

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, 2022

Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

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

Opinion

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, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position 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, as of June 30, 2022, and the respective changes in net 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.

Basis for Opinions

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

Emphasis of Matters

Restatement of Net Position

As discussed in Note 18 to the financial statements, the 2021 financial statements have been restated to correct a misstatement related to the payments of debts with the Commonwealth of Puerto Rico related to Pay-Go that were expensed instead of recorded against the recorded accumulated amount.

New Accounting Standard

As discussed in Notes 2 and 5 to the financial statements, the Department adopted Governmental Accounting Standards Board Statement No. 87, *Leases*, during the year 2022. Our opinion is not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and Government Auditing Standards, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 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 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, 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
October 16, 2023
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)

June 30, 2022

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, 2022. 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 by necessity, is 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 liabilities and deferred inflows of resources by approximately \$104.8 million, which is composed of \$68.6 million of net investment in capital assets, \$24.1 million of restricted assets and \$12.1 million of unrestricted net position. The General Fund's operations are mainly related to the economic incentives' activities under Act No. 60 and the rum production program.
- Governmental activity revenues exceeded its expenses for the fiscal year 2022 by \$40.5 million. Business-type activity revenues exceeded its expenses by \$8.8 million. This resulted in a net change in net position of approximately \$49.3 million for the year ended June 30, 2022.
- Total assets and deferred outflows of resources amounted to \$416.7 million, an increase of \$25.7 million when compared to year-end 2021.
- Total liabilities and deferred inflows of resources amounted to \$311.9 million, a decrease of \$24.9 million when compared to year-end 2021.

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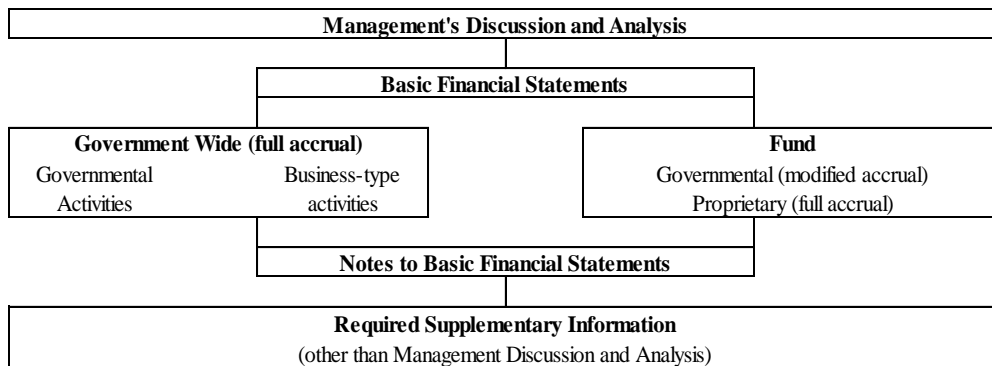
Puerto Rico Department of Economic Development and Commerce
(An Agency of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis (Unaudited) – (continued)

June 30, 2022

Overview of the Basic Financial Statements

The following discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. This report includes the independent auditors' 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 inflows 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 its changes. This represents the Department's net position – the difference between assets and deferred outflows of resources, and liabilities and deferred inflows – as one way to measure the Department's financial health, or financial position. Over time, increases or decreases in net position are an indicator of whether its financial health is improving or deteriorating. It 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, and 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)

June 30, 2022

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* – These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The Department charges fees to its operational units, which are component units of the Commonwealth, for administrative functions. Additionally, after the merger of the Puerto Rico Trade and Export Company, its rental activities were included in its proprietary fund, which is accounted for in a manner similar to businesses operating in the private sector. Funding has primarily arisen through revenue derived from the rental of commercial facilities.

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 executing 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.

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

Management's Discussion and Analysis (Unaudited) – (continued)

June 30, 2022

Governmental Funds – (continued)

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 Rums of Puerto Rico and other activities which are financed 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

The Department charges its operating components for providing administration services and receives rent revenue from its rental activities. 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 schedule of the Department's proportionate share of total pension liability and the schedule of the Department's proportionate share of the collective total 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 the fiscal year 2022.

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

Management's Discussion and Analysis (Unaudited) – (continued)

June 30, 2022

Net Position

Condensed financial information from the statement of net position as of June 30, 2022, and 2021, as restated, is as follows (expressed in thousands):

	Governmental Activities		Business-type Activities		Total		Change	%
	2022	2021	2022	2021	2022	2021		
Assets:								
Current and other assets	\$ 243,563	\$ 258,688	\$ 85,983	\$ 39,146	\$ 329,546	\$ 297,834	\$ 31,712	11%
Capital assets	3,788	3,690	64,807	67,785	68,594	71,475	(2,881)	-4%
Total assets	<u>247,351</u>	<u>262,378</u>	<u>150,789</u>	<u>106,931</u>	<u>398,140</u>	<u>369,309</u>	<u>28,831</u>	<u>8%</u>
Deferred outflows of resources	<u>8,636</u>	<u>11,021</u>	<u>9,967</u>	<u>10,745</u>	<u>18,603</u>	<u>21,766</u>	<u>(3,163)</u>	<u>-15%</u>
Liabilities:								
Current and other liabilities	139,163	199,501	18,287	37,988	157,450	237,489	(80,039)	-34%
Long-term liabilities	42,978	40,656	53,775	54,761	96,753	95,417	1,336	1%
Total liabilities	<u>182,141</u>	<u>240,157</u>	<u>72,063</u>	<u>92,749</u>	<u>254,203</u>	<u>332,906</u>	<u>(78,703)</u>	<u>-24%</u>
Deferred inflows of resources	<u>1,609</u>	<u>1,519</u>	<u>56,120</u>	<u>2,420</u>	<u>57,729</u>	<u>3,939</u>	<u>53,790</u>	<u>1366%</u>
Net position:								
Net investment in capital assets	3,788	3,690	64,807	57,402	68,595	61,092	7,503	12%
Restricted	23,369	-	708	-	24,077	-	24,077	100%
Unrestricted (deficit)	<u>45,080</u>	<u>28,033</u>	<u>(32,942)</u>	<u>(34,895)</u>	<u>12,138</u>	<u>(6,862)</u>	<u>19,000</u>	<u>-277%</u>
Total net position	<u>\$ 72,237</u>	<u>\$ 31,723</u>	<u>\$ 32,573</u>	<u>\$ 22,507</u>	<u>\$ 104,810</u>	<u>\$ 54,230</u>	<u>\$ 50,580</u>	<u>93%</u>

As of June 30, 2022, the Department's net position increased by \$50.6 million or 93% when compared to 2021 mainly because of decreases in total liabilities of \$78.7 million, increases in total assets of \$28.8 million and increase in the deferred inflows of resources of \$53.7 million.

Total assets increased by \$28.8 million or 8%, mostly due to the increase in current and other assets because of the adoption and implementation in fiscal year 2022 of GASB No. 87, *Leases*, since a lease receivable amounting to \$59.6 million was recorded at beginning of year. The increase in deferred inflows of \$53.7 million is also due to the implementation of GASB No. 87, *Leases*, since a deferred inflow of resources of \$59.7 million was recorded at the beginning of the year. Total liabilities decreased by \$78.7 million or 24%, mostly due to a decrease in accounts payable as the Department made significant efforts of reducing the time to process and approve payments it is being streamlined and results are being achieved. Also, the mortgage loan included in the current liabilities in the business-type for the amount of \$10.4 million was fully paid.

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

Management's Discussion and Analysis (Unaudited) – (continued)

June 30, 2022

Change in Net Position

Condensed financial information from the statement of activities as of June 30, 2022, and 2021, as restated, is as follows (expressed in thousands):

	Governmental Activities		Business-type Activities		Total		Change	
	2022	2021	2022	2021	2022	2021		
Revenues:								
Program revenues:								
Operating grants and contributions	\$ 414,817	\$ 434,318	\$ -	\$ -	\$ 414,817	\$ 434,318	\$ (19,501)	-4%
Charges for services - fees and others	13,145	-	16,245	25,832	29,390	25,832	3,558	14%
Capital grants and contributions	5,000	-	-	2,664	5,000	2,664	2,336	88%
	<u>432,962</u>	<u>434,318</u>	<u>16,245</u>	<u>28,496</u>	<u>449,207</u>	<u>462,814</u>	<u>(13,607)</u>	<u>-3%</u>
General revenue:								
Contributions from the Commonwealth	-	-	5,083	-	5,083	-	5,083	100%
Total revenues	<u>432,962</u>	<u>434,318</u>	<u>21,328</u>	<u>28,496</u>	<u>454,290</u>	<u>462,814</u>	<u>(8,524)</u>	<u>-2%</u>
Expenses:								
General government and other	293,390	379,263	12,506	-	305,896	379,263	(73,367)	-19%
Special revenue funds	94,196	82,819	-	-	94,196	82,819	11,377	14%
Economic development programs and others	1,679	751	-	-	1,679	751	928	124%
Green energy incentives	3,183	2,350	-	-	3,183	2,350	833	35%
Pension and related	-	-	-	12,630	-	12,630	(12,630)	-100%
Total expenses	<u>392,448</u>	<u>465,183</u>	<u>12,506</u>	<u>12,630</u>	<u>404,954</u>	<u>477,813</u>	<u>(72,859)</u>	<u>-15%</u>
Changes in net position	40,514	(30,865)	8,822	15,866	49,336	(14,999)	64,335	-429%
Net position - beginning of year, as previously reported	31,723	57,828	22,507	6,641	54,230	64,469	(10,239)	-16%
Change in reporting entity and restatement adjustment	-	4,760	1,244	-	1,244	4,760	(3,516)	-74%
Net position - beginning of year, as restated	<u>31,723</u>	<u>62,588</u>	<u>23,751</u>	<u>6,641</u>	<u>55,474</u>	<u>69,229</u>	<u>(13,755)</u>	<u>-20%</u>
Net position - end of year	<u>\$ 72,237</u>	<u>\$ 31,723</u>	<u>\$ 32,573</u>	<u>\$ 22,507</u>	<u>\$ 104,810</u>	<u>\$ 54,230</u>	<u>\$ 50,580</u>	<u>93%</u>

The Department's change in net position increased by \$64.3 million or 429% mostly due to a significant decrease in the general expenses of \$72.9 million; and a minor decrease in total revenues of \$8.5 million.

Total expenses decreased by \$72.85 million or 15%, is mainly due to the decreases in sponsorship expenses that drive the main portion of variance with previous year.

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

Management's Discussion and Analysis (Unaudited) – (continued)

June 30, 2022

Financial Analysis of the Department's Major funds

Governmental Funds

Condensed financial information from the balance sheets of governmental funds as of June 30, 2022, and 2021, is as follows (expressed in thousands):

	<u>Governmental Activities</u>		<u>Changes</u>	
	<u>2022</u>	<u>2021</u>		
Assets				
Total assets - General fund	\$ 209,611	\$ 257,803	\$ (48,192)	-19%
Total assets - Federal	<u>37,693</u>	<u>17,457</u>	<u>20,236</u>	<u>116%</u>
Total assets	<u><u>247,304</u></u>	<u><u>275,260</u></u>	<u><u>(27,956)</u></u>	<u><u>-10%</u></u>
Liabilities				
Total liabilities - General fund	103,462	195,436	(91,974)	-47%
Total liabilities - Federal	<u>37,724</u>	<u>17,488</u>	<u>20,236</u>	<u>116%</u>
Total liabilities	<u><u>141,186</u></u>	<u><u>212,924</u></u>	<u><u>(71,738)</u></u>	<u><u>-34%</u></u>
Fund balances				
Nonspendable	658	-	658	100%
Restricted	22,337	-	22,337	100%
Unassigned	<u>83,123</u>	<u>62,336</u>	<u>20,787</u>	<u>33%</u>
Total fund balances	<u><u>106,118</u></u>	<u><u>62,336</u></u>	<u><u>43,782</u></u>	<u><u>70%</u></u>
Total liabilities and fund balances	<u><u>\$ 247,304</u></u>	<u><u>\$ 275,260</u></u>	<u><u>\$ (27,956)</u></u>	<u><u>-10%</u></u>

Total fund balance of governmental funds as of June 30, 2022, amounted to \$106.1 million, an increase of \$43.7 million or 70% when compared to \$62.3 million in 2021. Such variance is due to a high reduction in general expenditures due to less sponsorship expense while upholding revenue inflow within rum production program.

Total assets and total liabilities increase in the federal funds of \$20.2 million or 116% is mainly because the Department received a grant for \$20 million for the purpose of providing energy incentive programs for small business, the remaining unexpended balance as of year-end of \$18.8 million is recorded as unearned revenue.

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

Management's Discussion and Analysis (Unaudited) – (continued)

June 30, 2022

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, 2022, and 2021, is as follows (expressed in thousands):

	<u>Governmental Activities</u>		<u>Changes</u>	
	<u>2022</u>	<u>2021</u>		
Revenues:				
Total revenues - General fund	\$ 333,904	\$ 348,398	\$ (14,494)	-4%
Total revenues - Workforce Innovation and Opportunity Act Programs and others	<u>99,058</u>	<u>85,920</u>	<u>13,138</u>	<u>15%</u>
Total revenues	<u>432,962</u>	<u>434,318</u>	<u>(1,356)</u>	<u>-0.31%</u>
Expenditures:				
Total expenditures - General fund	\$ 290,122	\$ 378,273	\$ (88,151)	-23%
Total expenditures - Workforce Innovation and Opportunity Act Programs and others	<u>99,058</u>	<u>85,920</u>	<u>13,138</u>	<u>15%</u>
Total expenditures	<u>389,180</u>	<u>464,193</u>	<u>(75,013)</u>	<u>-16%</u>
Excess of revenues over (expenditures) and net change in fund balances	43,782	(29,875)	73,657	-247%
Fund balance, at beginning of year	62,336	91,630	(29,294)	-32%
Change in reporting entity	<u>-</u>	<u>581</u>	<u>(581)</u>	<u>-100%</u>
Fund balance, at beginning of year, as restated	<u>62,336</u>	<u>92,211</u>	<u>(29,875)</u>	<u>-32%</u>
Fund balance, end of fiscal year	<u>\$ 106,118</u>	<u>\$ 62,336</u>	<u>\$ 43,782</u>	<u>70%</u>

Governmental funds' net change in fund balance for 2022 amounted to \$43.8 million, mostly because of the decrease in the general fund expenditures since revenues remained comparable. Total revenues for the year amounted to \$432.9 million, which represents a decrease of \$1.4 million or .3%, when compared to \$434.3 million in 2021.

Total expenditure amounted to \$389.2 million which represents a decrease of \$75 million or 16% when compared to 2021. As mentioned above, there was a high reduction in general expenditures due to less sponsorship expense.

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

Management's Discussion and Analysis (Unaudited) – (continued)

June 30, 2022

Proprietary Fund Results

The proprietary fund provides the same type of information found in the government-wide statements but in more detail. During the year ended June 30, 2022, the total net position of the Department's proprietary fund increased by \$10.01 million when compared to prior year. In the revenues, the charges for services decreased \$9.6 million because administrative management fees are no longer charged in the proprietary fund. There was a contribution of \$5.08 million from the Commonwealth used for the cancelation of the mortgage loan. There was a restatement of \$1.2 million because of expenses from previous years were charged to operations.

Positive operations at the end of the previous year led the Department to maintain a positive net position and since operational activities remained similar in the current year business-type activities maintained a steady position during the fiscal year.

Capital Assets

At the end of June 30, 2022, the Department had a net investment in capital assets amounting to approximately \$68.59 million which includes buildings, building improvements, land, vehicles, and equipment. This amount represents an increase of approximately \$7.5 million when compared to 2021. The increase is mainly due to the cancellation of the mortgage payable paid during fiscal year 2022.

Long-term liabilities

Total long-term liabilities as of June 30, 2022, amounted to \$96.7 million and increase of \$1.3 million or 1% when compared to 2021. The Department's long-term liabilities consist of pension plan liability, OPEB liability, voluntary termination accrual and accrued compensated absences. Both the governmental fund and the business-type fund long-term liabilities balances remained comparable to the previous year.

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
- Puerto Rico Trade and Export Company

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

Management's Discussion and Analysis (Unaudited) – (continued)

June 30, 2022

Currently Known Facts – (continued)

Reorganization of the Department – (continued)

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

- 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 to 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

June 30, 2022

	Governmental Activities	Business-type Activities	Total
Assets:			
Cash in commercial bank	\$ 69,855,616	\$ 6,446,775	\$ 76,302,391
Restricted cash in commercial banks	48,022,153	3,337,438	51,359,591
Due from:			
Federal Government	13,183,142	-	13,183,142
Other Governmental entities	12,216,631	17,616,801	29,833,432
Other assets	658,501	-	658,501
Internal balances, net	(3,740,101)	3,740,101	-
Due from Commonwealth of Puerto Rico	103,367,850	-	103,367,850
Lease receivable	-	54,841,393	54,841,393
Capital assets	3,787,703	64,806,630	68,594,333
Total assets	247,351,495	150,789,138	398,140,633
Deferred outflows of resources:			
Pension related	8,636,036	9,865,629	18,501,665
Other postemployment benefits related	-	101,498	101,498
Total deferred outflows of resources	8,636,036	9,967,127	18,603,163
Liabilities:			
Accounts payable and accrued liabilities	107,220,973	14,763,703	121,984,676
Unearned revenue	18,829,001	-	18,829,001
Due to:			
Subrecipients	10,778,545	-	10,778,545
US Department of Labor	605,074	-	605,074
Commonwealth of Puerto Rico	12,082	-	12,082
Total pension liability:			
Due within one year	348,859	2,552,198	2,901,057
Due in more than one year	38,329,062	51,146,793	89,475,855
Total OPEB liability:			
Due within one year	-	101,499	101,499
Due in more than one year	683,156	1,104,641	1,787,797
Voluntary termination benefits:			
Due within one year	268,484	725,752	994,236
Due in more than one year	1,357,381	1,523,786	2,881,167
Accrued compensated absences:			
Due within one year	1,100,000	144,218	1,244,218
Due in more than one year	2,608,042	-	2,608,042
Total liabilities	182,140,659	72,062,590	254,203,249
Deferred inflows of resources:			
Pension related	1,609,339	2,415,237	4,024,576
Lease liability	-	53,705,260	53,705,260
Total deferred inflows of resources	1,609,339	56,120,497	57,729,836
Net position :			
Net investment in capital assets	3,787,703	64,806,630	68,594,333
Restricted	23,369,866	708,476	24,078,342
Unrestricted (deficit)	45,079,964	(32,941,928)	12,138,036
Total net position	\$ 72,237,533	\$ 32,573,178	\$ 104,810,711

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, 2022

	Expenses	Program revenue			Net revenues (expenses) and changes in net position		
		Charges for Services - fees, commissions, and others	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Functions/programs:							
Governmental activities:							
General government	\$ 293,390,282	\$ 13,145,409	\$ 315,758,926	\$ 5,000,000	\$ 40,514,053	\$ -	\$ 40,514,053
Labor development	94,196,353	-	94,196,353	-	-	-	-
Other federal programs	1,678,515	-	1,678,515	-	-	-	-
Green energy incentives	<u>3,183,333</u>	<u>-</u>	<u>3,183,333</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>392,448,483</u>	<u>13,145,409</u>	<u>414,817,127</u>	<u>5,000,000</u>	<u>40,514,053</u>	<u>-</u>	<u>40,514,053</u>
Business-type activities:							
Rental activities	12,505,770	15,534,942	-	-	-	3,029,172	3,029,172
Operating and administrative	<u>-</u>	<u>710,375</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>710,375</u>	<u>710,375</u>
Total business-type activities	<u>12,505,770</u>	<u>16,245,317</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,739,547</u>	<u>3,739,547</u>
Total functions/programs	<u>\$ 404,954,253</u>	<u>\$ 29,390,726</u>	<u>\$ 414,817,127</u>	<u>\$ 5,000,000</u>	<u>\$ 40,514,053</u>	<u>\$ 3,739,547</u>	<u>\$ 44,253,600</u>
General revenue:							
Contributions from the Commonwealth of Puerto Rico					<u>-</u>	<u>5,082,941</u>	<u>5,082,941</u>
Change in net position					40,514,053	8,822,488	49,336,541
Net position - beginning of year, as previously reported					<u>31,723,480</u>	<u>22,506,609</u>	<u>54,230,089</u>
Restatement adjustment					<u>-</u>	<u>1,244,081</u>	<u>1,244,081</u>
Net position - beginning of year, as restated					<u>31,723,480</u>	<u>23,750,690</u>	<u>55,474,170</u>
Net position - end of year					<u>\$ 72,237,533</u>	<u>\$ 32,573,178</u>	<u>\$ 104,810,711</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

June 30, 2022

Assets:	General Fund	Federal Programs Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Cash in commercial banks	\$ 69,855,616	\$ -	\$ 69,855,616
Cash in commercial banks - restricted	24,323,979	23,698,174	48,022,153
Due from:			
Federal government , net	-	13,183,142	13,183,142
Other Governmental entities	11,404,936	811,695	12,216,631
Due from Commonwealth of Puerto Rico	103,367,850	-	103,367,850
Other assets	<u>658,501</u>	<u>-</u>	<u>658,501</u>
Total assets	<u><u>209,610,882</u></u>	<u><u>37,693,011</u></u>	<u><u>247,303,893</u></u>
Liabilities and fund balances (deficit):			
Liabilities:			
Accounts payable and accrued liabilities	101,585,152	5,635,821	107,220,973
Unearned revenue	-	18,829,001	18,829,001
Due to:			
US Department of Labor	-	605,074	605,074
Other Governmental entities	-	12,082	12,082
Subrecipients	-	10,778,545	10,778,545
Internal balances	<u>1,877,054</u>	<u>1,863,047</u>	<u>3,740,101</u>
Total liabilities	<u><u>103,462,206</u></u>	<u><u>37,723,570</u></u>	<u><u>141,185,776</u></u>
Fund balances:			
Nonspendable - other assets	658,501	-	658,501
Restricted	22,336,992	-	22,336,992
Unassigned (deficit)	<u>83,153,183</u>	<u>(30,559)</u>	<u>83,122,624</u>
Total fund balance (deficit)	<u><u>106,148,676</u></u>	<u><u>(30,559)</u></u>	<u><u>106,118,117</u></u>
Total liabilities and fund balances	<u><u>\$ 209,610,882</u></u>	<u><u>\$ 37,693,011</u></u>	<u><u>\$ 247,303,893</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)

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

June 30, 2022

Total fund balance of governmental funds	\$ 106,118,117
Amounts reported for governmental activities in the statement of net position are different than the amounts reported in the governmental funds because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds	3,787,703
Deferred outflows of resources, pension related	8,636,036
Total pension liability	(38,677,921)
Total OPEB liability	(683,156)
Deferred inflows of resources, pension related	(1,609,339)
Accrued compensated absences liability is not paid with current financial resources and, therefore, not reported in the fund financial statements	(3,708,042)
Voluntary termination benefits liability is not paid with current financial resources and, therefore, not reported in the fund financial statements	<u>(1,625,865)</u>
Net position of governmental activities	<u>\$ 72,237,533</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 Revenue, Expenditures and Changes in
Fund Balances – Governmental Funds

Year ended June 30, 2022

	<u>General Fund</u>	<u>Federal Programs Fund</u>	<u>Total</u>
Revenue:			
Contributions from Commonwealth of Puerto Rico	\$ 333,644,746	\$ 1,666,999	\$ 335,311,745
Contributions from federal agencies	-	97,391,202	97,391,202
Other income	<u>259,589</u>	<u>-</u>	<u>259,589</u>
Total revenue	<u>333,904,335</u>	<u>99,058,201</u>	<u>432,962,536</u>
Expenditures:			
Program direct	255,607,742	81,966,949	337,574,691
Administrative	20,972,760	14,175,725	35,148,485
Salaries and fringe benefits	13,247,038	2,851,418	16,098,456
Capital outlay	<u>294,836</u>	<u>64,109</u>	<u>358,945</u>
Total expenditures	<u>290,122,376</u>	<u>99,058,201</u>	<u>389,180,577</u>
Excess of revenue over expenditures and net change in fund balances	<u>43,781,959</u>	<u>-</u>	<u>43,781,959</u>
Fund balances (deficit)— beginning of year	<u>62,366,717</u>	<u>(30,559)</u>	<u>62,336,158</u>
Fund balances (deficit)— end of year	<u>\$ 106,148,676</u>	<u>\$ (30,559)</u>	<u>\$ 106,118,117</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 Statement of Revenue, Expenditures and Changes in
Fund Balances – Governmental Funds to the Statements of Activities

Year ended June 30, 2022

Net changes in fund balances - total governmental funds		\$ 43,781,959
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.</p>		
	Capital outlays	358,945
	Less depreciation	<u>(306,005)</u>
	Subtotal	52,940
Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds		(24,449)
Voluntary termination expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds		(523,644)
Deferred outflows expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds		(2,384,693)
Pension expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds		(391,669)
OPEB expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds		49,359
Deferred inflows expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds		(90,271)
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds		<u>44,521</u>
Change in net position of governmental activities		<u>\$ 40,514,053</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 Net Position – Proprietary Funds

June 30, 2022

	<u>Administration Fund</u>
Assets:	
Current assets:	
Cash in commercial banks	\$ 6,446,775
Restricted cash in commercial banks	3,337,438
Due from other governmental entities	17,616,801
Lease receivable	6,169,764
Internal balance	<u>3,740,101</u>
Total current assets	37,310,879
Noncurrent assets:	
Capital assets	64,806,630
Lease receivable	<u>48,671,629</u>
Total assets	150,789,138
Deferred outflows of resources:	
Pension related	9,865,629
Other postemployment benefits related	<u>101,498</u>
Total deferred outflows of resources	<u>9,967,127</u>
Total assets and deferred outflows of resources	<u>160,756,265</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	14,763,703
Total pension liability	
Due within one year	2,552,198
Due in more than one year	51,146,793
Total OPEB liability	
Due within one year	101,499
Due in more than one year	1,104,641
Voluntary termination benefits	
Due within one year	725,752
Due in more than one year	1,523,786
Accrued compensated absences	
Due within one year	<u>144,218</u>
Total liabilities	<u>72,062,590</u>
Deferred inflows of resources:	
Pension related	2,415,237
Lease liability	<u>53,705,260</u>
Total deferred inflows of resources	<u>56,120,497</u>
Net position:	
Net investment in capital assets	64,806,630
Restricted for tenants deposits and other	708,476
Unrestricted (deficit)	<u>(32,941,928)</u>
Total net position	<u>32,573,178</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 160,756,265</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, Expenses and Change in Net Position – Proprietary Funds

For the year ended June 30, 2022

	<u>Administration Fund</u>
Operating revenue:	
Rent revenues	\$ 13,167,405
Other revenues	710,375
Interest income	<u>2,367,537</u>
Total operating revenue	<u>16,245,317</u>
Operating expenses:	
Salaries and fringe benefits	2,761,518
Office and administrative	3,816,737
Pension cost	2,903,419
Depreciation	<u>3,024,096</u>
Total operating expenses	<u>12,505,770</u>
Operating income	<u>3,739,547</u>
Non-operating revenue - Contribution from the Commonwealth of Puerto Rico	<u>5,082,941</u>
Net change in net position	<u>8,822,488</u>
Net position, at beginning of year, previously reported	22,506,609
Restatement adjustment	<u>1,244,081</u>
Net position, beginning of year, as restated	<u>23,750,690</u>
Net position, end of year	<u><u>\$ 32,573,178</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, 2022

	Administration Fund
Cash flows from operating activities:	
Cash received from rental revenues	\$ 12,146,197
Cash paid for expenses other than payroll	(11,941,019)
Cash paid for payroll and related costs	(5,655,537)
Other revenues	<u>2,367,537</u>
Net cash used in operating activities	<u>(3,082,822)</u>
Cash flows from noncapital financing activities:	
Receipts from other funds	12,831,784
Intergovernmental contributions	<u>5,082,941</u>
Net cash used provided by noncapital financing activities	<u>17,914,725</u>
Cash flows from capital and related financing activities:	
Mortgage loan payments	(10,382,860)
Acquisition of capital assets	<u>(46,103)</u>
Net cash used in capital and related financing activities	<u>(10,428,963)</u>
Net change in cash	4,402,940
Cash and restricted cash, beginning of year	<u>5,381,273</u>
Cash and restricted cash, end of year	<u>\$ 9,784,213</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 3,739,547
Adjustment to reconcile operating income to net cash used in operating activities:	
Depreciation	3,024,096
Lease amortization	91,417
Changes in operating assets and liabilities:	
Accounts receivable	(595,449)
Other assets	172,256
Total pension liability	(449,279)
Lease receivable	4,768,978
Deferred outflows of resources	776,452
Accounts payable and accrued liabilities	(8,296,540)
Voluntary termination benefits	(136,909)
Other postemployment benefits	(152,412)
Accrued compensated absences	(23,930)
Deferred inflows of resources - lease related	(5,996,527)
Deferred inflows of resources - pension related	<u>(4,522)</u>
Net cash used in operating activities	<u>\$ (3,082,822)</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

June 30, 2022

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), and 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 into the 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)

June 30, 2022

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: “*Juvenile*” and micro-enterprises.

Business Development Office Program

The Business Development Office Program is responsible for the compliance with Act 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’s purpose is to promote 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 11, 2018, the Governor of the Commonwealth of Puerto Rico (the Commonwealth) signed Act 141, which transfers the *Oficina Exención Contributiva Industrial* (OECI), *Oficina de Permisos* (OGPe) and *Política Pública Energética* (PPE) to the Department of Economic Development and Commerce (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 Commerce, 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)

June 30, 2022

Note 1 - Governmental Environment – (continued)

The Office of Permit Management (OGPe)

The Office of Permit Management (OGPe) was created under Law 161 of December 1, 2009, also 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. All 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 (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 Office of Incentive Codes evaluates the incentives and measures the return on investments (ROI) and maintains recent data of the return by economic sector. In addition, this office facilitates the analysis of the incentives to determine if they will be held, modified, or discontinued due to being obsolete or resulting in a negative return.

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

Act No. 60 – Effective 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. From 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)

June 30, 2022

Note 1 - Governmental Environment – (continued)

The Office of Incentives Codes (OEIC) – (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 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. Funding is sourced by contributions made by 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, to enhance Puerto Rico's economic development through economic incentive grants to private enterprises. Funding is sourced by contributions made by 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)

June 30, 2022

Note 1 - Governmental Environment – (continued)

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

Additionally, 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 of January 17, 2012, known as the "Act to Promote the Export Services" – Incentive Act for the exportation of services (consolidated into Act No. 60). 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. As of January 1, 2020, Act 20 was replaced by Act No. 60.
- Act No. 22 of January 17, 2012, known as the "Individual Investors Act" – 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 of the passive income accrued by these individuals with respect to their investments. In addition, the long-term capital gains are exempt of income taxes. As of January 1, 2020, Act 22 was replaced by Act No. 60.
- Act No.14 of 2017 known as the "Incentive Act 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. As of July 1, 2020, Act 14 was replaced by Act No. 60.
- Act No. 27 of 2011 known as the "Economic Incentives for the Puerto Rico Film Industry"– See previous reference to the Film Industry Development Program. As of January 1, 2020, Act 27 was replaced by Act No. 60.

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

Notes to Basic Financial Statements (Continued)

June 30, 2022

Note 1 - Governmental Environment – (continued)

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

- Act No. 73 of 2008 known as the *“Economic Incentives for Puerto Rico Development Act”* - (consolidated into Act No. 60, and until that date administered by Puerto Rico Industrial Development Company “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. As of January 1, 2020, Act 73 was replaced by Act No. 60.

Puerto Rico Trade and Export Company

Effective July 1, 2020, the transition process to merge the Puerto Rico Trade and Export Company (the Company) into the Department of Economic Development and Commerce was fulfilled as per the provisions of Act No. 141 known as the *“Department of Economic Development and Commerce Reorganization Plan Implementation Act 2018”*. In accordance with Act 141, the Company is an operational entity, which is defined as a governmental entity that will remain a public corporation ascribed to the Department of Economic Development and Commerce, until the Secretary of the Department of Economic Development and Commerce certifies that the corresponding transition process was fulfilled and whose amendments to the enabling laws contained in the Act will be in suspense until the date of the aforementioned certification from the Secretary to the Governor and the Legislative Assembly indicating that the process was completed and at which point the Company will become a merged entity. The request for certification was sent by the Department on June 24, 2022 to the Secretary of the Governor, however, the final approval has not yet been received as of the date that these financial statements were available to be issued.

The Company was created on December 28, 2003 under Law No. 323. 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.

Governmental Instrumentalities

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 responds to the Secretary in administrative matters only, as stipulated by the Reorganization Plan.

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

Notes to Basic Financial Statements (Continued)

June 30, 2022

Note 1 - Governmental Environment – (continued)

Governmental Instrumentalities – (continued)

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.
- 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.
- Program of Energetic Public Policy (PPE) operates under Act No. 141 of July 11, 2018.

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.

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).

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

Notes to Basic Financial Statements (Continued)

June 30, 2022

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

The accompanying basic financial statements present the financial position of the Department, the results of its operations and its various funds, the changes in fund balances, and the cash flows of the business type 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, 2022 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 removed 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 rent revenue.

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

Notes to Basic Financial Statements (Continued)

June 30, 2022

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, reduced by the outstanding balance of mortgages or other borrowings directly attributable to the acquisition, construction, or improvement of those assets.
- *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 (deficit) 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.

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

Notes to Basic Financial Statements (Continued)

June 30, 2022

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.

Programs' 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* – 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, as well as rental revenue from operating leases of commercial properties. This rental revenue recognizes revenue as earned during the term of lease. The rent receivable is presented as the unpaid balance less the allowance for uncollectible accounts.
- *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.

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

Notes to Basic Financial Statements (Continued)

June 30, 2022

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

Basis of Presentation – (continued)

Government-Wide and Fund Financial Statements – (continued)

- *Capital Grants and Contributions* - These revenues consist of assets or resources that are restricted for capital purposes, such as purchasing, constructing, or renovating capital assets associated with a specific program. These funds represent income that directly supports a specific initiative.

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.

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.

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

Notes to Basic Financial Statements (Continued)

June 30, 2022

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

Basis of Presentation – (continued)

Governmental Funds – (continued)

Federal funds include the following:

- *Workforce Innovation and Opportunity Act (WIOA) Program Fund* – Accounts for funds related to the WIOA Programs aimed to reform federal job training programs and create a new, comprehensive workforce investment system.
- *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.

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.
- *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
(An Agency of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements (Continued)

June 30, 2022

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, the Department would first use committed, then assigned, and lastly unassigned amount of unrestricted fund balance when expenditures are made.

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

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 management services provided to its operational components as well as the administration of rental properties as a result of the merger previously described in Note 1.

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.

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

Notes to Basic Financial Statements (Continued)

June 30, 2022

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

Basis of Presentation – (continued)

Measurement Focus and Basis of Accounting – (continued)

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 as 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, 2022 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.

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.

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

June 30, 2022

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

Basis of Presentation – (continued)

Measurement Focus and Basis of Accounting – (continued)

Business type Fund Financial Statements – The basic financial statements of the business type funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above. The business type 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.

Business type funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing the services that correspond to the business type fund's principal ongoing operations. Operating revenues are generated from rent revenue. 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. Actual results could differ from those estimates.

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.

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.

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

Notes to Basic Financial Statements (Continued)

June 30, 2022

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

Cash – (continued)

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 Financial Oversight and Management 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, 2022, the Department has no unencumbered previous-year balance of non-current allocations from the General Fund. 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.

Due from (Accounts Receivables)

Due from consist of accounts receivable which represent principally 1) US Department of Labor receivable owed to the Department for the reimbursement of expenditures incurred pursuant to federally funded programs; 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, and 3) rent receivable presented as the unpaid balance less the corresponding allowance for uncollectible accounts for building space operating leases.

The allowance for doubtful accounts is established through provisions recorded as an offset to rental revenue. Write-offs are recorded against the allowance when management believes that collectability is unlikely. The allowance is subject to and may be adjusted in the future because of changes in the economic or market conditions.

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

Notes to Basic Financial Statements (Continued)

June 30, 2022

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

Due from (Accounts Receivables) – (continued)

Governmental activities are generally supported by intergovernmental revenue and certain taxes, while business-type activities rely to a significant extent on rent revenue.

Notes Receivable and Allowance for Note Losses

Notes receivables 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, 2022, all notes receivables are fully reserved.

Leases

The Department adopted GASB No. 87, *Leases* (GASB No. 87) effective July 1, 2021. GASB No. 87 requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This single model for lease accounting is based on the foundational principle that leases are financing for the right to use an underlying asset and eliminates the distinction between operating and capital leases. GASB No. 87 instructs that leases be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation or of the earliest period restated.

The Department engages in the lease of commercial buildings and building spaces to private parties. These lease arrangements consist of non-cancellable leases of buildings and building spaces. Management evaluated and concluded that many of these agreements are considered leases within the scope of GASB No. 87, and the adoption of the statement resulted in the Department classifying lease arrangements as financing arrangements. Under GASB No. 87, a lessor is required to recognize a lease receivable and a deferred inflow of resources. Receivables related to lease arrangements are measured at the present value of fixed lease payments expected to be received during the lease term. For leases that were in place at adoption, fixed lease payments were measured over the remaining lease term. The discount rates utilized in the valuation of lease arrangements subject to GASB No. 87 are based on the Department's incremental cost of borrowing at the time of valuation. Deferred inflows of resources related to leases are amortized on a straight-line basis over the remaining

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

June 30, 2022

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

Leases – (continued)

lease term. The Department continually monitors changes in the circumstances that would require remeasurement of a lease receivable. When certain changes occur that are expected to significantly affect the value of the lease receivable, the lease receivable is remeasured and adjusted.

The adoption of this standard resulted in the recording of a lease receivable within the business-type fund for \$59,610,371, a deferred inflows of resources for \$59,701,787 and recognized rent revenue and operating interest income for \$5,996,527 and \$2,338,201, respectively. These transactions have been excluded from the statement of cash flows.

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.

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 write down the investment to its net realizable value.

Investment in Equity Interest

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, 2022, all investment in equity interest is reserved.

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

Notes to Basic Financial Statements (Continued)

June 30, 2022

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

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.

Allowance for Uncollectible

The allowance for uncollectible receivables is an amount that management believes will be adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of the collectability of the receivables and prior credit loss experience. Because of uncertainties inherent in the estimation process, the related allowance may change in the future. As of June 30, 2022, the Department has an allowance of approximately \$14 million in the business-type fund.

Capital Assets

Capital assets include land, building and building improvements, equipment (including software), and 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 forty 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.

GASB No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* addresses accounting and financial reporting principles for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current obligations, and future pollution activities that are required upon retirement of an asset, such as post-closure care. As of June 30, 2022, management evaluated its responsibilities for environmental and pollution exposures and no contingency exposure was identified.

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

Notes to Basic Financial Statements (Continued)

June 30, 2022

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

Accounting for the Impairment or Disposal of Long-lived Assets

The Company follows GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Management is then required to determine whether impairment of an asset has occurred. Impaired capital assets that will no longer be used by the Department should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the Department should be measured using the method that best reflects the diminished service utility of the capital asset.

Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off.

Based on the Department's management evaluation for capital assets impairment, no impairment loss was identified during the fiscal year ended on June 30, 2022.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes 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, other postemployment benefit (OPEB), and leases. Pension related items (further disclosed in 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 over a five-year period. Pension contributions made subsequent to the measurement date are recognized as a reduction of the total pension liability after the next measurement date.

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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)

June 30, 2022

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

Deferred Outflows/Inflows of Resources – (continued)

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 two captions arising from the accrual basis of accounting that qualifies for reporting in this category, items related to pensions and leases. 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 participants. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. In relation to leases, deferred inflows of resources are amortized on a straight-line basis over the lease term.

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.

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 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 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

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

June 30, 2022

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

Accounting for Pension Costs – (continued)

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. 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*.

This statement measures the total 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.

Interfund Activities

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.

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

June 30, 2022

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

Interfund Activities - (continued)

- *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).

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 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.

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

June 30, 2022

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

Compensated Absences - (continued)

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.

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.

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

June 30, 2022

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

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 principles

The following accounting standards are effective in fiscal year 2022:

- GASB Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this Statement are effective for reporting periods beginning after June 15, 2021. Refer to Notes 1 and 5 for information regarding the effects of adoption of this Statement in the Department's basic financial statements.

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

June 30, 2022

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

New accounting principles – (continued)

- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. The adoption of this Statement did not have any effect on the Department's basic financial statements since there were no such interest cost transactions.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged. This Statement did not have any effect on the Department's basic financial statements.
- 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 primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the

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

June 30, 2022

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Future adoption of accounting standards

- relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. This Statement did not have any effect on the Department's basic financial statements.

GASB has issued the following accounting standards that the Department has not yet adopted:

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. Management is currently evaluating to conclude if impact would be considered material.
- GASB Statement No. 96, *Subscription – Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription –based information technology arrangements (SBITA's) for government end users (governments). The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Management is currently evaluating to conclude if impact would be considered material.
- GASB Statement No. 99, *Omnibus 2022* – The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:
 - Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
 - Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition, and measurement of a lease liability and a lease asset, and identification of lease incentives.

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

June 30, 2022

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Future adoption of accounting standards – (continued)

- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription - based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this Statement that are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

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

June 30, 2022

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Future adoption of accounting standards – (continued)

- GASB Statement No. 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.

This Statement defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes.

As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period.

The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in the absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amounts of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

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

June 30, 2022

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Future adoption of accounting standards – (continued)

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. Management is currently evaluating to conclude if impact would be considered material.

- GASB Statement No. 101, *Compensated Absences* - The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled.

In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

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

June 30, 2022

Note 2 - Basis of presentation and summary of significant accounting policies – (continued)

Future adoption of accounting standards – (continued)

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee’s pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made.

Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. Management is currently evaluating to conclude if impact would be considered material.

Note 3 - 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 Puerto Rico Automobile Accident Compensation Administration (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)

June 30, 2022

Note 3 - 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 4 - Custodial Credit Risk

Deposits held in commercial banks are maintained in Puerto Rico and are insured as of June 30, 2022. The carrying amount of the deposits of the Department as of June 30, 2022, consists of the following:

	Carrying Amount	Bank Balance
Governmental activities		
Commercial banks	\$ 117,877,769	\$ 119,076,901
Business type activities		
Commercial banks	9,784,213	9,784,213
Total	\$ 127,661,982	\$ 128,861,114

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, 2022, the Department interest amounted to \$2.2 million.

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

June 30, 2022

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

As of June 30, 2022, the remaining funds being administered by the Office of Energy include a certificate of deposit amounting to \$2,998,776 for which a custodial credit loss of the same amount has been recorded in the financial records of the Energy Office.

Note 5 - Receivables and Allowance for Uncollectible Accounts

Due from Commonwealth

Amounts due from the Commonwealth of Puerto Rico in governmental activities as of June 30, 2022, consisted of economic incentives as follows:

	<u>Governmental activities</u>
Act 20	\$ 14,841,163
Act 22	4,202,367
Act 73	30,881,204
Film	419,171
Green Energy	1,225,518
Rum	24,391,985
Other operational assignments	<u>27,406,442</u>
Total due from Commonwealth of Puerto Rico	<u>\$ 103,367,850</u>

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

June 30, 2022

Note 5 - Receivables and Allowance for Uncollectible Accounts – (continued)

Rent receivable

As of June 30, 2022, receivables in the business type activities consisted of the following:

	Business-type activities
	Rent and other
Other governmental agencies	\$ 12,546,552
Rent and land leases	4,399,750
Rent under repayment plan and other	11,595,618
Other	3,559,425
	32,101,345
Less: Allowance for uncollectible accounts	(14,484,544)
	\$ 17,616,801

Changes in the allowances for uncollectible accounts during the fiscal year ended June 30, 2022, are as follows:

	Business-type activities
	Rent and Other
Allowances for uncollectible accounts, beginning of year	\$ 14,049,236
Provision for doubtful accounts	435,308
Write off	-
Allowances for uncollectible accounts, end of year	\$ 14,484,544

Lease receivable

The Department is a lessor for various noncancellable leases of buildings and building spaces to third parties. For leases with a maximum possible term of 12 months or less at commencement, the Department recognizes income based on the provision of the lease contracts. For all other leases, those that are not short-term, the Department recognizes a lease receivable and a deferred inflow of resources.

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Notes to Basic Financial Statements (Continued)

June 30, 2022

Note 5 - Receivables and Allowance for Uncollectible Accounts – (continued)

Lease receivable – (continued)

At the commencement of a lease, the Department initially measures the lease receivable at the present value of payments expected to be received during the lease term and the lease receivable is reduced by the principal portion of lease payments when received. The deferred inflow of resources is initially measured at the initial amount of the lease receivable and is recognized as revenue over the life of the lease term. The Department recognizes interest income on the lease receivables, and lease revenue from deferred inflows of resources in systematic and rational manner over the term of the lease.

Key estimates and judgments related to leases include how the Department determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts:

- The Department uses its incremental borrowing rate as the discount rate for leases, unless specifically identified in the lease. The Department incremental borrowing rate for leases is based on the interest rate Puerto Rico Government restructuring debt issued by similar entities with similar characteristics to the Department.
- The lease term includes the non-cancelable periods of the lease arrangements, plus any additional periods covered by an option to extend for which is reasonably certain to be exercised. Periods in which both the lessee and the Department have a unilateral option to terminate (or both parties must agree to extend) are excluded from the lease term.
- Lease receipts included in the measurement of the lease receivables are composed of fixed payments the Department will receive over the lease term.

Lease arrangements generally have an initial term of 5 to 10 years, and can contain automatic renewal options, generally of 5 to 10 years. Renewal options are included in the lease term if the option is reasonably certain of being exercised, and termination options are included if the option is reasonably certain of not being exercised. An amendment to the lease contract is considered a lease modification, unless the lessee's right to use the underlying asset decreases, in which case it is considered a partial or full lease termination. Discount rates applied to expected fixed lease payments are based on the Department's incremental cost of borrowing at the commencement of the lease term. The discount rate applied to expected fixed lease payments valuations is 5%. Receipts from the lessees are recorded as a reduction in the receivable (principal) and interest income. The Department also recognized a deferred inflows of resources at the amount of the lease receivable, including any lease payments received at or before commencement of the lease term that related to future periods and less incentives, if any. The deferred inflows of resources are amortized on a straight-line basis over the lease term.

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Notes to Basic Financial Statements (Continued)

June 30, 2022

Note 5 - Receivables and Allowance for Uncollectible Accounts – (continued)

Lease receivable – (continued)

As of June 30, 2022, the Department had minimum principal and interest lease receivable payments for its leasing activities, with a remaining term more than one year as follows:

Fiscal Year	Principal	Interest	Total
<u>Ending</u>	<u> </u>	<u> </u>	<u> </u>
2023	\$ 6,169,764	\$ 2,601,983	\$ 8,771,747
2024	6,487,664	2,286,302	8,773,966
2025	6,545,744	1,956,979	8,502,723
2026	6,343,676	1,635,338	7,979,014
2027	6,118,530	89,995	6,208,525
2028-2032	17,604,119	3,195,184	20,799,303
2033-2037	1,115,031	1,247,807	2,362,838
2038-2042	920,445	1,005,855	1,926,300
2043-2047	1,181,262	745,038	1,926,300
2048-2052	1,140,725	453,778	1,594,503
2053-2058	1,214,433	136,123	1,350,556
	<u>\$ 54,841,393</u>	<u>\$ 15,354,382</u>	<u>\$ 70,195,775</u>

Note 6 - Investments in Equity Interest

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

	<u>Shares Authorized</u>		<u>Purchases by Department</u>	<u>Project</u>
	<u>Preferred Units</u>	<u>Price</u>		
El Acantilado Holdings, LLC				
Class A Preferred Membership Interest	1,000,000	\$ 1,000,000	\$ 1,000,000	El Acantilado
200 Cartas Films, LLC				
Class B Membership Interest	800	800,000	<u>416,903</u>	200 Cartas
Total			1,416,903	
Impairment allowance			<u>(1,416,903)</u>	
			<u>\$ -</u>	

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Notes to Basic Financial Statements (Continued)

June 30, 2022

Note 6 - Investments in Equity Interest – (continued)

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.

Note 7 - Interfund Transactions

Interfund receivables and liabilities as of June 30, 2022 are comprised of amounts due to and from the business type fund and governmental funds. The transactions resulting in the balances shown in the following table are mainly due to payments made to (by) a fund(s) as a result of cash shortages in such funds. Such transactions are non-interest bearing and short term in nature.

Interfund receivables and liabilities as of June 30, 2022, consisted of the following:

	<u>Governmental</u>	<u>Business-type</u>
General Fund	\$ (1,877,054)	\$ -
Workforce Innovation Opportunity Act	934,821	-
State Energy Program	(224,493)	-
Weatherization Assistance Program	(996,022)	-
State Trade Expansion Program Funds	(379,125)	-
Economic Development Funds	(493,084)	-
Federal Contracting Center Funds	(705,144)	-
Internal Services	-	3,740,101
Total interfund	\$ (3,740,101)	\$ 3,740,101

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

June 30, 2022

Note 8 - Capital Assets

Capital assets activity of the Department for fiscal year ended June 30, 2022, was as follows:

	Balance				Balance
Governmental activities:	June 30, 2021	Additions	Retirements	Adjustments	June 30, 2022
Properties not being depreciated					
Land	\$ 578,720	\$ -	\$ -	\$ -	\$ 578,720
Total capital assets, note being depreciated	<u>578,720</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>578,720</u>
Capital assets:					
Building and building improvements	4,304,456	-	-	-	4,304,456
Equipment	2,518,404	358,945	-	44,512	2,921,861
Vehicles	427,506	-	-	-	427,506
Total capital assets	<u>7,250,366</u>	<u>358,945</u>	<u>-</u>	<u>44,512</u>	<u>7,653,823</u>
Less accumulated depreciation:					
Building and building improvements	(1,499,754)	(139,871)			(1,639,625)
Equipment	(2,211,575)	(166,134)	-	-	(2,377,709)
Vehicles	(427,506)	-	-	-	(427,506)
Total accumulated depreciation	<u>(4,138,835)</u>	<u>(306,005)</u>	<u>-</u>	<u>-</u>	<u>(4,444,840)</u>
Capital assets, net of accumulated depreciation	<u>\$ 3,690,251</u>	<u>\$ 52,940</u>	<u>\$ -</u>	<u>\$ 44,512</u>	<u>\$ 3,787,703</u>
Business-type activities:	Balance				Balance
	June 30, 2021	Additions	Retirements	Adjustments	June 30, 2022
Rental Properties not being depreciated					
Land	\$ 38,069,174	\$ -	\$ -	\$ -	\$ 38,069,174
Total capital assets, note being depreciated	<u>38,069,174</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,069,174</u>
Rental Properties being depreciated					
Building and building improvements	76,428,084	-	-	-	76,428,084
Equipment	2,894,857	39,882	-	-	2,934,739
Sub-total	<u>79,322,941</u>	<u>39,882</u>	<u>-</u>	<u>-</u>	<u>79,362,823</u>
Other properties not for rent being depreciated					
Equipment	5,134,482	-	-	-	5,134,482
Capital leases	628,631	-	-	-	628,631
Vehicles	372,112	-	-	-	372,112
Sub-total	<u>6,135,225</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,135,225</u>
Total cost of depreciable assets	<u>85,458,166</u>	<u>39,882</u>	<u>-</u>	<u>-</u>	<u>85,498,048</u>
Less accumulated depreciation					
Rental properties	(49,601,270)	(3,024,096)	-	-	(52,625,366)
Other properties not for rent	(6,141,447)	-	-	6,221	(6,135,226)
Total accumulated depreciation	<u>(55,742,717)</u>	<u>(3,024,096)</u>	<u>-</u>	<u>6,221</u>	<u>(58,760,592)</u>
Total capital assets, being depreciated	<u>29,715,449</u>	<u>(2,984,214)</u>	<u>-</u>	<u>6,221</u>	<u>26,737,456</u>
Capital assets, net of accumulated depreciation	<u>\$ 67,784,623</u>	<u>-\$ 2,984,214</u>	<u>\$ -</u>	<u>\$ 6,221</u>	<u>\$ 64,806,630</u>

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Notes to Basic Financial Statements (Continued)

June 30, 2022

Note 8 - Capital Assets – (continued)

Depreciation expense was charged to administrative expenses on the statement of activities for the year ended June 30, 2022.

Note 9 - 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 \$122 million. Amounts due to subrecipients of approximately \$10.8 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.

Note 10 - Mortgage Loan

On June 23, 2016, the Company and a financial institution entered into a Credit Agreement. The proceeds from the term loan were used to refinance the outstanding balance of the mortgage loan used for the construction of two warehouse facilities at the International Trade Center. The term loan amounted to \$13,557,473, payable in fifty-nine (59) consecutive monthly installments of principal and interest in the amount of \$115,045, commencing on July 23, 2016, and a final 60th balloon installment on June 30, 2021. Applicable interest rate was fixed at 6%.

On June 30, 2021, the Company and the financial institution signed an Allonge to Term Loan agreement to extend the loan maturity date to September 23, 2021. On September 30, 2021, the Company paid approximately \$10.4 million in full satisfaction of the outstanding mortgage loan.

	Balance as of June 30, 2021	Additions	Payments	Balance as of June 30, 2022	Due within One year
Mortgage Loan	\$ 10,382,860	\$ -	\$ (10,382,860)	\$ -	\$ -

Note 11 - Accrued Compensated Absences

The accrued compensated absences liability balance on June 30, 2022, consists of the following activity:

	Balance as of June 30, 2021	Increase	Decrease	Balance as of June 30, 2022	Due within One year
Accrued compensated absences	\$ 3,851,741	\$ 1,680,649	\$ (1,680,130)	\$ 3,852,260	\$ 1,244,218

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

June 30, 2022

Note 12 - Voluntary Termination Benefits

Termination Benefits (Act No. 70-2010)

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.

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, 2022, unpaid long-term benefits granted in Act No. 70-2010 were discounted at an interest rate of 2.65%.

Voluntary Pre-retirement Program (Act No. 211-2015)

On December 8, 2015, Act. No. 2011 was approved to create a Voluntary Preretirement Program. Effective June 30, 2017, the Department entered into the voluntary preretirement program as part of management plans to restructure the Department. The program consisted of, for each eligible employee applicant, 60% of the average salary at December 31, 2015 until the age of 61, liquidation of the vacation and sick leave licenses up to the limit permitted by law, exempt from income taxes, the Department will make the individual contribution to the Defined Contribution Hybrid Program, the Department will continue to make the employer contributions for the Social Security and Medicare for the 60% of the salary, the Department will pay the medical plan that the employee had up to two years. These payments will be made until the employee becomes eligible to receive payments from the Retirement System. The Department's voluntary pre-retirement program liability as of June 30, 2022, calculated using the discounted present value of expected future benefit payments with a discount rate of 2.65%, was as follows:

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Notes to Basic Financial Statements (Continued)

June 30, 2022

Note 12 - Voluntary Termination Benefits – (continued)

The following is the termination benefits liability for the year ended June 30, 2022:

	Balance as of June 30, 2021	Increase	Decrease	Balance as of June 30, 2022	Due within One year
Accrued Termination Benefits	\$ 3,488,667	\$ 1,798,744	\$ (1,412,008)	\$ 3,875,403	\$ 994,236

Note 13 - Pension Plan

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 a 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 acquired 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

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Notes to Basic Financial Statements (Continued)

June 30, 2022

Note 13 - Pension Plan – (continued)

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).

Total Pension Liability and Actuarial Information

The total Pension Plan liability recorded by the Department as of June 30, 2021 (measurement date June 30, 2021) amounted to approximately \$92.4 million. Such total amount represents its proportionate share of the total pension liability of the Pension Plan as of such date. The total pension liability was determined by an actuarial valuation as of July 1, 2020, that was rolled forward to June 30, 2021 (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.

The following table presents the Department's proportionate share of the total pension liability of ERS as of June 30, 2021, and the proportion percentage of the aggregate total pension liability of ERS allocated to the Department:

	<u>Measured as of June 30, 2021</u>	
	<u>Governmental</u>	<u>Proprietary</u>
Proportion of the total pension liability	0.14228%	0.19754%
Proportionate share of the total pension liability	<u>\$ 38,677,921</u>	<u>\$ 53,698,991</u>

Actuarial methods and assumptions

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

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

June 30, 2022

Note 13 - Pension Plan – (continued)

Discount rate

The discount rate for June 30, 2021 (measurement date) was 2.16%. 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, 2021 (measurement date) actuarial valuation were as follows:

- Pre-Retirement Mortality - For general employees not covered under Act No. 127 of 1958, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127 of 1958, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2021 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.
- Post-Retirement Mortality - Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the OPEB Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 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 OPEB Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvements. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
- Post-Retirement Beneficiary Mortality - Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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Notes to Basic Financial Statements (Continued)

June 30, 2022

Note 13 - Pension Plan – (continued)

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.

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

The following presents the Department's total pension liability calculated using the discount rate of 2.16%, 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 (1.16%) or 1% point higher (3.16%) than the current rate (dollar in thousands):

	1% Decrease 1.16%	Current discount rate 2.16%	1% Increase 3.16%
Total pension liability - governmental	<u>\$ 44,191,000</u>	<u>\$ 38,677,921</u>	<u>\$ 34,210,363</u>
Total pension liability - proprietary	<u>\$ 61,354,302</u>	<u>\$ 53,698,991</u>	<u>\$ 47,497,295</u>

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

June 30, 2022

Note 13 - Pension Plan – (continued)

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

As of June 30, 2022 (measurement date June 30, 2021), the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Governmental Fund		Proprietary Fund		Totals	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience in measuring total pension liability	\$ 61,783	\$ 1,152,299	\$ 85,777	\$ 1,599,807	\$ 147,560	\$ 2,752,106
Changes in assumptions	3,959,374	457,040	5,497,048	634,537	9,456,422	1,091,577
Changes in proportion and differences between actual contributions and proportionate share	4,266,020	-	1,730,606	180,893	5,996,626	180,893
Benefits paid and accrued subsequent to measurement date	<u>348,859</u>	<u>-</u>	<u>2,552,198</u>	<u>-</u>	<u>2,901,057</u>	<u>-</u>
	<u>\$ 8,636,036</u>	<u>\$ 1,609,339</u>	<u>\$ 9,865,629</u>	<u>\$ 2,415,237</u>	<u>\$ 18,501,665</u>	<u>\$ 4,024,576</u>

The \$2.9 million reported as deferred outflows of resources related to pension resulting from benefits paid and accrued after the measurement date, is related to the 2022 Pay-Go contribution to the pension plan and will be recognized as a reduction of the total pension liability after June 30, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense (recovery) as follows (expressed in thousands):

Year ending June 30,	Amount
2023	\$ 3,778
2024	3,778
2025	<u>4,020</u>
	<u>\$ 11,576</u>

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Notes to Basic Financial Statements (Continued)

June 30, 2022

Note 13 - Pension Plan – (continued)

PayGo Pension Reform

Act No. 106-2017 approved a substantial pension reform for all the Commonwealth's retirement systems, which created the legal framework for the Commonwealth to guarantee benefit payments to pensioners. This reform modified most of the retirement systems activities, eliminated the employer contributions, established a separate "Account for the Payment of Accrued Pensions" to implement a pay-as-you-go (Pay-Go) system, and required the Commonwealth retirement systems to liquidate all their assets and to transfer the proceeds from such liquidation to the Commonwealth for the payment of pension benefits. Effective on July 1, 2017, the previously existing programs under Act No. 447, as amended, were terminated and transitioned to the Pay-Go system.

Under the Pay-Go system, the Commonwealth's General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the applicable employer. The Pay-Go charge must be submitted to the Treasury Department before the 15th day of each month along with the individual contributions withheld from active employees. As liquid retirement funds become depleted, the Pay-Go charge is expected to increase. For the year ended June 30, 2022, the Department's corresponding payments under the Pay-Go system were approximately \$2.9 million.

Note 14 - Other Postemployment Benefits

Plan Description

The Department participates in the Other Postemployment Benefit Medical Plan of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employees' Retirement System, which is an unfunded, defined benefit other postemployment healthcare benefit plan sponsored by the Commonwealth. The OPEB 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.

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.

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Notes to Basic Financial Statements (Continued)

June 30, 2022

Note 14 - Other Postemployment Benefits – (continued)

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 30,2022, OPEB expense was a credit for approximately \$46 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 Department's total OPEB liability of \$1,889,296 (\$683,156 and \$1,206,140 in the governmental and proprietary funds, respectively), as of June 30, 2021, and was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30,2021 (measurement date as of June 30, 2021).

Actuarial Methods and Assumptions

The census data collection date is at beginning-of-year. The total OPEB liability as of June 30, 2021 (measurement date), is based on projecting the System obligations determined as of the census data collection date of July 1, 2020, for one year, using roll-forward methods and assuming no liability gains or losses.

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Notes to Basic Financial Statements (Continued)

June 30, 2022

Note 14 - Other Postemployment Benefits – (continued)

Actuarial Methods and Assumptions – (continued)

The actuarial valuation used the following actuarial assumptions:

Inflation	Not applicable
Municipal bond index	2.16%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index

Mortality Pre-retirement Mortality:

For general employees not covered under Act No. 127 of 1958, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127 of 1958, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2021 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.

Post-retirement Healthy Mortality:

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the OPEB Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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Notes to Basic Financial Statements (Continued)

June 30, 2022

Note 14 - 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 the OPEB Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvements. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Beneficiary Mortality:

Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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 2.16% as of June 30, 2021 (measurement date).

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Notes to Basic Financial Statements (Continued)

June 30, 2022

Note 14 - Other Postemployment Benefits – (continued)

Proportionate Share of total OPEB liability

The following table presents the Department’s proportionate share of the total OPEB liability of ERS as of June 30, 2021 (measurement date), and the proportion percentage of the aggregate total OPEB liability of ERS allocated to the Department:

	Measured as of June 30, 2021	
	Governmental	Proprietary
Proportion of the total OPEB liability	0.08560%	0.15112%
Proportionate share of the total OPEB liability	<u>\$ 683,156</u>	<u>\$ 1,206,140</u>

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

The following table presents the total OPEB liability of the Department’s calculated using the discount rate of 2.16%, as well as what it would be if it were calculated using a discount rate of 1-percent point lower 1.16% or 1-percent point higher 3.16% than the current rate (dollars in thousands):

	1% Decrease 1.16%	Current discount rate 2.16%	1% Increase 3.16%
Total OPEB liability - governmental fund	<u>\$ 749,919</u>	<u>\$ 683,156</u>	<u>\$ 626,365</u>
Total OPEB liability - proprietary fund	<u>\$ 1,323,923</u>	<u>\$ 1,206,140</u>	<u>\$ 105,797</u>

Deferred Outflows of Resources and Deferred Inflows of Resources

Because all participants are inactive, there are no deferred inflows 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, 2022, employer OPEB payments subsequent to the measurement date in the amount of \$101 thousand were reported in the proprietary funds as deferred outflows of resources and were recognized as a reduction of the total OPEB expense in the year ended June 30, 2022.

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Notes to Basic Financial Statements (Continued)

June 30, 2022

Note 15 - Related-Party Transactions

Governmental Activities

Invest Puerto Rico (InvestPR)

InvestPR works to promote 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 \$5 million to support the activities of InvestPR as of June 30, 2022.

Puerto Rico Industrial Investment Corporation (PRIICO)

The Puerto Rico Industrial Investment Company (PRIICO) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth), created in 1942 by Act No. 188, as amended. PRIICO 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, PRIICO, among its many programs, constructs industrial facilities for lease or sale to qualified enterprises. The Department pays rent to PRIICO for several offices and during the fiscal year 2022 it amounted to approximately \$1.4 million.

Note 16 - Commitments and 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 the purposes from the public corporations, governmental institutions, and municipalities of the defendants.

The Department is involved in litigation arising from 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 accrued \$1.06 million to cover potential liability related to outstanding claims and litigations in the administration fund.

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

Notes to Basic Financial Statements (Continued)

June 30, 2022

Note 16 - Commitments and Contingencies – (continued)

Federal Awards

The Department participates in a number of federal assistance programs funded by the federal government. Funds received from federal funded programs are subject to financial and compliance audits in accordance with the provisions of Title 2 of the U.S. Code of Federal Regulation, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (the Uniform Guidance) or to compliance audits by the corresponding federal agencies and pass-through entities, as applicable. The Uniform Guidance requires compliance audits for entities receiving financial assistance in excess of \$750,000 in the aggregate in a single year. Related compliance reports are required to be submitted to the corresponding federal agencies.

The Department believes that the compliance with the grant's requirements will be achieved within the timeframe prescribed by the grant, however, there is no assurance that compliance will be attained. Since the Department received and expended federal financial assistance in excess of \$750,000, it is subject to compliance audits under the Uniform Guidance.

Federal agencies have the authority to recoup, as well as to limit, suspend, or terminate the federal financial assistance programs. If any unallowed costs are detected as a result of such compliance audits, the Department may be required to reimburse such amounts to the corresponding federal agencies from its own non-federal resources.

The accompanying financial statements do not contain any adjustment that may result from this contingency.

During the year ended June 30, 2022, the Department received a conditional contribution grant from the U.S. Treasury Department, through the local government for the amount of \$20 million. Contribution was received for the purpose of providing energy incentive programs for small business, such grant was considered as nonexchange contribution. The grantor has restricted the use of these funds as conditional contributions. The Department accounts for conditional contributions received before the specified condition has been substantially met as a refundable advance liability (unearned revenues). Upon complying with the applicable restrictions, the refundable advances are recognized as revenue or gain in the statements of revenues, expenses and changes in net position. During the year ended June 30, 2022, the amount of \$1,170,999 was expensed and the remaining unexpended balance of \$18,829,001 was recorded as unearned revenue in the accompanying statement of net position.

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

Notes to Basic Financial Statements (Continued)

June 30, 2022

Note 17- Collective Bargaining Agreements

Employees of the LDP are represented by the “*Coordinadora Unitaria de Trabajadores del Estado*” labor union. Employees of the LDP 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.

Note 18 - Restatement of Net Position

During the year ended June 30, 2022, the Department identified an error related to the previous year’s financial statements business-type activities. An adjustment to correct a misstatement related to the payments of debts with the Commonwealth of Puerto Rico related to Pay-Go that were expensed instead of recorded against the recorded accumulated amount.

Total net position for business-type activities is adjusted effective July 1, 2021, as follows:

	<u>Business-type Activities</u>
Net position - July 1, 2021, as previously reported	\$ 22,506,609
Adjustment to accounts payables and accrued liabilities	<u>1,244,081</u>
Net position - July 1, 2021, as restated	<u>\$ 23,750,690</u>

Note 19 - Subsequent Events

The Department has evaluated subsequent events through October 16, 2023, the date on which the financial statements were available to be issued. Management believes that the following events should be disclosed:

Economic Development Bank Settlement

On August 28, 2023, the Department agreed to accept from the Economic Development Bank (EDB) the sum of \$430,098 which represents 8.75% of the total deposits maintained by the Department in EDB. This transaction was approved by the Oversight Board of PROMESA. These amounts had been fully reserved due to the uncertainty that the EDB was going to be able to grant the deposits based on the liquidity of the bank. The Department will recognize a cash recapture when funds are received.

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, 2022

	Governmental fund			
	2022	2021	2020	2019
Proportion (percentage) of the net collective total pension liability	0.12030%	0.13640%	0.12030%	0.08720%
Proportion share (amount) of the collective total pension liability	\$38,677,921	\$38,286,252	\$29,894,323	\$27,324,999
	Proprietary fund			
	2022	2021	2020	2019
Proportion (percentage) of the net collective total pension liability	0.19291%	0.19291%	0.18942%	0.19116%
Proportion share (amount) of the collective total pension liability	\$53,698,991	\$54,148,270	\$47,071,584	\$46,813,347

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 Total OPEB Liability (Unaudited)

June 30, 2022

	Governmental fund				
	2022	2021	2020	2019	2018
Proportion (percentage) of the net collective total OPEB liability	0.08219%	0.08375%	0.08219%	0.07000%	0.07000%
Proportion share (amount) of the collective total OPEB liability	\$ 683,156	\$ 732,515	\$ 683,970	\$ 695,347	\$ 570,050
	Proprietary fund				
	2022	2021	2020	2019	2018
Proportion (percentage) of the net collective total OPEB liability	0.15255%	0.15533%	0.15255%	0.14218%	0.12950%
Proportion share (amount) of the collective total OPEB liability	\$ 1,206,140	\$ 1,358,552	\$ 1,269,536	\$ 1,308,831	\$1,534,680

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 - Federal Programs Funds - Combining Schedule

June 30, 2022

Assets:	Workforce Innovation Opportunity Act Fund	State Energy Program Fund	Weatherization Assistance Program Fund	State Trade Expansion Program Fund	Economic Development Fund	American Rescue Plan Funds	Federal Contracting Center Funds	Total
Cash in commercial banks	\$ 3,829,928	\$ -	\$ -	\$ -	\$ -	\$ 19,868,246	\$ -	\$ 23,698,174
Due from:								
Federal government , net	9,665,131	296,729	1,700,511	413,125	411,501	-	696,145	13,183,142
Other governmental entities	<u>1,868</u>	<u>185,534</u>	<u>469,463</u>	<u>-</u>	<u>154,830</u>	<u>-</u>	<u>-</u>	<u>811,695</u>
 Total assets	 <u>13,496,927</u>	 <u>482,263</u>	 <u>2,169,974</u>	 <u>413,125</u>	 <u>566,331</u>	 <u>19,868,246</u>	 <u>696,145</u>	 <u>37,693,011</u>
 Liabilities and fund balances								
Liabilities:								
Accounts payable and accrued liabilities	3,036,047	257,770	1,173,952	34,000	73,247	1,039,245	21,560	5,635,821
Unearned revenue	-	-	-	-	-	18,829,001	-	18,829,001
Due to:								
US Department of Labor	605,074	-	-	-	-	-	-	605,074
Subrecipients	10,778,545	-	-	-	-	-	-	10,778,545
Internal balances	(934,821)	224,493	996,022	379,125	493,084	-	705,144	1,863,047
Other governmental entities	<u>12,082</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,082</u>
 Total liabilities	 <u>13,496,927</u>	 <u>482,263</u>	 <u>2,169,974</u>	 <u>413,125</u>	 <u>566,331</u>	 <u>19,868,246</u>	 <u>726,704</u>	 <u>37,723,570</u>
 Fund balances:								
Unassigned (deficit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,559)</u>	<u>(30,559)</u>
 Total liabilities and fund balances	 <u>\$ 13,496,927</u>	 <u>\$ 482,263</u>	 <u>\$ 2,169,974</u>	 <u>\$ 413,125</u>	 <u>\$ 566,331</u>	 <u>\$ 19,868,246</u>	 <u>\$ 696,145</u>	 <u>\$ 37,693,011</u>

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

Statement of Activities - Federal Programs Funds - Combining Schedule

June 30, 2022

	Workforce Innovation Opportunity Act Fund	State Energy Program Fund	Weatherization Assistance Program Fund	State Trade Expantion Program Fund	Economic Development Fund	American Rescue Plan Funds	FEMA Funds	Federal Contracting Center Funds	Total
Revenues:									
Contributions from Federal agencies	\$ 94,196,353	\$ 311,822	\$ 1,700,511	\$ 483,779	\$ 411,501	\$ -	\$ 4,326	\$ 282,910	\$ 97,391,202
Contributions from Commonwealth	-	-	-	-	-	1,666,999	-	-	1,666,999
Total revenue	<u>94,196,353</u>	<u>311,822</u>	<u>1,700,511</u>	<u>483,779</u>	<u>411,501</u>	<u>1,666,999</u>	<u>4,326</u>	<u>282,910</u>	<u>99,058,201</u>
Expenditures:									
Program direct	79,984,482	-	-	311,142	-	1,666,999	4,326	-	81,966,949
Administrative	11,863,034	202,599	1,566,273	172,637	305,858	-	-	65,324	14,175,725
Salaries and fringe benefits	2,328,778	85,397	114,014	-	105,643	-	-	217,586	2,851,418
Capital outlays	20,059	23,826	20,224	-	-	-	-	-	64,109
Total expenditures	<u>94,196,353</u>	<u>311,822</u>	<u>1,700,511</u>	<u>483,779</u>	<u>411,501</u>	<u>1,666,999</u>	<u>4,326</u>	<u>282,910</u>	<u>99,058,201</u>
Net change in fund balances	-	-	-	-	-	-	-	-	-
Fund balance (deficit) - beginning of the year	-	-	-	-	-	-	-	(30,559)	(30,559)
Fund balance (deficit) - end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (30,559)</u>	<u>\$ (30,559)</u>