of these institutions. The amount of collateral securities to be pledged for the security of public deposits must be established by the rules and regulations promulgated by the Commissioner of Financial Institutions.

As provided by the General Fund Budget Resolution and the State Special Funds Resolution, any unencumbered previous-year balance of non-current allocations cannot longer be obligated. Any proposal to use said funds from previous years must be submitted through budget requests for the evaluation of the Oversight Board. In addition, as a general rule, previous year balances from the General Fund accounts should be closed and forwarded to the Puerto Rico Treasury Department. In the event, the Department regains access to those funds, through the approval of the Oversight Board, the amount recovered will be presented as a change in estimate in the Statement of Activities and Statement of Statement of Revenues, Expenditures, and Changes in Fund Balances. As of June 30, 2020, the Department has \$987 thousands of unencumbered previous-year balance of non-current allocations from the General Fund, which have been recorded as a liability of the Department. This amount is the best estimate based on current facts and circumstances, however, due to the novel nature of this requirement, the Department's estimate may change in the near term.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Accounts Receivables

Accounts receivable represent principally 1) US Department of Labor receivable owed to the Department for the reimbursement of expenditures incurred pursuant to federally funded programs; and 2) intergovernmental receivable owed to the Department for service provided but not collected at year-end, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Governmental activities are generally supported by intergovernmental revenue and certain taxes are reported separately from business-type activities rely to a significant extent on management fees charged to the operational components, previously listed for administrative services.

Notes Receivable and Allowance for Note Losses

Notes receivable are valued at the outstanding principal balance less an allowance for uncollectable amounts. The Department provides for losses through an allowance for doubtful accounts to the extent revenues from film productions are estimated to be insufficient to cover the outstanding balances. The allowance is increased by a provision for note losses, and reduced by charge-offs, net of recoveries.

The Department considers the notes impaired when based on current information or factors (such as payment history, value of collateral, and assessment of the producers' creditworthiness), it is probable that the principal will not be collected. As of June 30, 2020, all notes receivable are fully reserved.

Investment in Film Rights

Acquisition of distribution film rights, mainly in international markets, are treated as investments pursuant to GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Under such agreements the Department has the right to license, exploit, reproduce, distribute, sub-distribute, broadcast, perform, exhibit, market, advertise and publicize the motion picture in the territory for non-commercial and commercial broadcast in any form, method or means of delivery including terrestrial, cable, satellite or whatsoever other means of delivery broadcast or exhibition now known or later, on such terms and conditions that the Department or its licensees may elect in the exercise of its sole discretion. The producer will have the right to buy back these rights for the same amount paid by the Department before the motion picture is completed and delivered or if thereafter before the Department makes the first sale of the motion picture.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Investment in Equity Interest

The Department will first recoup the cost of the film rights and if it enters a profit position, then the Department will share the revenue equally with the producer on a 50%-50% basis. Investment in film rights is carried at the lower of cost or net realizable value. The Department has estimated the fair value of the investment by determining the present value of estimated expected future cash flows. Due to the lack of cash flows from these film rights, the Department has provided a reserve to written down the investment to its net realizable value.

As a financing option to eligible film projects, the Department may invest in preferred units from eligible companies engaged in film projects. As of June 30, 2020, all investment in equity interest have been written-off.

Restricted Assets

Funds set aside for a specified purpose are classified as restricted assets because their use is limited for a purpose by applicable agreements or as required by law.

Capital Assets

Capital Assets include equipment (including software), vehicles and are reported in the applicable governmental activities and business-type activities in the government-wide financial statements and in the proprietary fund financial statements. Capital assets are defined by the Department as assets, which have a cost of \$500 or more at the date of acquisition and have an expected useful life of three or more years. When capital assets are purchased, they are recorded as expenditures in the governmental funds. Capital assets are stated at historical cost. When assets are sold, retired or otherwise disposed of, the cost is removed. Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets range from five to ten years.

All buildings occupied by the Department are recorded as capital assets in the accounting records of other agencies of the Commonwealth. Accordingly, all major modernizations and betterments, if any, done by the Department are charged to expenditures in its fund accounting and reported as expense in the government-wide financial statements when incurred. All other assets used in the governmental operations are accounted for in the government wide financial statements of net position, rather than in the governmental funds.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Also, the Department periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No evidence of impairment is evident as a result of such review.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources, which represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows/inflows of resources have to be reported in the government-wide statement of net position, which are items related to pensions and other postemployment benefit (OPEB). Pension related items (further disclosed in the following paragraphs and Note 14), changes in proportional share of contributions and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. The net difference between projected and actual earnings on pension plan investments is deferred and recognized as a reduction of the net pension liability after the next measurement date. OPEB benefits related item (further disclosed in the following paragraphs and Note 15), contributions made subsequent to the measurement date recognized as a reduction of the total OPEB liability after the next measurement date.

In addition to liabilities, the statement of net position and the governmental funds' balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial element represents an acquisition of net position and resources (revenue) until that time. The Department has only one caption arising from the accrual basis of accounting that qualifies for reporting in this category, items related to pensions. Because all participants are inactive, there are no deferred inflows for the OPEB benefits. Pension related items (further discussed in the following paragraphs and Note 14), changes in proportional share of contributions, differences between expected and actual experience and changes in actuarial assumptions, are deferred and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period.

Accounting for Pension Costs

The Department accounts for pension costs under the provision of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No 68, an amendment of Certain Provisions of GASB Statements No. 67 and 68 (GASB Statement 73)*. Statement No. 73 maintains the "accrual basis" model under Statement 68, where the Total Pension Liability is actuarially determined.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Accounting for Pension Costs – (continued)

GASB Statement No. 73 requires a liability for pension obligations, known as the Total Pension Liability, to be recognized on the balance sheets of participating employers. Changes in Total Pension Liability are immediately recognized as pension expenses. As Act 106-2017 eliminated all contribution requirements for the pension plan and converted it into a PayGo system, the corresponding actuarial calculation of the total pension liability and related accounts changed to one based on benefit payments rather than contributions.

As a result, the Department recognized a Total Pension Liability (replacing the previously recognized Net Pension Liability and related accounts under the previous method) and pension expenses, accordingly. As the change to the PayGo system was caused by the impact of legislation and the actuarial calculation changed from one based on contributions to a new one based on benefit payments under the new PayGo system, the impact on all corresponding pension related accounts was accounted for prospectively.

Pursuant to the provisions of GASB No. 73, the Department recognizes a pension liability for its proportionate share of the collective pension liability under the Pension Plan, as well as its proportionate share of the collective deferred outflows of resources, collective deferred inflows of resources, and collective pension expense. The Department's allocation percentage is based on the ratio of the Department's benefit payments to total benefit payments under the Pension Plan. Changes in the total pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in the total pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average of the remaining service life of all participants including retirees, in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they arose.

Other Postemployment Benefits Liability

The Department provided other retirement benefits such as postemployment healthcare benefits (collectively referred to as OPEB) for its retired employees in accordance with local law. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Department. The Department accounts for OPEB under the provisions of GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Other Postemployment Benefits Liability – (continued)

This statement measures the net OPEB liability, deferred outflows of resources and deferred inflows of resources, if any, related to the OPEB, and OPEB expense. The information about the fiduciary net position of the Commonwealth and additions to/deductions from the Other Postemployment Benefit Medical Plan of the Commonwealth for Retired Participants of the Employees' Retirement System (the OPEB Plan)'s fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the Department recognizes benefit payments when due and payable in accordance with the benefit terms.

Inter-Fund Transactions

The Department has the following types of inter-fund activities:

- *Inter-Fund Loans* – Represent amounts provided with a requirement for repayment, which are recorded as "due from" in the lender fund and "due to" in the borrower fund. For amounts not expected to be collected within a reasonable period of time, inter-fund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as an operating transfer from the fund that made the loan.
- *Inter-Fund Transfers* – Represent flows of assets without equivalent flows of assets in return and without a requirement for repayment. These are reported as other financing sources in the fund making transfers and as other financing sources in the fund receiving transfers.
- *Inter-Fund Reimbursements* – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them. Inter-fund reimbursement activity has not been eliminated.

Compensated Absences

Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences is reported in the statement of net position. A liability for compensated absences is reported in the fund financial statements only when payment is due. The liability for compensated absences recorded in the accompanying statement of net position is limited to leave that is attributable to services already rendered and is not contingent on a specific event. The liability includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of Social Security taxes and Medicare taxes).

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Compensated Absences – (continued)

On April 29, 2017, the Governor of the Commonwealth signed into law Act No. 26 of 2017 “*Law for the Compliance with the Fiscal Plan Act (Act No. 26-2017)*” which, among other things, changed the vacation and sick leave accrual formula for all government employees. Under the new law, all employees accrued 1.25 days per month of service up to 60 days for vacation leave.

Employees generally accumulate sick leave at a rate of 1 day per month up to an annual maximum of 12 days and an accumulated maximum of 90 days. The Department’s employees are entitled to 2.5 days per month up to maximum of 60 days for vacations, and 1.5 days per month up to a maximum of 90 days for sick leave. Vacation and sick leave are recorded as benefits when earned. The estimated values of leave earned by employees that may be used in subsequent years or paid upon termination or retirement are accounted for in the proprietary fund financial statements and the government-wide financial statements as a liability. In the governmental funds, such liability is recorded only for the current portion.

Act No. 26-2017 was enacted to modify the existent legal and judiciary framework to be able to comply with the Fiscal Plan approved by the Oversight Board. In addition to accrual modifications, Act No. 26-2017 also altered the liquidation terms. After the enactment of Act No. 26-2017, only compensation of accrued vacation leave, up to 60 days, is paid upon employment termination. To be eligible to receive compensation, an employee must have been employed for at least three months. Accumulated unpaid sickness days are no longer liquidated upon employment termination.

Voluntary Termination Benefits

The Department accounts for voluntary termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Pursuant to the provisions of GASB Statement No. 47, in financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted, and the amount can be estimated. A liability and expense for termination benefits (for example, severance benefits) is to be recognized in the government-wide financial statements when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by the General Fund during the fiscal year to control expenditures. The unencumbered balance of any appropriation of the General Fund at the end of the fiscal year lapses immediately. Appropriations, other than in the General Fund, are continuing accounts for which the Department has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

Claims and Judgments

In the government-wide and proprietary funds financial statements, the Department recognizes an expense and a liability for claims and judgments only when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. The liability for claims and judgments includes all claim adjustment expenses that are incremental (directly related to individual claims). In governmental fund financial statements, an expenditure and a liability are recognized only as liabilities come due for payment.

Direct Charges

Pursuant to and determined by an internal cost allocation plan, certain costs initially are charged to the General Fund and then billed as direct charges to other funds. Revenues from these charges are accounted for in the government-wide statement of activities as general government and in the statement of revenues, expenditures and changes in fund balances as charges for services in the General Fund. The corresponding expenses appear as function/program costs in the statement of activities.

New Accounting Standards Adopted

GASB Statement No. 95, Postponements of Effective Dates of Certain Authoritative Guidance.

The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

New Accounting Standards Issued But Not Yet Adopted

GASB has issued the following standards that have not been adopted by the Department, and are currently under evaluation for their impact in future financial statements:

- GASB Statement No. 83, *Certain Asset Retirement Obligation*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.
- GASB Statement No. 84, *Fiduciary Activities*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.
- GASB Statement No. 87, *Leases*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.
- GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.
- GASB Statement No. 91, *Conduit Debt Obligations*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*. The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement No. 87 and Implementation Guide 2020-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

New Accounting Standards Issued But Not Yet Adopted – (continued)

- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021. Earlier application is encouraged and is permitted by topic.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The requirements of this Statement, except for paragraphs 11 b, 13, and 14 are effective for reporting periods beginning after June 15, 2020. The requirement in paragraph 11 b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years periods beginning after June 15, 2021, and all reporting periods thereafter. Earlier application is encouraged.
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The requirements of this Statement are effective immediately.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans — an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The requirements of this Statement are effective as follows:

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

New Accounting Standards Issued But Not Yet Adopted – (continued)

- The requirements in (1) paragraph 4 of this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately.
- The requirements in paragraphs 6–9 of this Statement are effective for fiscal years beginning after June 15, 2021.
- All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

Earlier application is encouraged and is permitted by specific requirement as follows:

1. Paragraph 4 of this Statement as it applies to arrangements other than defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans
2. Paragraphs 6–9 of this Statement and the supersession of the remaining requirements of Statement 32 (as detailed in paragraph 3 of this Statement).

Questions 4.3 and 4.5 of Implementation Guide 2020-2, as amended, are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged if Statement 84, as amended, has been implemented.

- GASB Statement No 98, *The Annual Comprehensive Financial Report*, this Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies – (continued)

New Accounting Standards Issued But Not Yet Adopted – (continued)

- GASB 99, *Omnibus 2022*. This statement establishes or amends accounting and financial reporting requirements for specific issues related to financial guarantees, derivative instruments, leases, public-public and public-private partnerships, SBITA arrangements, the transition from the London Interbank Offered Rate (LIBOR), the Supplemental Nutrition Assistance Program, nonmonetary transactions, pledges of future revenues, the focus of government-wide financial statements, and terminology. The requirements of this statement apply to the financial statements of all state and local governments. This statement supersedes certain provisions of GASB 24 and GASB 62. In addition, GASB 99 amends specific provisions of GASB 10, 24, 30, 33, 34, 53, 62, 72, 87, 93 and 96, and certain implementation guides. Certain requirements of GASB 99 are effective upon issuance, while others are effective for fiscal years beginning after June 15, 2022 and June 15, 2023.
- GASB 100, *Accounting Changes and Error Corrections—An Amendment of GASB Statement No. 62*. The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

Management is evaluating the impact that these statements will have on the Company's basic financial statements.

Subsequent Events

Subsequent events were evaluated through August 5, 2022, the date the financial statements were available to be issued. There were no significant events that should have been recorded or disclosed in the financial statements, except as the events disclosed in **Note 19**.

Note 3 - Change in Reporting Entity

As mentioned in Note 1, Act 60 consolidated all previous tax incentives and centralized all economic incentives in the Department, which included the Special Fund for Economic Development (SFED), the Special Incentives Fund (SIF), and the Rums of Puerto Rico Fund (ROPR).

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 3 - Change in Reporting Entity – (continued)

A change in reporting entity occurs when two or more previously separate entities are combined into one entity for reporting purposes, or when there is a change in the mix of entities being reported. The definition of reporting entity is based primarily on the idea that the reporting entity should encompass all units for which the elected officials are financially accountable, as well as those organizations that do not meet the financial accountability test, but that management feels it would be misleading to exclude (GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*).

Since the operations of these separate funds were managed by another related entity and now form part of the Department, all balances that had been recorded in this funds' financial records are being recognized against beginning fund balance in the Department's financial statements.

The following table summarizes the changes to net position at beginning of year resulting from the change in reporting entity:

| | Governmental Activities |
|---|----------------------------|
| Net position - July 1, 2019, as previously reported | \$ 9,744,292 |
| Change in reporting entity: | |
| Special Fund for Economic Development (SFED) | 56,342,000 |
| Special Incentives Fund (SIE) | 4,703,000 |
| Rums of Puerto Rico Fund (ROPR) | 12,998,000 |
| | 74,043,000 |
| Net position - July 1, 2019, as restated | \$ 83,787,292 |

Note 4 - Risk Financing

The Department carries commercial insurance to cover property, casualty, theft, tort claims and other losses. Also, carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accident's Compensation (AACA), a discretely presented component unit of the Commonwealth.

The Department obtains workers' compensation insurance coverage through the State Insurance Fund Corporation, a component unit of the Commonwealth. This insurance covers workers against injuries, disability, or death because of work or employment-related accidents, or because of employment related illness.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 4 - Risk Financing – (continued)

The Department obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents or because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

The Department also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by the Department of Treasury on behalf of the Department. The Department's current insurance policies have not been cancelled or terminated.

Note 5 - Custodial Credit Risk

Deposits held in commercial banks are maintained in Puerto Rico and are insured as of June 30, 2020. The carrying amount of the deposits of the Department as of June 30, 2020 consists of the following:

| | Carrying Amount | Bank Balance |
|-------------------------|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| Governmental activities | | |
| Commercial Bank | \$ 153,002,294 | \$ 153,002,294 |
| | <u> </u> | <u> </u> |

Government Development Bank for Puerto Rico

On November 29, 2018, the Government Development Bank for Puerto Rico (GDB) completed a restructuring of certain of its indebtedness pursuant to the Qualifying Modification. Under the Qualifying Modification, holders of claims on account of deposits were exchanged for interest in a newly formed trust created pursuant to the GDB Restructuring Act, known as the Public Entity Trust (the "PET"). As of June 30, 2020, the Department interest amounted to \$1.7 million.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 5 - Custodial Credit Risk – (continued)

CORCO Fund

On January 8, 1981, the Commonwealth Oil refining Company hereinafter named CORCO entered into an agreement with the Government of Puerto Rico in which 24 equal payments in the amount of \$291,667 were to be made to a fund that was to be administered by the Governor of Puerto Rico or whoever the Governor delegated to.

The Governor then signed Executive Order 4004-A which designated the Office of Energy as the government entity in charge of the administration of the funds. After various amendments the funds were to be utilized as follows:

- Accelerated Relamping Program \$638,705
- Waste to Energy Project/Eco Futures Caribe \$2,000,000
- Institutional Conservation Program \$4,116,376

As of June 30, 2020, the remaining funds being administered by the Office of Energy include a certificate of deposit amounting to \$2,924,718 for which a custodial credit loss of the same amount has been recorded in the financial records of the Energy Office. Please refer to Note 20 for information related to a custodial credit recovery that occurred in fiscal year 2021.

Note 6 - Notes Receivable

Notes receivable represent the outstanding balances of the financing facilities granted to film producers through the FIDP. As of June 30, 2020, the Department did not issue notes receivable. The Department has the option to obtain the film rights of the production financed through the FIDP, if the amounts are not collected in the future.

Note 7 - Investments in Film Right

During the year ended June 30, 2020, the Department did not acquire film rights, under the FIDP. Film rights acquired in previous years had been fully allowed as of June 30, 2015 and written off as of June 30, 2016.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 8 - Investments in Equity Interest

Investments in equity interest consist of preferred stocks acquired by the Department from the following five Puerto Rico limited liabilities companies engaged in film projects:

| | Shares Authorized | | Amount Purchases by Department | Project |
|---------------------------------------|--------------------|--------------|--------------------------------------|---------------|
| | Preferred Units | Price | | |
| El Acantilado Holdings, LLC | | | | |
| Class A Preferred Membership Interest | 1,000,000 | \$ 1,000,000 | \$ 1,000,000 | El Acantilado |
| The Caller Production, LLC | | | | |
| Class B Preferred Units | 1,000,000 | 1,000,000 | 1,000,000 | The Caller |
| Isla Film Productions, LLC | | | | |
| Class A Membership Interest | 1,140 | 1,140,000 | 798,003 | America |
| 200 Cartas Films, LLC | | | | |
| Class B Membership Interest | 800 | 800,000 | 416,903 | 200 Cartas |
| Rid 79, LLC | | | | |
| Class A Membership Interest | 800 | 800,000 | 800,000 | Rinding 79 |
| Total | | | 4,014,906 | |
| Impairment Allowance | | | (4,014,906) | |
| | | | \$ - | |

The provision for impairment losses, established in prior years, represents the amount that management believes will be adequate to absorb possible losses on its investment in equity interest that may become unrecoverable. During the year ended June 30, 2020, the Department did not recognize additional provisions regarding these investments.

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Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 9 - Interfund Transactions

Interfund receivables and liabilities as of June 30, 2020, consisted of the following:

| | Total Administration Fund | Total Federal Programs | Total Governmental | Total |
|--------------------------------------|---------------------------------|------------------------------|------------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| General Fund | \$ - | \$ - | \$ (6,253,184) | \$ (6,253,184) |
| Workforce Innovation Opportunity Act | - | (1,084,961) | - | (1,084,961) |
| State Energy Program | - | (80,624) | - | (80,624) |
| Weatherization Assistance Program | - | 21,395 | - | 21,395 |
| Film Industry Development Program | - | - | 701,615 | 701,615 |
| Other Governmental funds | - | - | (4,464,002) | (4,464,002) |
| Internal Services | <u>11,159,761</u> | <u>-</u> | <u>-</u> | <u>11,159,761</u> |
| Total interfund | <u>\$ 11,159,761</u> | <u>\$ (1,144,190)</u> | <u>\$ (10,015,571)</u> | <u>\$ -</u> |

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Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 10 - Capital Assets

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

| | Balance June 30, 2019 | Additions | Retirements | Transfers from Change in Reporting Entity | Balance June 30, 2020 |
|---|--------------------------|--------------------|-------------|---|--------------------------|
| Governmental activities: | | | | | |
| Capital assets: | | | | | |
| Equipment | 1,478,682 | 39,624 | - | 30,596 | 1,548,902 |
| Vehicles | 427,506 | - | - | - | 427,506 |
| Total capital assets | 1,906,188 | 39,624 | - | 30,596 | 1,976,408 |
| Less accumulated depreciation: | | | | | |
| Equipment | (1,205,438) | (52,721) | - | (14,449) | (1,272,608) |
| Vehicles | (284,563) | (76,329) | - | - | (360,892) |
| Total accumulated depreciation | (1,490,001) | (129,050) | - | (14,449) | (1,633,500) |
| Capital assets, net of accumulated depreciation | <u>\$ 416,187</u> | <u>\$ (89,426)</u> | <u>\$ -</u> | <u>\$ 16,147</u> | <u>\$ 342,908</u> |
| Business Type activities: | | | | Additions from Change in Reporting Entity | |
| Capital assets: | | | | | |
| Equipment | \$ 30,595 | \$ 5,180 | \$ - | \$ - | \$ 35,775 |
| Less accumulated depreciation | | | | | |
| Equipment | (14,450) | - | - | - | (14,450) |
| Capital assets, net of accumulated depreciation | 16,145 | 5,180 | - | - | 21,325 |

Depreciation expense was charged to administrative expenses on the statement of activities for the year ended June 30, 2020.

Note 11 - Accounts payable, accrued liabilities and due to subrecipients

Accounts payable and accrued liabilities include due to other governmental entities for payroll withholdings, program cost reimbursements, and other services in the amount of approximately \$17.7 million.

Amounts due to subrecipients of approximately \$7.7 million consist principally of amounts due to municipalities or local areas of municipalities of the Commonwealth for cost of services performed and billed by such entities under the WIOA program.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 12 - Accrued Compensated Absences

The accrued compensated absences liability balance on June 30, 2020, consists of the following activity:

| | Balance as of June 30, 2019 | Increase | Decrease | Balance as of June 30, 2020 | Due within One year |
|------------------------------|--------------------------------|--------------|----------|--------------------------------|------------------------|
| Accrued compensated absences | \$ 1,743,919 | \$ 1,054,515 | \$ - | \$ 2,798,434 | \$ 1,397,495 |

Note 13 - Voluntary Termination Benefits

The Department accounts for termination benefits in accordance with *Accounting for Termination Benefits* (GASB Statement No. 47). Pursuant to the provisions of GASB Statement No. 47, in financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted, and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized in the government-wide financial statements when: (i) a plan of termination has been approved by those with the authority to commit the government to the plan, (ii) the plan has been communicated to the employees, and (iii) the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

Act No. 70

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provided benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Department, who elected to retire no later than December 31, 2012. Act No. 70 provided that early retirement benefits to eligible employees that had completed between 15 and 29 years of credited service in the Retirement System. This program was available to employees from the enactment of law of 2012. Benefits ranged from 37.5% to 50% of the employee salary, as defined. Pursuant to Act No. 70-2010, the Department, as employer, will continue making the applicable employer contributions to the Retirement System, as well as covering the annuity payments to the employees opting for early retirement, until both the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 13 - Voluntary Termination Benefits – (continued)

Act No. 70 – (continued)

Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System (incentivized resignation program) or who have at least 30 years of credited service in the Retirement System and who have the age for retirement (incentivized resignation program). Economic incentives will consist of a lump sum payment ranging from one month to six months' salary based on employment years.

Additionally, eligible employees that choose to participate in the early retirement program or in the incentivized resignation program are eligible to receive health plan coverage for up to 12 months in a health plan selected by the management of the Commonwealth. At June 30, 2020, unpaid long-term benefits granted in Act No. 70-2010 were discounted at an interest rate of 2.20%.

Internal Voluntary Transition Program

The Department's reorganization plan, dated April 18, 2019, includes a voluntary transitory program (the Program), as an alternative for the eligible employee of the agency, to receive certain economic support while seeking an employment opportunity in the private sector. To participate in the Program, the eligible employee must have served on a career position even if paid with federal funds. However, the employee who occupied a position of trust, had a transitory status, or had signed "the Acuerdo Final de Renuncia Incentivada en el Programa de Transición Voluntaria" establish under the OA-2017-05 of "the Puerto Rico Fiscal Agency and Financial Advisory Authority" (AAFAF) was not eligible for the Program. The OA-2017-05 created a "Voluntary Transition Program" as an alternative available of incentivized resignation for eligible employees of the executive branch with career positions. Nevertheless, the employees on positions of trust with the right to reinstatement in a career position are eligible if they are reinstated to the career position before becoming a participant of the program.

The following is the termination benefits liability for the year ended June 30, 2020:

| | <u>Balance as of</u> <u>June 30, 2019</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance as of</u> <u>June 30, 2020</u> | <u>Due within</u> <u>one year</u> |
|------------------------------|--|-----------------|--------------------|--|--------------------------------------|
| Accrued termination benefits | <u>\$ 1,249,160</u> | <u>\$ -</u> | <u>\$ (75,779)</u> | <u>\$ 1,173,381</u> | <u>\$ 244,563</u> |

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 14 - Pension Plan

As a result, On August 23, 2017, Act No. 106 was enacted, which is known as the “*Law to Guarantee Payment to our Pensioners*”. Under this Act, starting July 1, 2017, the General Fund, through the system of “pay-as-you-go” (PayGo), assumes the payments of the three Retirement Systems (Employees Retirement System [ERS] of the Government of the Commonwealth, the Teachers’ Retirement System and Judiciary Retirement System), because the retirement plan has depleted the assets set aside to pay benefits.

The Department will assume the proportional share of the pension benefits of the Department’s retirees. Under Act No. 106, active employees will be required to contribute a minimum of 8.5% of their compensation, into a defined contribution plan. However, Act No. 106 does not provide for employer contributions. Contributions will be deposited in a separate account for each employee and invested in accordance with certain guidelines. Upon retirement, employees will receive retirement benefits accumulated after the enactment of Act No. 106, with certain limitations, plus benefits accumulated until the enactment of Act No. 106, with certain limitations, including benefits accumulated under previous defined benefit, defined contribution, and hybrid plans, as discussed below. Benefits accumulated after the enactment of Act No. 106 include only those amounts contributed by the participant during that period and the yield from those deposits. Based on the investment instruments acquire by the participant there are investment risks that may impair the value of the participant account through the date of retirement.

On May 21, 2017, the Oversight Board filed in the United States District Court for the District of Puerto Rico voluntary petition under Title III of PROMESA for the ERS. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees in the Commonwealth’s Title III cases.

The ERS also provided basic benefits under the defined benefit program principally consisting of a retirement annuity and death and disability benefits (collectively referred to herein as Basic System Pension Benefits). The ERS also administered benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries (collectively referred to herein as System Administered Pension Benefits). The System Administered Pension Benefits included, among others, additional minimum pension, death and disability benefits, ad-hoc cost-of-living adjustments and summer Christmas bonuses. Act No. 3-2013 and Act No. 160-2013 amended the amounts payable to existing retirees while eliminating the benefits for all future retirees (those retiring after June 30, 2013 and July 31, 2014).

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 14 - Pension Plan – (continued)

Total Pension Liability and Actuarial Information

The total Pension Plan liability recorded by the Department as of June 30, 2020 (measurement date June 30, 2019) amounted to \$29.9 million representing its proportionate share of the total pension liability of the Pension Plan as of such date. The total pension liability as of June 30, 2020 (measurement date June 30, 2019) was determined by an actuarial valuation as of July 1, 2018, that was rolled forward to June 30, 2019 (measurement date). The Department's proportion of the total pension liability was actuarially determined based on the ratio of the Department's benefit payments to the total benefit payments made by all participating employers under the Pension Plan for the year ending on the measurement date. On June 30, 2019 (measurement date), the Department's proportionate share was 0.12030%.

Actuarial methods and assumptions

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

Discount rate

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

Mortality

The mortality tables used in the June 30, 2019 (measurement date) actuarial valuation were as follows:

Pre-Retirement Mortality - For general employees not covered under Act No. 127 of 1958, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2019 on a generational basis. For members covered under Act No. 127 of 1958, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year and projected forward using MP-2019 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127 of 1958.

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 14 - Pension Plan – (continued)

Mortality – (continued)

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

Other assumptions

| | |
|-----------------------|---|
| Actuarial cost method | Entry age normal |
| Inflation rate | Not applicable |
| Salary increases | 3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act 3 of 2017, four-year extension of Act No. 66 of 2014 and the current general economy. |

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Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 14 - Pension Plan – (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Department's total pension liability calculated using the discount rate of 3.50%, as well as what the Department's proportionate share of the total pension liability it would be if it were calculated using a discount rate of 1% point lower (2.50%) or 1% point higher (4.50%) than the current rate (dollar in thousands):

| | <u>1% Decrease (2.50%)</u> | <u>Current discount rate (3.50%)</u> | <u>1% Increase (4.50%)</u> |
|-------------------------|--------------------------------|--|--------------------------------|
| Total pension liability | <u>\$ 34,017,425</u> | <u>\$ 29,894,323</u> | <u>\$ 26,548,400</u> |

Deferred Outflows of Resources and Deferred Inflows of Resources from Pension Activities

As of June 30, 2020 (measurement date June 30, 2019), the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience in measuring total pension liability | \$ - | \$ - |
| Changes in assumptions | - | 999,956 |
| Net difference between projected and actual earnings on pension plan investments | 1,215,273 | 896,044 |
| Changes in proportion and differences between actual contributions and proportionate share | <u>1,701,034</u> | <u>54,017</u> |
| | <u>\$ 2,916,307</u> | <u>\$ 1,950,017</u> |

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 14 - Pension Plan – (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources from Pension Activities – (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2019 (measurement date) will be recognized as adjustment to pension expense in the Department’s financial statements as follows:

In addition, employer contributions subsequent to the measurement date should be reported under deferred outflows of resources and recognized as a reduction of the total pension liability in the year ended June 30, 2020. This amount is not included above. Note that additional future deferred inflows and outflows of resources may impact these numbers. Liability changes due to demographic gains and losses and changes in actuarial assumptions are amortized over the expected working lifetime of active and inactive participants in the plan as of the beginning of the measurement date.

Pension Expense (Benefit)

For the fiscal year ended June 30, 2020, the Department recognized pension expense of \$2.7 million corresponding to Governmental Activities. Pension expense represents the change in the total pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

The composition of the Department’s proportionate share of the total pension expense (benefit) for the year ended June 30, 2020 (measurement date June 30, 2019) are as follows:

| | |
|--|----------------------------|
| Amortization of Deferred Outflows of Resources | \$ 1,776,510 |
| Amortization of Deferred Inflows of Resources | (1,641,509) |
| Change in Pension liability | <u>2,569,324</u> |
| Total pension expense | <u><u>\$ 2,704,325</u></u> |

PayGo Pension Reform

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new “pay-as-you-go” (PayGo) system. With the start of fiscal year 2018, employers’ contributions, contributions ordered by special laws, and the Additional Uniform Contribution were all eliminated.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 14 - Pension Plan – (continued)

PayGo Pension Reform – (continued)

The PayGo system was one component of Act No. 106 of 2017 (Act 106-2017), which the Governor signed into law on August 23, 2017. Act 106-2017 created the legal framework so that the Commonwealth can guarantee benefit payments to current pensioners through the PayGo system. Approximately \$2 billion was allocated for these purposes in each of the budgets for fiscal year 2020 and fiscal year 2020. Act 106-2017 also created a Defined Contributions Plan, similar to a 401(k) plan, which is managed by a private entity. Future benefits will not be paid by the Retirement Systems.

Act 106-2017, among other things, amended Act No. 12 with respect to ERS's governance, funding and benefits for active members of the actual program and new hired members. Under Act 106-2017, ERS's board of trustees was eliminated, and a new Retirement Board was created. The Retirement Board is currently responsible for governing both ERS, the Judiciary Retirement System (JRS), and Teachers Retirement System (TRS).

Act 106-2017 terminated the previously existing pension programs for ERS participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 have been enrolled in a new defined contributions program selected by the Retirement Board. The accumulated balance on the accounts of the prior program were transferred to the member accounts in the new defined contributions program, effective as of June 22, 2020. ERS' active members of the defined contributions program retained their benefits as stated under Act 91 of March 29, 2003.

Act 106-2017 also ordered a suspension of ERS's loan programs and ordered a merger of the administrative structures of the Retirement Systems. At the Retirement Board's discretion, the administration of ERS benefits may be externalized. The employees of ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8 of February 8, 2017. In addition, Act No. 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating an incentives, opportunities, and retraining program for public workers.

Discount Rate

The asset basis for the date of depletion projection is the System's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the System's fiduciary net position was exhausted in the fiscal year 2015.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 14 - Pension Plan – (continued)

Discount Rate – (continued)

The System’s fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax-free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate was 3.50% as of June 30, 2019.

The June 30, 2019, actuarial valuation reflects an increase of \$3.1 million in the net pension liability, mainly related to the effect of economic/demographic gains or losses.

The discount rate on June 30, 2018, and 2019 was as follows:

| | 2018 | 2019 |
|---|-------|-------|
| Discount rate | 3.87% | 3.50% |
| Long-term expected rate of return net of investment expense | | N/A |
| Municipal bond rate* | 3.87% | 3.50% |

*Bond Buyer General Obligation 20-Bond Municipal Bond Index

Note 15 - Other Postemployment Benefits

Plan Description

The Other Postemployment Benefit Medical Plan of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employees’ Retirement System (the OPEB Plan) is an unfunded, multi-employer defined benefit other postemployment healthcare benefit plan sponsored by the Commonwealth. The Plan is administered on a pay-as-you-go basis and no assets are accumulated in a qualifying trust that meets the criteria of GASB Statement No. 75. The OPEB Plan covers a payment of up to \$100 per month for an eligible medical insurance plan selected by the member, provided that the member retired prior to July 1, 2013, Act No. 483 of September 23, 2004, as amended by Act No. 3 of April 4, 2013. Substantially all fulltime employees of the Commonwealth’s primary government, certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, were covered by the OPEB.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 15 - Other Postemployment Benefits – (continued)

Employees covered

Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages. However, Act No. 3 of 2013 eliminated this healthcare benefit to the Plan members that retired after June 30, 2013.

On July 1, 2018, the OPEB Plan membership consisted of 97 retired members.

Contributions

The contribution requirement of the OPEB Plan was established by Act No. 95 approved on June 29, 1963. This OPEB Plan is financed by the Commonwealth on a pay-as-you-go basis. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded. During the year ended June 30, 2020, OPEB payments amounted approximately to \$47 thousand.

The funding of the OPEB benefits is provided to the System through legislative appropriations each July 1 by the Commonwealth's General Fund. The legislative appropriations are considered estimates of the payments to be made by the System for the healthcare benefits throughout the year. However, each month the Commonwealth claims reimbursement from the employer for the actual OPEB payments.

Total Other Postemployment Benefits Liability

The Entity's total OPEB liability, of \$684 thousands, was measured as of June 30, 2019, and was determined by an actuarial valuation as of July 1, 2019, projected forward to determine the June 30, 2019 total OPEB liability.

Actuarial Methods and Assumptions

The census data collection date is at beginning-of-year. The total OPEB liability as of June 30, 2019, are based on projecting the System obligations determined as of the census data collection date of July 1, 2019 for one year, using roll-forward methods and assuming no liability gains or losses.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 15 - Other Postemployment Benefits – (continued)

Actuarial Methods and Assumptions – (continued)

The actuarial valuation used the following actuarial assumptions:

| | |
|----------------------|--|
| Inflation | Not applicable |
| Municipal bond index | 2.00%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index |
| Mortality | Pre-retirement Mortality: |

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year and projected forward using MP-2017 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2017 from the 2016 base year, projected forward using MP-2017 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

Post-retirement Healthy Mortality:

Rates which vary by gender are assumed for healthy retirees and beneficiaries on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92 % of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2017 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 15 - Other Postemployment Benefits – (continued)

Actuarial Methods and Assumptions – (continued)

Post-retirement Disabled Mortality:

Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2017 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2016 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Most other demographic assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience 2009 study using data as of June 30, 2003, June 30, 2005, and June 30, 2007.

Discount Rate

The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average of AA/Aa or higher. It was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate was 3.50% as of June 30, 2019.

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Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 15 - Other Postemployment Benefits – (continued)

Changes in the Total Other Postemployment Benefits Liability

Changes in the Total OPEB Liability of ERS measured as of June 30, 2019 were as follows:

| | <u>Total OPEB Liability</u> |
|--|---------------------------------|
| Total OPEB liability – beginning | \$ <u>695,347</u> |
| Changes for the year: | |
| Interest on Total OPEB liability | |
| Effect of economic/demographic gains or losses | 35,648 |
| Effect of assumptions changes or inputs | (47,025) |
| Benefit payments | <u>(47,025)</u> |
| Net change in total pension liability | <u>(11,377)</u> |
| Total OPEB liability – ending | <u>\$ <u>683,970</u></u> |

Entity's Proportion of Total Other Postemployment Benefits Liability of ERS

The following table presents the Entity's proportionate share of the total OPEB liability of ERS as of June 30, 2019, and the proportion percentage of the aggregate total OPEB liability of ERS allocated to the Department:

| | <u>Measured as of June 30, 2019</u> |
|---|---|
| Proportion of the total OPEB liability | 0.08616% |
| Proportionate share of the total OPEB liability | <u>\$ <u>683,970</u></u> |

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 15 - Other Postemployment Benefits – (continued)

Sensitivity of the Total Other Postemployment Benefits Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Entity's calculated using the discount rate of 2.00%, as well as what it would be if it were calculated using a discount rate of 1-percent point lower 1.00% or 1-percent point higher 3.00% than the current rate (dollars in thousands):

| | 1% Decrease (2.50%) | Current discount rate (3.50%) | 1% Increase (4.50%) |
|----------------------|------------------------|-------------------------------------|------------------------|
| Total OPEB liability | <u>\$ 750,173</u> | <u>\$ 683,970</u> | <u>\$ 627,756</u> |

Deferred Outflows of Resources and Deferred Inflows of Resources

Because all participants are inactive, there are no deferred inflows and outflows as any changes due to changes in actuarial assumptions or economic or demographic gains and losses are recognized immediately during the measurement year.

In addition, as of June 30, 2020, employer OPEB payments subsequent to the measurement date, in the amount of \$57 thousands were reported as deferred outflows of resources and were recognized as a reduction of the total OPEB liability in the year ended June 30, 2020.

Note 16 - Related-Party Transactions

Governmental Activities

Invest Puerto Rico (InvestPR)

InvestPR works to elevate Puerto Rico as a world-class business destination. The organization is a public-private partnership created by law and incorporated as a 501(c)3 nonprofit. It is governed by an eleven-member Board of Directors appointed by the Governor of Puerto Rico and is comprised of three public sector representatives and eight private sector representatives.

The Department contributed \$2.5 million to support the activities of InvestPR as of June 30, 2020. There was no amount receivable from the entity.

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 16 - Related-Party Transactions – (continued)

Puerto Rico Industrial Development Corporation (PRIDCO)

The Puerto Rico Industrial Development Company (PRIDCO) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth), created in 1942 by Act No. 188, as amended. PRIDCO is engaged in promoting the development of new local enterprises and encouraging U.S. and foreign investors to establish and expand their business operations in Puerto Rico. To accomplish its mission, PRIDCO, among its many programs, constructs industrial facilities for lease or sale to qualified enterprises.

During the year 2020, DDEC has a payable of \$3.8 million approximately for leasehold improvements paid by PRIDCO to the rented offices. The amount was recorded as a contribution.

The Department pays rent for several offices and during the fiscal year 2020 it amounted to approximately \$2.0 million.

Puerto Rico Trade and Export Corporation (CCE)

The Puerto Rico Trade and Export Company (the Company) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth) created by Law No. 323 of December 28, 2003. The Company has the responsibility to promote the highest efficiency in the services provided to the commercial sector, with emphasis on small and medium-sized enterprises, and the export of products and services from Puerto Rico to other countries to strengthen the economy of the Commonwealth and promote the creation and retention of employments.

The Department provides management services to CCE and PRIDCO, fees billed during the fiscal year 2020 amounted to \$10.3 million. The amounts receivable for this fee as of June 30, 2020 is \$5.2 million.

Note 17 - Contingencies

Litigation and Claims

The Commonwealth's Act No. 4 of June 30, 1955, as amended, known as Claims and Lawsuits against the State provides that lawsuits against an agency or instrumentality of the Commonwealth, present and former employees, directors and other may be represented by the Department of Justice of the Commonwealth. Any adverse claims to the defendants are to be paid by the Commonwealth's General Fund. However, the Secretary of the Treasury of the Commonwealth has the discretion of requesting reimbursement of the funds expended for these purposes from the public corporations, governmental institutions, and municipalities of the defendants.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 17 - Contingencies – (continued)

Litigation and Claims – (continued)

The Department is involved in litigation arising on the normal course of operations. The management of the Department believes that the ultimate liability, if any, in connection with these matters will not have a material effect on the Department's financial position and results of operations.

The department has accumulated \$5.2 million to cover potential liability related to outstanding claims and litigations in the administration fund.

Federal Awards

The Department participates in a number of federal assistance programs funded by the federal government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor.

Note 18 - Commitments

Operating leases

The Department leases various properties and equipment under operating lease agreements with related parties. The agreements generally have terms of one year or less and are automatically renewed if sufficient funds are available. Lease agreements covering periods in excess of one-year are cancelable at the Department's option upon 30 days written notice to the lessor. Rental expenditures for the year ended June 30, 2020 amounted to approximately \$1.2 million.

Note 19 - Collective Bargaining Agreements

Employees of the LDP are represented by the "Coordinadora Unitaria de Trabajadores del Estado" labor union. Employees of the YDP are represented by the United Automobile, Aerospace, and Agricultural Implement Workers of America. Under the labor agreements, the covered employees may enjoy certain rights and benefits that may differ from those enjoyed by non-unionized employees of the Department.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 20 - Subsequent Events

DDEC has evaluated subsequent events through August 8, 2022, the date on which the financial statements were available to be issued. Management believes that the following events should be disclosed:

Commonwealth Plan of Adjustment

On January 18, 2022, U.S. District Court for the District of Puerto Rico confirmed the Commonwealth's restructuring plan for Puerto Rico. The debt restructuring or debt adjustment plan, an agreement between Puerto Rico's government, bondholders, insurance companies, vendors, and labor groups, will erase about \$33 billion of Commonwealth's debt and other obligations, including the cutting of \$22 billion of bonds to \$7.4 billion. The restructuring agreement also avoids cuts to pension benefits to government retirees, freezes defined-benefit retirement programs that cover active teachers and judges and replaces them with defined contribution plans and enrollment in the social security and establishes a new pension reserve trust.

On February 22, 2022, the Oversight Board of PROMESA certified a revised budget for the Puerto Rico Government that includes the new debt payments. The budget did not require any further reduction in operating costs or revenue increases to service the significantly reduced and affordable debt. The Oversight Board of PROMESA will remain in place until Puerto Rico has had four consecutive years of balanced budgets.

On March 15, 2022, the Puerto Rico's Government and the Oversight Board of PROMESA completed the exchange of more than \$33 billion of existing bonds and other claims into \$7 billion of new bonds plus a \$7 billion cash payment and a so-called contingent value instrument that pays out if Puerto Rico's sales-tax collections exceed projections. Annual debt service after the debt restructuring will amount to approximately \$1.15 billion. In addition, on that date, the Commonwealth made about \$10 billion in cash payments to various creditor groups, including payments to public employees of the Puerto Rico Government and unsecured creditors, that mostly reside in Puerto Rico, who held longstanding claims against the government. These cash payments enable the Puerto Rico Government to significantly reduce debt service going forward. The \$10 billion cash component includes \$8.3 billion in debt related claims, including the \$7 billion cash payment to bondholders of the restructured debt mentioned above, and \$1.8 billion that will be paid to a multitude of residents of Puerto Rico, local creditor groups, including \$1.5 billion for current and former employee related claims, including \$1.4 billion deposited into a government defined contribution plan accounts (Act 106-2017 Defined Contribution) to restore employee contributions made and \$94 million payments to more than 35,000 pension plan participants who were affected by the 2013 pension freeze.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 20 - Subsequent Events – (continued)

Act No. 60 – Incentives Code of Puerto Rico – July 1, 2020 (a consolidation of all the tax incentive acts) (the Code)

The principal objective of the incentive is to promote the economic growth of Puerto Rico attracting new investments and create employments in traditional sectors such as manufacturing, tourism, agriculture, aerospace, biosciences, technology, renewable energy, export service and entrepreneurship.

The Code will allow that the incentive types that are now granted be uniform and minimize the risky incentives that results in losses for the Puerto Rico economy. The Code will create a model to evaluate the incentives and measure the return on investments (ROI) and maintain recent data of the return by economic sector. The Code will facilitate the analysis of the incentives to determine if they will be held, modified, or discontinued some incentives that are obsolete or results in a negative return.

The Incentives Office (previously known as the Tax Exemption Office) was created to oversight the compliance of the terms and conditions of the incentive concession contract and requiring annual reports.

The exemptions were organized by the following industry segments or sectors:

- Individuals
- Exportation (Services and Goods)
- Financial services and Insurance
- Visitor's economy
- Manufacturing, including the component of Research and Development
- Infrastructure
- Agriculture
- Creatives industry
- Entrepreneurship,
- Others

Funds established for the above industry sectors can be reassigned for the sectors with a negative return to a positive return. The contributory rates vary by industry. Additional benefits will be provided to the small and medium-sized enterprises (PYMES) and exempt business established in Vieques and Culebra. Agricultural incentives will be granted and salaries and bonus for agricultural workers will be maintained. The commodities, currency and blockchain industries were added to the incentive applicable to capital gains for resident investors.

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 20 - Subsequent Events – (continued)

Act No. 60 – Incentive Code of Puerto Rico – July 1, 2020 (a consolidation of all the tax incentive acts) – (continued)

Contributory credits were incorporate to maximize the return of the incentives.

The term of the contributory incentive was standardized to 15 years with a possible renegotiation for an additional term of 15 years.

The changes established by the Code are prospective and does not apply to existent incentive contracts.

According to the “Plan for Puerto Rico”, the Code includes the “My future account” which consist of the opening of a bank account of \$1,000 for kinder student in the public education system. This account will allow children to accumulate savings that will be receivable when they graduate from high school to be used to commence the university or a business.

Also, the Code includes the repayment of student loans for doctors, including veterinarians, dentists and scientific researchers in the health area, who are required to stay in Puerto Rico after completing their training, therefore establishing their practice in the island.

COVID 19 Pandemic

On March 11, 2020, the World Health Organization declared the Coronavirus disease caused by a novel coronavirus (“COVID-19”) a global pandemic. As a result of the health threat and to contain the COVID-19 spread across the island, the Governor issued executive order EO 2020-020, on March 12, 2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the residents of Puerto Rico. The Governor has issued several extensions on the March order with various modifications to Puerto Rico’s social distancing measures. The public emergency remains in effect as of the date of the issuance of these financial statements. Management has not identified yet the extent of the impact, if any, that the Coronavirus pandemic may have.

As the Government observes and assesses the results of its measures to control the negative health and economic effects of COVID-19 on the people of Puerto Rico and Puerto Rico’s economy, it will re-evaluate and further amend business restrictions as necessary to promote economic recovery with preserving the health, welfare, and safety of the people of Puerto Rico.

Puerto Rico Department of Economic Development and Commerce
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2020

Note 20 - Subsequent Events – (continued)

Custodial Credit Gain

The OPPE had previously recognized a custodial credit loss of assets related to funds deposited in the Economic Development Bank. Subsequently, the OPPE was able to access \$1,000,000 to provide incentives related to energy projects. As a result of these transactions, a custodial credit loss recovery will be recorded in the fiscal year 2021.

Required Supplementary Information

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Schedule of the Department's Proportionate Share of the Collective Total Pension Liability
(Unaudited)

June 30, 2020

| | 2020 | 2019 |
|---|---------------|---------------|
| Proportion (percentage) of the net collective total pension | 0.1203% | 0.0872% |
| Proportion share (amount) of the collective total pension liability | \$ 29,894,323 | \$ 27,324,999 |

Notes to Required Supplementary Information

1. As a result of the implementation of the PayGo system, as provided by Act No. 106 of 2017 (Act 106), the Pension Plan has no assets accumulated in a trust that are dedicated to pay the related benefits in accordance with the benefit terms. As such, the Pension Plan does not meet the criteria to be considered a plan that is administered through a trust or equivalent arrangement under GASB 68 and, therefore, it is subject to the provisions of GASB 73. Act 106 eliminated all employer contributions and required ERS to liquidate its assets and to transfer the proceeds to the Commonwealth for the payment of pension benefits.
2. The Department's proportion of the total pension liability was actuarially determined based on the ratio of the Department's benefit payments to the total benefit payments made by all participating employers under the Pension Plan for the year ending on the measurement date.
3. The schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.
4. The amounts presented were determined by an actuarial valuation.

Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Schedule of Proportionate Share of the Collective Net OPEB Liability

June 30, 2020

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|-------------------|-------------------|-------------------|
| Proportion (percentage) of the net collective total OPEB liability | <u>0.09%</u> | <u>0.07%</u> | <u>0.07%</u> |
| Proportion share (amount) of the collective total OPEB liability | <u>\$ 683,970</u> | <u>\$ 695,347</u> | <u>\$ 570,050</u> |

Notes to Required Supplementary Information

1. The OPEB plan has no assets accumulated in a trust dedicated to pay the related benefits in accordance with the benefit terms.
2. The Department's proportion of the net OPEB liability was actuarially determined based on the ratio of the Department's benefit payments to the total benefit payments made by all participating employers under the OPEB Plan for the year ending on the measurement date.
3. The schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.
4. The amounts presented were determined by an actuarial valuation.

Department of Economic Development and Commerce of Puerto Rico
(An Agency of the Commonwealth of Puerto Rico)

Balance Sheet - General Fund Combining Schedule
June 30, 2020

| Assets | SFED Fund | SIF Fund | ROPR Fund | General Fund | Tax Incentives | Total |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|
| Cash with commercial banks | \$ 84,988,000 | \$ 15,617,000 | \$ 13,358,000 | \$ 13,047,037 | \$ 12,243,704 | \$ 139,253,741 |
| Accounts receivable: | | | | | | |
| Due from Commonwealth of Puerto Rico | - | - | 39,445,000 | - | - | 39,445,000 |
| Other receivables | 364,000 | - | 904,000 | 179,375 | 5,000 | 1,452,375 |
| Other governmental receivables | 5,447,000 | - | 7,075,000 | 1,413,770 | - | 13,935,770 |
| Internal balances | - | - | - | 9,245,321 | 3,637,069 | 12,882,390 |
| Total assets | <u>\$ 90,799,000</u> | <u>\$ 15,617,000</u> | <u>\$ 60,782,000</u> | <u>\$ 23,885,503</u> | <u>\$ 15,885,773</u> | <u>\$ 206,969,276</u> |
| Liabilities and Fund Balances | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable and accrued liabilities | \$ 1,004,000 | \$ 344,000 | \$ 39,051,000 | \$ 4,120,758 | \$ 23,427 | \$ 44,543,185 |
| Due to other governmental agencies | 52,840,000 | 4,400,000 | 1,154,000 | - | - | 58,394,000 |
| Due to Commonwealth of Puerto Rico | - | - | - | 201,994 | - | 201,994 |
| Internal balances | - | - | - | 15,901,160 | 3,234,413 | 19,135,573 |
| Total liabilities | <u>53,844,000</u> | <u>4,744,000</u> | <u>40,205,000</u> | <u>20,223,912</u> | <u>3,257,840</u> | <u>122,274,752</u> |
| Fund balances: | | | | | | |
| Restricted | 36,955,000 | - | 20,577,000 | - | - | 57,532,000 |
| Unrestricted | - | 10,873,000 | - | 3,661,591 | 12,627,933 | 27,162,524 |
| Total fund balances | <u>36,955,000</u> | <u>10,873,000</u> | <u>20,577,000</u> | <u>3,661,591</u> | <u>12,627,933</u> | <u>84,694,524</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 90,799,000</u> | <u>\$ 15,617,000</u> | <u>\$ 60,782,000</u> | <u>\$ 23,885,503</u> | <u>\$ 15,885,773</u> | <u>\$ 206,969,276</u> |

Department of Economic Development and Commerce of Puerto Rico
(An Agency of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenditures, and Changes in Fund Balances - Combining Schedule
Year ended June 30, 2020

| | SFED Fund | SIF Fund | ROPR Fund | General Fund | Tax Incentives | Total |
|---|----------------------|----------------------|----------------------|---------------------|----------------------|----------------------|
| Revenues from Commonwealth | \$ 77,187,000 | \$ - | \$ 203,857,000 | \$ 15,505,397 | \$ 10,519,030 | \$ 307,068,427 |
| Other income | <u>861,000</u> | <u>9,493,000</u> | <u>63,000</u> | <u>894</u> | <u>6,000</u> | <u>10,423,894</u> |
| Total revenues | <u>78,048,000</u> | <u>9,493,000</u> | <u>203,920,000</u> | <u>15,506,291</u> | <u>10,525,030</u> | <u>317,492,321</u> |
| Program direct expenditures | 95,579,000 | 3,323,000 | 192,943,000 | 12,202,459 | - | 304,047,459 |
| Administrative expenditures | 1,856,000 | - | 3,398,000 | 868,840 | 211,400 | 6,334,240 |
| Office and Administrative | - | - | - | 213,110 | - | 213,110 |
| Other | <u>-</u> | <u>-</u> | <u>-</u> | <u>36,572</u> | <u>182,400</u> | <u>218,972</u> |
| Total expenditures | <u>97,435,000</u> | <u>3,323,000</u> | <u>196,341,000</u> | <u>13,320,981</u> | <u>393,800</u> | <u>310,813,781</u> |
| Net change in fund balances | (19,387,000) | 6,170,000 | 7,579,000 | 2,185,310 | 10,131,230 | 6,678,540 |
| Fund balance — beginning of year as previously reported | - | - | - | 1,476,281 | 2,496,703 | 3,972,984 |
| Change in reporting entity | <u>56,342,000</u> | <u>4,703,000</u> | <u>12,998,000</u> | <u>-</u> | <u>-</u> | <u>74,043,000</u> |
| Fund balance — beginning of year as restated | <u>56,342,000</u> | <u>4,703,000</u> | <u>12,998,000</u> | <u>1,476,281</u> | <u>2,496,703</u> | <u>78,015,984</u> |
| Fund balance — end of year | <u>\$ 36,955,000</u> | <u>\$ 10,873,000</u> | <u>\$ 20,577,000</u> | <u>\$ 3,661,591</u> | <u>\$ 12,627,933</u> | <u>\$ 84,694,524</u> |