

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, 2021

Independent Auditor's Report

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Puerto Rico Department of Economic Development and Commerce (an Agency of the Commonwealth of Puerto Rico) ("the Department"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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



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### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and business-type activities, each major fund, and the aggregate remaining fund information of the Puerto Rico Department of Economic Development and Commerce, as of June 30, 2021, and the respective changes in financial position, and, where applicable, its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

#### Change in Reporting Entity

As described in Note 1, the Department merged the operations of the Puerto Rico Trade and Export Company within its operations effective July 1, 2020. This change in reporting entity represented an increase in fund balance of approximately \$10.1 million.

#### Restatement of Net Position (Deficit)

As discussed in Note 4 to the financial statements, the 2020 financial statements have been restated to correct a misstatement related to the elimination of debts with the Employees' Retirement System at the effective date of Act No. 106 of August 23, 2017.

Our opinion is not modified with respect to these matters.

### Other Matters

#### Required Supplementary Information

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

Supplementary and Other Information

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

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, 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  
February 15, 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)

For the year ended June 30, 2021

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, 2021. The MD&A is intended to serve as an introduction to the Department's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements. The MD&A is designed to (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the Department's financial activities, and (c) highlight individual fund matters. The following presentation is by necessity highly summarized, and to gain an understanding of the Department's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

Financial Highlights

- The assets and deferred outflows of resources of the Department exceeded its liabilities and deferred inflows of resources by approximately \$54.2 million, which is composed of \$61 million of investment in capital assets, net of (\$6.8) million of the unrestricted net deficit position. The General Funds' operations are mainly related to the economic incentives' activities under Law 60.
- During the year ended June 30, 2021, as per the provisions of Act 141 of 2018, (Department of Economic Development and Commerce Reorganization Plan Implementation Act", the Puerto Rico Trade and Export Company (the Company) was merged into the Department effective July 1, 2020. The Company's total assets and deferred outflows, total liabilities and deferred inflows, and net position amounted to \$94.8 million, \$84 million, and \$10.8 million, respectively. Total net position of \$10.8 million consisted of \$3.9 million and 6.9 million under the governmental and business type activities, respectively, which represented a significant change in reporting entity during fiscal year 2021.
- Total change in net position in the statement of activities amounted to (\$15) million, a decrease of \$13.1 million, as a result of governmental activity expenses exceeding its revenues for the fiscal year 2021 by \$30.8 million and business-type activity revenues exceeded its expenses by \$15.9 million.
- Total assets and deferred outflows of resources amounted to \$391.1 million, an increase of 68.2 million when compared to 2020.
- Total liabilities and deferred inflows of resources amounted to \$336.8 million, an increase of \$83.2 million or 32.8% when compared to 2020.

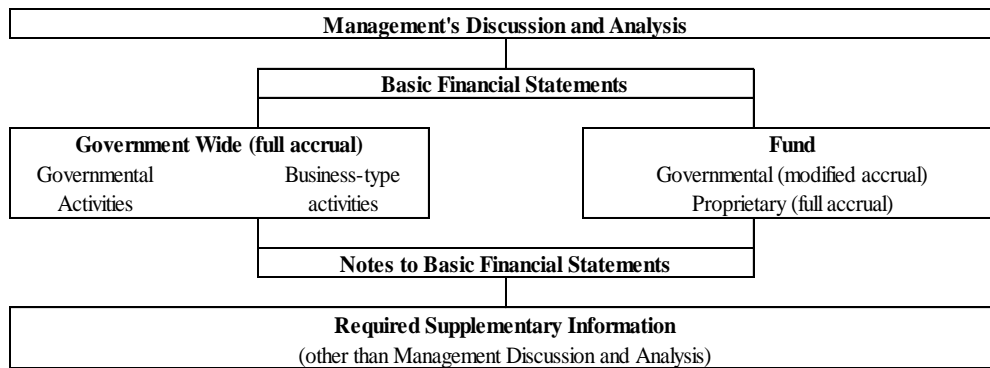
Puerto Rico Department of Economic Development and Commerce  
(An Agency of the Commonwealth of Puerto Rico)

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

June 30, 2021

Overview of the Basic Financial Statements

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



Government Wide Highlights

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

These two statements report the Department's net position and changes in it. 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 is 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, 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  
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Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2021

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 financed 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 this 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 carrying on specific activities or achieving specific goals. Information presented in the governmental fund financial statements differs from the information presented in the government wide statements because the perspective and basis of accounting used to prepare the governmental fund financial statements are different than the perspective and basis of accounting used to prepare the government-wide statements. The Department's governmental and proprietary fund types use different perspectives and accounting bases. The funds presented in the fund financial statements are categorized as major funds as required by accounting principles generally accepted in the United States of America (GAAP).

The Department uses two fund types for operations - governmental and business type (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  
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Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2021

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

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

Notes to the Financial Statements

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

Required Supplementary Information

The statements and notes are followed by the required supplementary information that contains the schedule of the Department's proportionate share of net pension liability, and Schedule of the Department's Proportionate Share of the Collective Net OPEB Liability. In addition, the combining information related to federal funds, which are accounted for within the general fund of the governmental funds, has been included.

Financial Analysis

The following is an analysis of the financial position and changes in the financial position of the Department's activities for fiscal year 2021.

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, 2021

Net Position

Condensed financial information from the statement of net position as of June 30, 2021 and 2020, as restated, is as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Total		Change	%
	As Restated		As Restated		As Restated			
	2021	2020	2021	2020	2021	2020		
<b>Assets</b>								
Current and other assets	\$ 258,688	\$ 216,712	\$ 39,146	\$ 23,636	\$ 297,834	\$ 240,348	\$ 57,486	24%
Capital assets	3,690	3,721	67,785	71,221	71,475	74,942	(3,467)	-5%
Total Assets	<u>262,378</u>	<u>220,433</u>	<u>106,931</u>	<u>94,857</u>	<u>369,309</u>	<u>315,290</u>	<u>54,019</u>	17%
Deferred Outflows of resources	<u>11,021</u>	<u>2,916</u>	<u>10,744</u>	<u>4,659</u>	<u>21,765</u>	<u>7,575</u>	<u>14,190</u>	187%
<b>Liabilities</b>								
Current and other liabilities	199,501	127,697	38,155	38,323	237,656	166,020	71,636	43%
Long term liabilities	<u>40,656</u>	<u>31,113</u>	<u>54,593</u>	<u>51,377</u>	<u>95,249</u>	<u>82,490</u>	<u>12,759</u>	15%
Total liabilities	<u>240,157</u>	<u>158,810</u>	<u>92,748</u>	<u>89,700</u>	<u>332,905</u>	<u>248,510</u>	<u>84,395</u>	34%
Deferred Inflows of resources	<u>1,519</u>	<u>1,950</u>	<u>2,420</u>	<u>3,175</u>	<u>3,939</u>	<u>5,125</u>	<u>(1,186)</u>	-23%
<b>Net position:</b>								
Net investment in capital assets	3,690	3,721	57,402	60,099	61,092	63,820	(2,728)	-4%
Restricted	-	58,113	-	-	-	58,113	(58,113)	-100%
Unrestricted (deficit)	<u>28,033</u>	<u>755</u>	<u>(34,895)</u>	<u>(53,458)</u>	<u>(6,862)</u>	<u>(52,703)</u>	<u>45,841</u>	-87%
Total Net Position (deficit)	<u>\$ 31,723</u>	<u>\$ 62,589</u>	<u>\$ 22,507</u>	<u>\$ 6,641</u>	<u>\$ 54,230</u>	<u>\$ 69,230</u>	<u>(15,000)</u>	-22%

Governmental entities are required by U.S. GAAP to report on their net position. The statement of net position presents the value of all of the Department's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between them reported as net position.

Net position (deficit) may serve over time as a useful indicator of a government's financial position. As of June 30, 2021, the Department's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources amounted to \$391 million and of \$336.8 million, respectively, for a net position of \$54.2 million as of June 30, 2021, compared to a net position of \$69.2 million as of June 30, 2019 (as restated), a decrease of \$15 million or 22%. Total assets increased by \$54 million or 17%, mostly due to the increase in cash balances of the governmental activities of \$49.5 million related to special incentives for small businesses received from the Commonwealth. Total liabilities increased by \$84.4 million or 34%, from \$248.5 million in 2020 to \$332.9 million in 2021, mostly due to increases in amounts payable of over \$50 million of economic incentives under Law 60-2019, and \$15.5 million in total pension liability.

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

June 30, 2021

Change in Net Position

Condensed financial information from the statement of activities as of June 30, 2021 and 2020, as restated, is as follows (expressed in thousands):

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>		<u>Change</u>	
	As Restated		As Restated		As Restated		\$	%
	2021	2020	2021	2020	2021	2020		
Program revenues:								
Operating grants and contributions	\$ 434,318	\$ 445,850	\$ -	\$ -	\$ 434,318	\$ 445,850	\$ (11,532)	-3%
Charges for services - fees and others	-	-	25,832	15,667	25,832	15,667	10,165	65%
Other revenues	-	8,626	2,664	2,482	2,664	11,108	(8,444)	-76%
Total program revenues	<u>434,318</u>	<u>454,476</u>	<u>28,496</u>	<u>18,149</u>	<u>462,814</u>	<u>472,625</u>	<u>(9,811)</u>	<u>-2%</u>
Expenses								
General government and other	379,264	382,090	-	-	379,264	382,090	(2,826)	-1%
Special revenue funds	82,819	67,599	-	-	82,819	67,599	15,220	23%
Film industry development activities and other state programs	751	502	-	-	751	502	249	50%
Tax incentives	-	9	-	-	-	9	(9)	0%
Green Energy Incentives	2,350	730	-	-	2,350	730	1,620	222%
Pension and related	-	-	12,630	23,561	12,630	23,561	(10,931)	-46%
Total expenses	<u>465,184</u>	<u>450,930</u>	<u>12,630</u>	<u>23,561</u>	<u>477,814</u>	<u>474,491</u>	<u>3,323</u>	<u>1%</u>
Changes in net position	(30,866)	3,546	15,866	(5,412)	(15,000)	(1,866)	(13,134)	704%
Net position (deficit) - Beginning of year as restated	<u>62,589</u>	<u>59,043</u>	<u>6,641</u>	<u>12,053</u>	<u>69,230</u>	<u>71,096</u>	<u>(1,866)</u>	<u>-3%</u>
Net position (deficit) - End of year	<u>\$ 31,723</u>	<u>\$ 62,589</u>	<u>\$ 22,507</u>	<u>\$ 6,641</u>	<u>\$ 54,230</u>	<u>\$ 69,230</u>	<u>\$ (15,000)</u>	<u>-22%</u>

The Department's change in net position increased by (\$13.1) million in 2021 when compared to 2020 mostly due to an increase of expenses of \$3.3 million over a decrease in revenues of \$9.8 million.

Total program revenues decrease of \$9.8 million or 2% was mostly due to the following:

- a) A decrease of approximately \$11.5 million of operating grants and contributions mainly due to a reduction in contributions from the Commonwealth related to the year 2020 pandemic;
- b) An increase of \$10.1 million – mostly driven by \$13 million of rental revenue after the merger of the Company's operations, and
- c) A decrease of \$8.5 million in other revenues – mostly composed of non-recurring management charges to PRIDCO of \$8.2 million occurred during 2020.

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

June 30, 2021

Total expenses for 2021 and 2020 amounted to \$477.8 million and \$474.5 million, respectively, an increase of \$3.3 million or 1%, from which general government expenses and special revenue funds represented 96.6% and 95.0% of total expenses for the years 2021 and 2020, respectively. Such increase in expenditures was mostly due to the following:

- a) an increase of approximately \$15.2 million of WIOA fund requests, and
- b) a decrease in pension and other costs of approximately \$6.9 million, mostly due to a reserve for legal claims of approximately \$5.8 million recorded in 2020 plus incentive awards amounting to \$1.5 million related to the earthquake events occurred in 2020, which did not occur in FY 2021.

Financial Analysis of the Department's Major funds

Governmental Funds

Condensed financial information from the balance sheet of governmental funds as of June 30, 2021 and 2020, as restated, is as follows (expressed in thousands):

	June 30,		Changes	
	2021	As Restated 2020	In Dollars	Percent
<b>Assets</b>				
Total assets - General fund	\$ 257,803	\$ 217,507	\$ 40,296	19%
Total assets - Federal	17,457	12,223	5,234	43%
Total assets	<u>275,260</u>	<u>229,730</u>	<u>45,530</u>	20%
<b>Liabilities</b>				
Total liabilities - General fund	195,436	125,877	69,559	55%
Total liabilities - Federal	17,488	12,223	5,265	43%
Total liabilities	<u>212,924</u>	<u>138,100</u>	<u>74,824</u>	54%
<b>Fund balances</b>				
Restricted	-	57,532	(57,532)	-100%
Unrestricted	62,336	34,098	28,238	100%
Total fund balances	<u>62,336</u>	<u>91,630</u>	<u>(29,294)</u>	-32%
Total liabilities and fund balances	<u>\$ 275,260</u>	<u>\$ 229,730</u>	<u>\$ 45,530</u>	20%

Total fund balance of governmental funds as of June 30, 2021 amounted to \$62.3 million, a decrease of \$29.3 million or 32% when compared to \$91.6 million in 2020. Such decrease is the result of the award of economic incentives under Law 60 during 2021. Total assets increased by \$45.5 million or 20% mostly due to increases in cash balances after approximately \$49.5 million transferred from the Commonwealth in connection with special economic incentives for small businesses under Law 60. Total liabilities increased by \$74.8 million or 54% mostly due to the increase in accounts payable related to the special incentives mentioned above.

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

June 30, 2021

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, 2021 and 2020, is as follows (expressed in thousands):

	June 30,		Changes	
	2021	(As restated) 2020	In Dollars	Percent
<b>Revenues</b>				
Total revenues - General fund	\$ 348,398	\$ 317,492	\$ 30,906	10%
Total revenues - Workforce Innovation and Opportunity Act Programs	85,920	68,329	17,591	26%
Total revenues - Other governmental funds	-	68,654	(68,654)	-100%
Total revenues	<u>434,318</u>	<u>454,475</u>	<u>(20,157)</u>	-4%
<b>Expenditures</b>				
Total expenditures - General fund	\$ 378,273	\$ 310,814	\$ 67,459	22%
Total expenditures - Workforce Innovation and Opportunity Act Programs	85,920	68,329	17,591	26%
Total expenditures - Other governmental funds	-	68,289	(68,289)	-100%
Total expenditures	<u>464,193</u>	<u>447,432</u>	<u>16,761</u>	4%
Excess of expenditures over revenues and net change in fund balances	(29,875)	7,043	(36,918)	-524%
Fund balance, at beginning of year, as previously stated	91,630	83,787	7,843	9%
Change in reporting entity	581	-	581	
Restatement	-	800	(800)	100%
Fund balance, at beginning of year, as restated	<u>92,211</u>	<u>84,587</u>	<u>7,043</u>	
Fund balance, end of year	<u>\$ 62,336</u>	<u>\$ 91,630</u>	<u>\$ (29,294)</u>	-32%

Governmental funds' net change in fund balance for 2021 amounted to (\$29.3) million, mostly as a result of the excess of total expenditures over total revenues of \$29.9 million in the general fund. Total revenues for the year amounted to \$434 million, which represents a decrease of \$20.1 million or 4%, when compared to \$454.5 million in 2020. General fund revenues increased by \$30.9 million as result of an increase in special incentives fund. Additionally, federal funds for the WIOA program's increased program activities spending by \$17.6 million and revenues from other governmental funds decreased by \$68.6 million mainly composed of nonrecurring revenue streams of \$60 million of COVID-19 incentive award and \$8.6 million of administrative and management fees charged to a related entity.

Total expenditures amounted to \$464.2 million which represents an increase of \$16.8 million or 4% when compared to 2020, mostly due to the increase in federal funds expenditures of approximately \$17.6 million.

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

June 30, 2021

Proprietary Fund Results

Proprietary Fund provides the same type of information found in the government-wide statements but in more detail. During the year ended June 30, 2021, total net position of the Department's proprietary fund increased by \$15.9 million as the result of the excess of revenues over expenses. Such revenues increased by \$10.3 million (mostly related to \$13 million of rental revenues) and expenses decreased by \$6.9 million when compared to 2020 (as restated), after the merger of the Company into the Department.

Capital Assets

At the end of June 30, 2021, the Department had a net investment in capital assets amounting to approximately \$61.1 million which includes buildings, equipment, and vehicles. This amount is the result of capital assets of \$71.5 million, net of mortgage payable of \$10.4 million.

Long-term liabilities

The Department's employees are entitled to 2.5 days per month up to maximum of 60 days for vacations, and 1.5 days per month up to maximum of 90 days for sick leave for the employees hired before the approval of the Act No. 8 of 2017. The employees that began to work after the approval of the Act No. 8 of 2017, are entitled to 1.25 days per month for vacations, and 1 days per month for sick leave. Vacation is recorded as benefits when earned. Sick leave days not used on June 30 are eliminated.

At year end, the Department reported long-term liabilities balances totaling \$95.3 million, which are composed of \$88.1 million of net pension liability, \$1.9 million of other postemployment benefits (OPEB) liability, \$2.7 million of voluntary termination benefits under Act No. 70-2010, and \$2.6 million in compensated absences.

Currently Known Facts

Reorganization of the Department

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

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

June 30, 2021

Also, as part of this reorganization, the following governmental entities will remain ascribed until further merger 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. 106-2017, active employees will be required to contribute a minimum of 8.5% of their compensation, into a defined contribution plan. Contributions will be deposited in a separate account for each employee and invested in accordance with certain guidelines. Upon retirement, employees will receive retirement benefits accumulated until the enactment of Act No. 106-2017, with certain limitations, plus benefits accumulated under the defined contribution plan established by said Act. See Note 14.

Request for Information

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



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

Statement of Net Position

As of June 30, 2021

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash in commercial bank	\$ 222,500,023	\$ 5,381,273	\$ 227,881,296
Due from:			
Federal Government	16,293,943	-	16,293,943
Other Governmental entities	-	17,021,353	17,021,353
Other assets	76,645	-	76,645
Internal Balances, net	(16,571,885)	16,571,885	-
Due from Commonwealth of Puerto Rico	36,389,017	172,256	36,561,273
Capital assets	3,690,251	67,784,623	71,474,874
<b>Total assets</b>	<b>262,377,994</b>	<b>106,931,390</b>	<b>369,309,384</b>
<b>Deferred outflows of resources</b>			
Pension related	10,963,619	10,637,679	21,601,298
Other postemployment benefits related	57,100	105,900	163,000
<b>Total deferred outflows of resources</b>	<b>11,020,719</b>	<b>10,743,579</b>	<b>21,764,298</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	183,647,014	24,303,598	207,950,612
Due to:			
Subrecipients	9,828,782	-	9,828,782
US Department of Labor	956,065	726	956,791
Commonwealth of Puerto Rico	1,919,724	-	1,919,724
Mortgage note	-	10,382,860	10,382,860
Total pension liability:			
Due within one year	1,806,594	2,555,067	4,361,661
Due in more than one year	36,479,658	51,593,203	88,072,861
Total OPEB liability:			
Due within one year	57,100	105,261	162,361
Due in more than one year	675,415	1,253,291	1,928,706
Voluntary termination benefits:			
Due within one year	185,465	639,717	825,182
Due in more than one year	916,755	1,746,730	2,663,485
Accrued compensated absences:			
Due within one year	1,100,000	168,148	1,268,148
Due in more than one year	2,583,593	-	2,583,593
<b>Total liabilities</b>	<b>240,156,165</b>	<b>92,748,601</b>	<b>332,904,766</b>
<b>Deferred inflows of resources</b>			
Pension related	1,519,068	2,419,759	3,938,827
<b>Net position:</b>			
Net investment in capital assets	3,690,251	57,401,763	61,092,014
Unrestricted (deficit)	28,033,229	(34,895,154)	(6,861,925)
<b>Total net position</b>	<b>\$ 31,723,480</b>	<b>\$ 22,506,609</b>	<b>\$ 54,230,089</b>

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, 2021

	Expenses	Program revenue			Net (expenses) revenues and changes in net position		
		Charges for Services - fees, commissions, and others	Program Revenues Operating grants and contributions	Other revenues	Governmental activities	Business-type activities	Total
Functions/programs:							
Governmental activities:							
General government	\$ 379,262,977	\$ -	\$ 348,397,942	\$ -	\$ (30,865,035)	\$ -	\$ (30,865,035)
Labor development	82,818,902	-	82,818,902	-	-	-	-
Other Federal Programs	750,991	-	750,991	-	-	-	-
Green Energy Incentives	<u>2,350,238</u>	-	<u>2,350,238</u>	-	-	-	-
Total governmental activities	<u>\$ 465,183,108</u>	<u>\$ -</u>	<u>\$ 434,318,073</u>	<u>\$ -</u>	<u>\$ (30,865,035)</u>	<u>\$ -</u>	<u>\$ (30,865,035)</u>
Business-type activities:							
Operating and administrative	\$ 12,630,626	\$ 15,505,912	\$ 12,989,795	\$ -	\$ -	\$ 15,865,081	\$ 15,865,081
Total business-type activities	<u>12,630,626</u>	<u>15,505,912</u>	<u>12,989,795</u>	<u>-</u>	<u>-</u>	<u>15,865,081</u>	<u>15,865,081</u>
Total functions/programs	<u>\$ 477,813,734</u>	<u>\$ 15,505,912</u>	<u>\$ 447,307,868</u>	<u>\$ -</u>	<u>\$ (30,865,035)</u>	<u>\$ 15,865,081</u>	<u>\$ (14,999,954)</u>
Change in net position (deficit)					(30,865,035)	15,865,081	(14,999,954)
Net position (deficit) - beginning of year, as perviously reported					57,828,767	(651,581)	57,177,186
Change in reporting entity and restatement adjustment					<u>4,759,748</u>	<u>7,293,109</u>	<u>12,052,857</u>
Net position - beginning of year, as restated					<u>62,588,515</u>	<u>6,641,528</u>	<u>69,230,043</u>
Net position - End of year					<u>\$ 31,723,480</u>	<u>\$ 22,506,609</u>	<u>\$ 54,230,089</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, 2021

Assets	General Fund	Federal Programs Fund	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Cash in commercial banks	\$ 222,131,807	\$ 368,216	\$ 222,500,023
Due from federal government, net	-	16,293,943	16,293,943
Due from Commonwealth of Puerto Rico	35,648,347	740,670	36,389,017
Other assets	<u>22,200</u>	<u>54,445</u>	<u>76,645</u>
Total assets	<u>\$ 257,802,354</u>	<u>\$ 17,457,274</u>	<u>\$ 275,259,628</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 180,362,178	\$ 3,284,836	\$ 183,647,014
Due to:			
US Department of Labor	25,083	930,982	956,065
Subrecipients	14,136	9,814,646	9,828,782
Internal balances	13,126,589	3,445,296	16,571,885
Commonwealth of Puerto Rico	<u>1,907,651</u>	<u>12,073</u>	<u>1,919,724</u>
Total liabilities	<u>\$ 195,435,637</u>	<u>\$ 17,487,833</u>	<u>\$ 212,923,470</u>
Fund balance -			
Unrestricted	<u>62,366,717</u>	<u>(30,559)</u>	<u>62,336,158</u>
Total liabilities and fund balances	<u>\$ 257,802,354</u>	<u>\$ 17,457,274</u>	<u>\$ 275,259,628</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, 2021

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

Total fund balance	\$ 62,336,158
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	3,690,251
Deferred outflow of resources, pension related	10,963,619
Deferred outflow of resources, other postemployment benefits related	57,100
Total pension liability	(38,286,252)
Total OPEB liability	(732,515)
Deferred inflow of resources, pension related	(1,519,068)
Accrued compensated absences liability is not paid with current financial resources and, therefore, not reported in the fund financial statements	(3,683,593)
Voluntary termination benefits liability is not paid with current financial resources and, therefore, not reported in the fund financial statements	<u>(1,102,220)</u>
Net position of governmental activities	<u>\$ 31,723,480</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)

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

For the year ended June 30, 2021

	General Fund	Federal Programs Fund	Total
Revenues from Commonwealth	\$ 327,636,845	\$ -	\$ 327,636,845
Revenues from Federal agencies	-	85,831,649	85,831,649
Other income	20,749,612	88,482	20,838,094
Interest income on deposits placed with banks	11,485	-	11,485
Total revenues	\$ 348,397,942	\$ 85,920,131	\$ 434,318,073
Program direct expenditures	350,355,479	59,512,095	409,867,574
Administrative expenditures	15,640,132	20,859,367	36,499,499
Salaries and fringe benefits	12,257,756	2,608,005	14,865,761
Other	-	2,848,503	2,848,503
Capital outlays	20,273	92,161	112,434
Total expenditures	\$ 378,273,640	\$ 85,920,131	\$ 464,193,771
Deficiency of revenues over expenditures and net change in fund balances	(29,875,698)	-	(29,875,698)
Fund balance (deficit) — beginning of year, as previously reported	84,694,524	(30,559)	84,663,965
Change in reporting entity	7,547,891	-	7,547,891
Fund balance (deficit) — beginning of year, as restated	92,242,415	(30,559)	92,211,856
Fund balance (deficit) — end of year	\$ 62,366,717	\$ (30,559)	\$ 62,336,158

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 Statement of Activities  
For the year ended June 30, 2021

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

Net changes in fund balance – total governmental funds		\$ (29,875,698)
Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. In the current period these amounts are:		
Capital outlays	112,434	
Less depreciation	<u>(143,350)</u>	
Subtotal		(30,916)
Increase in the accrued compensated absences reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as expenditure in the governmental funds.		1,104,112
Decrease in the accrued termination benefits reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as expenditure in the governmental funds.		(2,388,861)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		<u>326,328</u>
Change in net position of governmental activities		<u>\$ (30,865,035)</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

As of June 30, 2021

	Administration Fund
Assets	
Current assets:	
Cash	\$ 5,381,273
Due from other governmental entities	17,021,353
Other assets	172,256
Internal balances	16,571,885
Total current assets	39,146,767
Capital assets	67,784,623
Deferred outflows of resources	
Pension related	10,637,679
Other postemployment benefits related	105,900
	10,743,579
Total assets	117,674,969
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	24,303,598
Due to US Department of Labor	726
Mortgage note	10,382,860
Total pension liability:	
Due within one year	2,555,067
Due in more than one year	51,593,203
Total OPEB liability:	
Due within one year	105,261
Due in more than one year	1,253,291
Voluntary termination benefits:	
Due within one year	639,717
Due in more than one year	1,746,730
Accrued compensated absences:	
Due within one year	168,148
Due in more than one year	-
Total liabilities	92,748,601
Deferred inflows of resources - pension related	2,419,759
Net position:	
Net investment in capital assets	57,401,763
Unrestricted (deficit)	(34,895,154)
Total net position	22,506,609
Total liabilities and net position	\$ 117,674,969

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 Changes in Net Position – Proprietary Funds

For the year ended June 30, 2021

	<u>Administration Fund</u>
Operating revenues:	
Administrative management fees	\$ 12,845,912
Rent revenues	12,986,257
Other revenues	400,000
Interest income	<u>3,538</u>
Total operating revenue	26,235,707
Operating expenses:	
Salaries and fringe benefits	5,231,799
Office and administrative	5,450,894
Depreciation	<u>1,947,933</u>
Total operating expenses	<u>12,630,626</u>
Operating income	13,605,081
Non-operating revenues - gain on sale of capital asset	<u>2,260,000</u>
Net change in net position	15,865,081
Net position (deficit), beginning of year, as previously stated	(651,581)
Change in reporting entity and restatement adjustment	<u>7,293,109</u>
Net position, end of year	<u><u>\$ 22,506,609</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, 2021

Cash flows from operating activities:	
Cash received from management fees and rental fess	\$ 13,882,240
Cash paid for expenses other than payroll	(6,704,666)
Cash paid for payroll and related costs	(6,881,542)
Other payments	<u>(215,297)</u>
Net cash used in operating activities	80,735
Cash flows from noncapital financing activities -	
Disbursements to other funds	<u>(5,556,661)</u>
Cash flows from capital and related financing activities -	
Proceeds from disposal of capital assets	3,749,400
Mortgage loan payments	<u>(666,965)</u>
Net cash provided by capital and related financing activities	3,082,435
Net change in cash, as previously stated	(2,393,491)
Cash, beginning of year	-
Cash transferred in from merger of the Puerto Rico Trade and Export	<u>7,774,764</u>
Cash, beginning of year, as restated	<u>7,774,764</u>
Cash, end of year	<u><u>\$ 5,381,273</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating income	\$ 13,605,081
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,946,933
Changes in operating assets and liabilities	
Accounts receivable	(12,347,255)
Net pension liability	7,076,686
Deferred outflows of resources	(6,084,334)
Accounts payable and accrued liabilities	(2,969,597)
Other postemployment benefits	(479,540)
Accrued compensated absences	(480,979)
Voluntary transition program benefits	568,556
Deferred inflows of resources	<u>(754,816)</u>
Net cash provided by operating activities	<u><u>\$ 80,735</u></u>

(Continued)

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, 2021

Supplemental disclosures cash flow information

As disclosed in note 1, the Puerto Rico Trade and Export Company (the Company) was merged into the Department effective July 1, 2020. The following list includes the Company's total assets and deferred outflows and total liabilities and deferred inflows, as follows:

Other receivables	<u>\$ 1,667,903</u>
Internal Balances	<u>\$ (144,537)</u>
Other Assets	<u>\$ 178,468</u>
Capital assets, net of accumulated depreciation	<u>\$ 71,199,631</u>
Deferred outflows of resources	<u>\$ 4,659,245</u>
Accounts payable and accrued liabilities	<u>\$ 13,096,803</u>
Mortgage Note	<u>\$ 11,049,825</u>
Voluntary termination benefits	<u>\$ 1,746,730</u>
Total pension liability	<u>\$ 47,071,584</u>
OPEB liability	<u>\$ 1,838,092</u>
Accrued compensated absences	<u>\$ 480,978</u>
Deferred inflows of resources	<u>\$ 3,174,575</u>

See accompanying notes to the basic financial statements

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

Notes to Basic Financial Statements

As of and for the year ended June 30, 2021

Note 1 - Governmental Environment

Organization

The Department of Economic Development and Commerce (the "Department"), and the Office of the Secretary of Economic Development and Commerce (the "Secretary"), its director, were created by The Reorganization Plan No. 4 of June 22, 1994, as amended (the "Reorganization Plan"). The Department is responsible for implementing Puerto Rico's public policy on economic development in the various entrepreneurial sectors of manufacturing, commerce, tourism, services, the cooperative movement, and others. The Reorganization Plan also attached the Economic Development Administration to the Department, as an operating component. Thereafter, Act No. 203, of December 29, 1997, was enacted to transfer all functions, powers, and duties of the Economic Development Administration to the Industrial Development Company and incorporate it to 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 and Opportunity Act Program ("WIOA"). The purpose of WIOA funds is to increase the employment, retention, earnings, and occupational skill attainment of US workers, particularly those individuals with barriers to employment. WIOA programs administered by the LDP are: Adult Program, Youth Activities Program, and Dislocated Worker Formula Grants.

Film Industry Development Program

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

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

Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

Note 1 - Governmental Environment – (continued)

Youth Development Program

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

Business Development Office Program

The Business Development Office Program is responsible for the compliance with Law No. 73-2008, approved on May 28, 2008, as amended, known as “Law of Economic Incentives for the Development of Puerto Rico” (“Act 73”). Act 73 has as its purpose the promotion of 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)

As of and for the year ended June 30, 2021

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

The Office of Incentives Codes (OECI)

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

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

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

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

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

Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

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 the governmental funds:

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

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

Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

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 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  
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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

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 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 (CCE) (the Company) - Effective July 1, 2020, the transition process to merge 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.

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. Such oversight includes participation of the Secretary of the Department in several Board of Directors as well as other Government Boards and Committees. Each instrumentality is a component unit of the Commonwealth of Puerto Rico (the Commonwealth) and respond to the Secretary in administrative matters only, as stipulated by the Reorganization Plan.



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

As of and for the year ended June 30, 2021

Note 1 - Governmental Environment – (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. Ascribed to the Department.
- Puerto Rico Tourism Company (“PRTC”) operates under Act No. 10 of June 18, 1970, as amended. Currently in process for merger.
- Horse Racing Sport & Industry Administration (“HRSIA”) operates under Act No. 83 of July 2, 1987.

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. Ascribed to the Department.
- 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).

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, 2021 and for the year then ended.

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

As of and for the year ended June 30, 2021

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

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 management fees charged to the operational components, previously listed for administrative services.

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 (deficit). 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.

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

As of and for the year ended June 30, 2021

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

Financial Reporting Entity – (continued)

- *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 are either, externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. There were no restricted funds as of June 30, 2021.
- *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.

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

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

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

As of and for the year ended June 30, 2021

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

Basis of Presentation – (continued)

Government-Wide and Fund Financial Statements – (continued)

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.

*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 business type 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 business type funds combined. The nonmajor funds are combined in a single column in the fund financial statements.

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

As of and for the year ended June 30, 2021

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

Basis of Presentation – (continued)

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. 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.

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

As of and for the year ended June 30, 2021

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

Basis of Presentation – (continued)

Governmental Funds – (continued)

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.
- *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 nor 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.

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

As of and for the year ended June 30, 2021

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

Basis of Presentation – (continued)

Business type 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.

*Governmental Fund Financial Statements* – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon they are both measurable and available. Revenues are considered to be available when they are collectible within the current period, or soon enough thereafter to pay the liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 90 days after the end of the fiscal year. Principal revenue sources are recorded in the accounting period in which they are expended. Intergovernmental revenues, representing annual appropriations from the Commonwealth are recorded when measurable and available.

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

- Employees vested annual vacation are recorded as expenditures when matured. The unmatured amount of accumulated annual vacation and unpaid on June 30, 2021 is reported only in the government-wide financial statements.

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

As of and for the year ended June 30, 2021

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

Basis of Presentation – (continued)

Measurement Focus and Basis of Accounting – (continued)

- 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.

*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 administrative fees charged to the Department's operational components and 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.



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

As of and for the year ended June 30, 2021

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

Basis of Presentation – (continued)

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.

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

As provided by the General Fund Budget Resolution and the State Special Funds Resolution, any unencumbered previous-year balance of non-current allocations cannot longer be obligated. Any proposal to use said funds from previous years must be submitted through budget requests for the evaluation of the Oversight Board. In addition, as general rule, previous year balances from the General Fund accounts should be closed and forwarded to the Puerto Rico Treasury Department.

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

As of and for the year ended June 30, 2021

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

Cash – (continued)

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, 2021, the Department has \$987 thousand of unencumbered previous-year balance of non-current allocations from the General Fund, which have been recorded as a liability of the Department. This amount is the best estimate based on current facts and circumstances, however, due to the novel nature of this requirement, the Department's estimate may change in the near term.

Accounts Receivables

Accounts receivable represent principally 1) US Department of Labor receivable owed to the Department for the reimbursement of expenditures incurred pursuant to federally funded programs; 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.

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

Notes Receivable and Allowance for Note Losses

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

The Department considers the notes impaired when based on current information or factors (such as payment history, value of collateral, and assessment of the producers' creditworthiness), it is probable that the principal will not be collected. As of June 30, 2021, all notes receivable are fully reserved.

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

As of and for the year ended June 30, 2021

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

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 recorded a reserve of \$15.7 million 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, 2021, all investment in equity interest have been written-off.

Restricted Assets

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

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, 2021, the Department has an allowance of \$17.7 million in the business type fund.

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

As of and for the year ended June 30, 2021

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

Capital Assets

Capital assets include equipment (including software), vehicles and are reported in the applicable governmental activities and business-type activities in the government-wide financial statements and in the business type 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 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, 2021, management evaluated its responsibilities for environmental and pollution exposures and no contingency exposure was identified.

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.

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

As of and for the year ended June 30, 2021

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

Accounting for the Impairment or Disposal of Long-lived Assets – (continued)

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, 2021.

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 and other postemployment benefit (OPEB). Pension related items (further disclosed in the following paragraphs and Note 14), changes in proportional share of contributions and differences between expected and actual experience, are capitalized and recognized over a period equal to the expected remaining working lifetime of active and inactive participants. The net difference between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. Pension contributions made subsequent to the measurement date recognized as a reduction of the total pension liability after the next measurement date.

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

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

As of and for the year ended June 30, 2021

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

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

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

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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

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

Other Postemployment Benefits Liability

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

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

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.
- *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.

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

As of and for the year ended June 30, 2021

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

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 new law, all employees accrued 1.25 days per month of service up to 60 days for vacation leave.

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

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



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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

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

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.

Voluntary Termination Benefits – (continued)

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.

Claims and Judgments

In the government-wide and business type 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.

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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

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

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 were adopted in fiscal year 2021:

- GASB Statement No. 84, *Fiduciary Activities*. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The provisions of this Statement were originally effective for reporting periods beginning after December 15, 2018, however as provided by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, its adoption was delayed over one year. In the case of the Department, this Statement was effective for fiscal year ended June 30, 2021, and did not have any effect in the Department's financial statements.

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

As of and for the year ended June 30, 2021

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

New accounting principles – (continued)

- GASB Statement No. 90, *Majority Equity Interest – an amendment of GASB statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets

the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in cash flow statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this Statement were originally effective for reporting periods beginning after December 15, 2018, however as provided by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, its adoption was delayed over one year. In the case of the Department, this Statement was effective for fiscal year ended June 30, 2021, and did not have any effect in the Department's financial statements.

As described below, some accounting standards, such as GASB Statement No. 87, *Leases* and GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, were originally effective for periods beginning after December 15, 2019, however, as provided by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, its adoption was delayed over 18 months for GASB No. 87 and over one year for GASB No. 89.

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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

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

Future adoption of accounting standards

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

- 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 (as delayed by GASB Statement No. 95) are effective for reporting periods beginning after June 15, 2021. The Department's management is evaluating the effects of this Statement in the Department's basic financial statements.
- 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 (as delayed by GASB Statement No. 95) are effective for reporting periods beginning after December 15, 2020. The Department's management is evaluating the impact that this Statement will have on its basic financial statements.

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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

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

Future adoption of accounting standards – (continued)

- GASB Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related notes disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required disclosure. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, and it is not expected to have any impact in the Department's financial statements.
- GASB Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. This Statement addresses a variety of topics and includes specific provisions about the following:
  - The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports
  - Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan
  - The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits
  - The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements
  - Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition

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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

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

Future adoption of accounting standards – (continued)

- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments
- 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.
- 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.
- GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The effective dates of certain provisions contained in the following pronouncements are postponed by one year:
  - Statement No. 83, *Certain Asset Retirement Obligations*
  - Statement No. 84, *Fiduciary Activities*
  - Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
  - Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
  - Statement No. 90, *Majority Equity Interests*

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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

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

Future adoption of accounting standards – (continued)

- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)
- Implementation Guide No. 2018-1, Implementation Guidance Update—2018
- Implementation Guide No. 2019-1, Implementation Guidance Update—2019
- Implementation Guide No. 2019-2, Fiduciary Activities

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*. Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.
- 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.
- 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 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.

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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

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

Future adoption of accounting standards – (continued)

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

- GASB Statement No. 98, *The Annual Comprehensive Financial Report* – This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on commitment to promoting inclusiveness. The requirements of this Statement are effective for fiscal years ending after December 15, 2021, and it has no effect in the result of operations of the Department.



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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

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

Future adoption of accounting standards – (continued)

- 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
  - 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.

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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

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

Future adoption of accounting standards – (continued)

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.
- 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.

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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

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

Future adoption of accounting standards – (continued)

The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in 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.

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.

- 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.

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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

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

Future adoption of accounting standards – (continued)

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.

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.

Note 3 - Change in Reporting Entity and Restatement of Net Position

During the year ended June 30, 2021, the Department identified an error related to previous year financial statements and various changes in reporting entity at the governmental and business type activities.

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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

Note 3 - Change in Reporting Entity and Restatement of Net Position – (continued)

Restatement of Net Position

As mentioned in Note 1, Act 141 ordered the merger of all operations of the Puerto Rico Trade and Export Company within the Department and therefore, all balances that had been recorded in this funds' financial records are being recorded against beginning fund balance in the Department's financial statements.

Total assets, liabilities and net position of the Puerto Rico Trade and Export Company that were merged into the Department effective July 1, 2020, as follows:

	Governmental Activities	Business-Type Activities	Total
Assets:			
Current and other assets	\$ 6,117,834	\$ 9,476,598	\$ 15,594,432
Capital assets	3,378,259	71,199,631	74,577,890
Total Assets	9,496,093	80,676,229	90,172,322
Deferred Outflows of resources	-	4,659,245	4,659,245
Liabilities:			
Current and other liabilities	5,536,501	13,371,348	18,907,849
Long term liabilities	-	61,912,664	61,912,664
Total liabilities	5,536,501	75,284,012	80,820,513
Deferred Inflows of resources	-	3,174,575	3,174,575
Net position (deficit):			
Net investment in capital assets	3,378,259	60,078,132	63,456,391
Restricted	581,333	-	581,333
Unrestricted (deficit)	-	(53,201,245)	(53,201,245)
Total Net Position	\$ 3,959,592	\$ 6,876,887	\$ 10,836,479

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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

Note 3 - Change in Reporting Entity and Restatement of Net Position – (continued)

Restatement of Net Position

As provided by Article 2.5 of the Act No. 106 of August 23, 2017 – Law to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants (Act No. 106-2017), payments related to Pay-Go done by the Central Government, municipalities, public corporations, the Legislative Assembly and the Court Administration were to be applied to unpaid contributions and other debts outstanding with the Employees’ Retirement System (ERS), at the effective date of Act No. 106-2017. The balance due by the Department to the ERS at June 30, 2017 was approximately \$1.2 million (\$800 thousand and \$416 thousand in the governmental and business type funds, respectively), which consisted principally of amounts related to Uniform Additional Contribution, special laws and interest. During fiscal year 2019 and 2020, such balance due to the ERS was exceeded by Pay-Go payments made by the Department and accordingly, the total amount should have been eliminated.

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

	Governmental Activities	Business-Type Activities
Net position - July 1, 2020, as previously reported	\$ 57,828,767	\$ (651,581)
Change in reporting entity:		
Puerto Rico Trade and Export Company	3,959,592	6,876,887
Restatement adjustment - effect of elimination of debts with the ERS from before June 30, 2017	800,156	416,222
Net position - July 1, 2020, as restated	\$ 62,588,515	\$ 6,641,528

Additionally, during fiscal year 2020, the Film Industry Fund and Other Governmental Funds were separately presented as major funds. However, during year 2021, these funds became part of the General Fund as benefits are provided under Act No. 60.

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

As of and for the year ended June 30, 2021

Note 3 - Change in Reporting Entity and Restatement of Net Position – (continued)

The following table summarizes the changes in fund balance at the beginning of the year as previously reported by the general fund:

Fund balance - July 1, 2020, as previously reported		\$ 84,694,524
Change in reporting entity:		
Previously separately presented units:		
Film Industry Fund	5,763,319	
Other Governmental Funds	403,083	
Puerto Rico Trade and Export Company	581,333	
Restatement adjustment - effect of elimination of debts with the ERS from before June 30, 2017	800,156	7,547,891
Fund balance - July 1, 2020, as restated		\$ 92,242,415

Note 4 - Risk Financing

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

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

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.

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

As of and for the year ended June 30, 2021

Note 4 - Risk Financing – (continued)

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

Note 5 - Custodial Credit Risk

Deposits held in commercial banks are maintained in Puerto Rico and are insured or collateralized as of June 30, 2021. The carrying amount of the deposits of the Department as of June 30, 2021 consists of the following:

	Carrying Amount	Bank Balance
Governmental activities		
Commercial Bank	\$ 222,500,023	\$ 226,042,035
Business type activities		
Commercial Bank	\$ 5,381,273	\$ 5,670,816
Total	\$ 227,881,296	\$ 231,712,851

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, 2021, the Department's interest amounted to \$1.7 million.

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.



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

As of and for the year ended June 30, 2021

Note 5 - Custodial Credit Risk – (continued)

CORCO Fund - (continued)

After various amendments the funds were to be utilized as follows:

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

As of June 30, 2021, the remaining funds being administered by the Office of Energy include a certificate of deposit amounting to \$2,924,718 for which a custodial credit loss of the same amount has been recorded in the financial records of the Energy Office. Please refer to Note 19 for information related to a custodial credit recovery that occurred in fiscal year 2021.

Note 6 - Receivables and Allowances for Uncollectible Accounts

Amounts due from the Commonwealth of Puerto Rico in governmental activities as of June 30, 2021, consisted of economic incentives as follows:

	Governmental Activities
Law 20	\$ 14,713,623
Law 22	4,134,047
Law 73	695,777
Film	419,171
Green Energy	120,156
Federal programs	740,670
Other Operational Assignments	<u>15,565,573</u>
Total due from Commonwealth of Puerto Rico	<u>\$ 36,389,017</u>

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

As of and for the year ended June 30, 2021

Note 6 - Receivables and Allowances for Uncollectible Accounts – (continued)

As of June 30, 2021, receivables in the business type activities consisted of the following:

	Business-type activities <u>Rent and other</u>
Other governmental agencies	\$ 9,520,965
Rent and land leases	5,796,643
Rent under repayment plan and other	14,941,042
Other	<u>811,939</u>
	31,070,589
Less: Allowance for uncollectible accounts	<u>(14,049,236)</u>
	<u>\$ 17,021,353</u>

Changes in the allowances for uncollectible accounts during the fiscal year ended June 30, 2021, are as follows:

	Business-type activities <u>Rent and Other</u>
Allowances for uncollectible accounts, beginning of year	\$ 14,130,236
Provision for doubtful accounts	-
Write off	<u>(81,000)</u>
Allowances for uncollectible accounts, end of year	<u>\$ 14,049,236</u>

Amounts due from the Commonwealth of Puerto Rico in the governmental as of June 30, 2021, consist of the following:

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

As of and for the year ended June 30, 2021

Note 7 - Investments in Equity Interest

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

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

The provision for impairment losses, established in prior years, represents the amount that management believes will be adequate to absorb possible losses on its investment in equity interest that may become unrecoverable.

Note 8 - Interfund Transactions

Interfund receivables and liabilities as of June 30, 2021 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.

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

As of and for the year ended June 30, 2021

Note 8 - Interfund Transactions – (continued)

Interfund receivables and liabilities as of June 30, 2021, consisted of the following:

	<u>Business Type</u>	<u>Governmental</u>	<u>Total</u>
General Fund	\$ -	\$ (13,126,589)	\$ (13,126,589)
Workforce Innovation Opportunity Act	-	(1,704,384)	(1,704,384)
State Energy Program	-	(490,639)	(490,639)
Weatherization Assistance Program	-	(626,733)	(626,733)
STEP Funds	-	(34,000)	(34,000)
EDA Funds	-	(192,496)	(192,496)
FECC Funds	-	(397,044)	(397,044)
Internal Services	<u>16,571,885</u>	<u>-</u>	<u>16,571,885</u>
Total interfund	<u>\$ 16,571,885</u>	<u>\$ (16,571,885)</u>	<u>\$ -</u>

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

As of and for the year ended June 30, 2021

Note 9 - Capital Assets

Capital assets activity of the Department for fiscal year ended June 30, 2021 was as follows:

<u>Governmental activities:</u>	Balance June 30, 2020	Transfers from Change in Reporting Entity	Additions	Retirements	Balance June 30, 2021
Properties not being depreciated					
Land	\$ -	\$ 578,720	\$ -	\$ -	\$ 578,720
Total capital assets, not being depreciated	-	578,720	-	-	578,720
Capital assets: Properties being depreciated					
Building and building improvements	-	4,304,456	-	-	4,304,456
Equipment	1,548,902	857,068	112,434	-	2,518,404
Vehicles	427,506	-	-	-	427,506
Total capital assets, being depreciated	1,976,408	5,161,524	112,434	-	7,250,366
Less accumulated depreciation:					
Building and Building Improvements	-	(1,499,754)	-	-	(1,499,754)
Equipment	(1,272,608)	(862,231)	(76,736)	-	(2,211,575)
Vehicles	(360,892)	-	(66,614)	-	(427,506)
Total accumulated depreciation	(1,633,500)	(2,361,985)	(143,350)	-	(4,138,835)
Total governmental activities capital assets, net	<u>\$ 342,908</u>	<u>\$ 3,378,259</u>	<u>\$ (30,916)</u>	<u>\$ -</u>	<u>\$ 3,690,251</u>
<u>Business-Type activities:</u>	Balance June 30, 2020	Transfers from Change in Reporting Entity	Additions	Retirements	Balance June 30, 2021
Rental Properties not being depreciated					
Land and land improvements	\$ -	\$ 39,469,174	\$ -	\$ (1,400,000)	\$ 38,069,174
Total capital assets, note being depreciated	-	39,469,174	-	(1,400,000)	38,069,174
Rental Properties being depreciated					
Building and building improvements	-	82,296,024	-	(5,867,940)	76,428,084
Equipment	-	2,894,857	-	-	2,894,857
Sub-total	-	85,190,881	-	(5,867,940)	79,322,941
Other Properties Not For Rent being depreciated					
Equipment	\$ 35,775	\$ 5,097,707	\$ 1,000	\$ -	5,134,482
Capital leases	-	628,631	-	-	628,631
Vehicles	-	372,112	-	-	372,112
Sub-total	35,775	6,098,450	1,000	-	6,135,225
Total cost of depreciable assets	35,775	91,289,331	1,000	(5,867,940)	85,458,166
Less accumulated depreciation					
Rental properties	-	(53,497,676)	(1,882,134)	5,778,540	(49,601,270)
Other properties not for rent	(14,450)	(6,061,198)	(65,799)	-	(6,141,447)
Total accumulated depreciation	(14,450)	(59,558,874)	(1,947,933)	5,778,540	(55,742,717)
Total capital assets, being depreciated	21,325	31,730,457	(1,946,933)	(89,400)	29,715,449
Total business-type capital assets, net	<u>21,325</u>	<u>71,199,631</u>	<u>(1,946,933)</u>	<u>(1,489,400)</u>	<u>67,784,623</u>

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

As of and for the year ended June 30, 2021

Note 9 - Capital Assets – (continued)

Depreciation expense was charged to administrative expenses on the statement of activities for the year ended June 30, 2021.

In March 2021, the Department sold a property located at the Distribution Center in Ponce to a third party for \$3,660,000 with the right to withdrawal for a period of 10 years if such property is not used for the promotion of industries and commerce. The selling agreement included a fully depreciated building and land with a cost of \$1,400,000 resulting in a gain on sale of capital asset of \$2,260,000.

The Company's principal leasing activities consist of building space rentals under non-cancellable operating leases. Lease terms expire at various future dates. Minimum future rentals to be received on non-cancelable leases for each of the next five years and thereafter are approximately as follows:

Year Ending June 30,	Amount
2022	\$ 6,094,406
2023	4,286,313
2024	2,357,885
2025	901,129
Thereafter	<u>455,767</u>
Total	<u>\$ 14,095,500</u>

Note 10 - 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 \$15.6 million. Amounts due to subrecipients of approximately \$9.9 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 11 - 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 was for the principal amount of \$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 is fixed at 6%.

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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

Note 11 - Mortgage Loan – (continued)

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. Pursuant to the provisions under the credit agreement, the Company must comply with some specific financial ratios and covenants which, in the event of non-compliance, provide the bank with the right to declare the outstanding balance as due and payable and to terminate the loan agreement. As of June 30, 2021, the Company was in compliance with the financial covenant in the Credit Agreement.

On September 30, 2021, the Company paid approximately \$10.3 million in full satisfaction of the outstanding mortgage loan.

	Balance as of June 30, 2020	Additions	Payments	Balance as of June 30, 2021	Due within One year
Mortgage Loan	<u>\$ 11,049,825</u>	<u>\$ -</u>	<u>\$ (666,965)</u>	<u>\$ 10,382,860</u>	<u>\$ 10,382,860</u>

Note 12 - Accrued Compensated Absences

The accrued compensated absences liability balance on June 30, 2021, consists of the following activity:

	Balance as of June 30, 2020	Increase	Decrease	Balance as of June 30, 2021	Due within One year
Accrued compensated absences	<u>\$ 2,798,434</u>	<u>\$ 1,053,307</u>	<u>\$ -</u>	<u>\$ 3,851,741</u>	<u>\$ 1,268,148</u>

Note 13 - Voluntary Termination Benefits

Act No. 70-2010

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

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

As of and for the year ended June 30, 2021

Note 13 - Voluntary Termination Benefits – (continued)

Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System (incentivized resignation program) or who have at least 30 years of credited service in the Retirement System and who have the age for retirement (incentivized resignation program).

Economic incentives will consist of a lump sum payment ranging from one month to six months' salary based on employment years. Additionally, eligible employees that choose to participate in the early retirement program or in the incentivized resignation program are eligible to receive health plan coverage for up to 12 months in a health plan selected by the management of the Commonwealth. At June 30, 2021, unpaid long-term benefits granted in Act No. 70-2010 were discounted at an interest rate of 2.20%.

Internal Voluntary Transition Program

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

The OA-2017-05 created a "Voluntary Transition Program" as an alternative available of incentivized resignation for eligible employees of the executive branch with career positions. Nevertheless, the employees on positions of trust with the right to reinstallation in a career position are eligible if they are reinstalled to the career position before becoming a participant of the program.

The following is the termination benefits liability for the year ended June 30, 2021:

	June 30, 2020	Increase	Decrease	June 30, 2021	One year
Accrued Termination Benefits	\$ 1,173,381	\$2,315,286	\$ -	\$ 3,488,667	\$ 825,182



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

As of and for the year ended June 30, 2021

Note 14 - 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 the proportional share of the pension benefits of the Department's retirees. Under Act No. 106, active employees will be required to contribute a minimum of 8.5% of their compensation, into a defined contribution plan. However, Act No. 106 does not provide for employer contributions. Contributions will be deposited in a separate account for each employee and invested in accordance with certain guidelines.

Upon retirement, employees will receive retirement benefits accumulated after the enactment of Act No. 106, with certain limitations, plus benefits accumulated until the enactment of Act No. 106, with certain limitations, including benefits accumulated under previous defined benefit, defined contribution, and hybrid plans, as discussed below. Benefits accumulated after the enactment of Act No. 106 include only those amounts contributed by the participant during that period and the yield from those deposits. Based on the investment instruments acquire by the participant there are investment risks that may impair the value of the participant account through the date of retirement.

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

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

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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

Note 14 - Pension Plan – (continued)

Total Pension Liability and Actuarial Information

The total Pension Plan liability recorded by the Department as of June 30, 2021 (measurement date June 30, 2020) amounted to approximately \$92.4 million, an increase of \$52.7 million due to the merger of the PR Trade and Export Company into the Department, as well as to the effect of economic/demographic gains or losses. Such total amount represents its proportionate share of the total pension liability of the Pension Plan as of such date. The total pension liability as of June 30, 2021 (measurement date June 30, 2020) was determined by an actuarial valuation as of July 1, 2019, that was rolled forward to June 30, 2020 (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 Entity's proportionate share of the total pension liability of ERS as of June 30, 2020, and the proportion percentage of the aggregate total pension liability of ERS allocated to the Department:

	Measured as of June 30, 2020	
	<u>Governmental</u>	<u>Proprietary</u>
Proportion of the total pension liability	0.13640%	0.19291%
Proportionate share of the total pension liability	<u>\$ 38,286,252</u>	<u>\$ 54,148,270</u>

Actuarial methods and assumptions

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

Discount rate

The discount rate for June 30, 2020 (measurement date) was 2.21%. 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.

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Notes to Basic Financial Statements (Continued)

As of and for the year ended June 30, 2021

Note 14 - Pension Plan – (continued)

Total Pension Liability and Actuarial Information – (continued)

The mortality tables used in the June 30, 2020 (measurement date) actuarial valuation were as follows:

- *Pre-retirement Mortality* – For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 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.
- *Post-Retirement Healthy Mortality* - Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Pension Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2019 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
- *Post-retirement Healthy Mortality* – Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the ERS 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-2020 a generational basis. Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy 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-2020 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 ERS Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. 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-2020 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)

As of and for the year ended June 30, 2021

Note 14 - Pension Plan – (continued)

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

As of June 30, 2021 (measurement date June 30, 2020), the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Totals</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience in measuring total pension liability	\$ 78,971	\$ 861,858	\$ 111,689	\$ 1,218,927	\$ 190,660	\$ 2,080,785
Changes in assumptions	4,806,462	657,210	6,797,782	929,493	11,604,244	1,586,703
Changes in proportion and differences between actual contributions and proportionate share	4,271,592	-	1,173,141	271,339	5,444,733	271,339
Benefits paid and accrued subsequent to measurement date	<u>1,806,594</u>	<u>-</u>	<u>2,555,067</u>	<u>-</u>	<u>4,361,661</u>	<u>-</u>
	<u>\$ 10,963,619</u>	<u>\$ 1,519,068</u>	<u>\$ 10,637,679</u>	<u>\$ 2,419,759</u>	<u>\$ 21,601,298</u>	<u>\$ 3,938,827</u>

The \$4.4 million reported as deferred outflows of resources related to pension resulting from benefits paid and accrued subsequent to the measurement date, is related to the 2021 Pay-Go contribution to the pension plan and will be recognized as a reduction of the net pension liability after June 30, 2021.

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):

<u>Year ending June 30,</u>	<u>Amount</u>
2022	\$ 3,325
2023	3,325
2024	3,325
2025	<u>3,325</u>
	<u>\$ 13,300</u>

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

As of and for the year ended June 30, 2021

Note 14 - 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 of 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, 2021, the Department's corresponding payments under the Pay-Go system were approximately \$7.4 million.

Effective July 1, 2020, the Department eliminated approximately \$1.2 million (composed of \$800.1 thousand and \$416.2 thousand from the governmental and business type funds, respectively) which is related to debts with the ERS for balances prior to June 30, 2017 which should have been adjusted when Pay Go payments were made after the implementation of Act 106-2017.

Note 15 - 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.

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

As of and for the year ended June 30, 2021

Note 15 - Other Postemployment Benefits – (continued)

Employees covered

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

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, 2021, OPEB payments amounted approximately to \$57 thousand.

The funding of the OPEB benefits is provided to the ERS 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 ERS 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 \$2,091,067 (\$732,515 and \$1,358,552 in the governmental and proprietary funds, respectively), was measured as of June 30, 2020, and was determined by an actuarial valuation as of July 1, 2019, projected forward to determine the total OPEB liability as of June 30, 2020 (measurement date).

Actuarial Methods and Assumptions

The census data collection date is at beginning-of-year. The total OPEB liability as of June 30, 2020, are based on projecting the ERS obligations determined as of the census data collection date of July 1, 2019 for one year, using roll-forward methods and assuming no liability gains or losses.

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

As of and for the year ended June 30, 2021

Note 15 - Other Postemployment Benefits – (continued)

Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial assumptions:

Inflation	Not applicable
Municipal bond index	2.00%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index

Mortality Pre-retirement Mortality:

For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 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.

Post-retirement Healthy Mortality:

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the ERS 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-2020 a generational basis. Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy 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-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.



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

As of and for the year ended June 30, 2021

Note 15 - Other Postemployment Benefits – (continued)

Actuarial Methods and Assumptions – (continued)

Post-retirement Disabled Mortality:

Rates which vary by gender are assumed for disabled retirees based on a study of the ERS Plan’s experience from 2013 to 2018 and updated expectations regarding future mortality improvement. 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-2020 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 2.21% as of June 30, 2020 (measurement date).

Proportionate Share of total OPEB liability

The following table presents the Entity’s proportionate share of the OPEB liability of ERS as of June 30, 2020, and the proportion percentage of the aggregate OPEB liability of ERS allocated to the Department:

	Measured as of June 30, 2020	
	Governmental	Proprietary
Proportion of the total OPEB liability	0.083750%	0.155330%
Proportionate share of the total OPEB liability	\$ <u>732,515</u>	\$ <u>1,358,552</u>

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

As of and for the year ended June 30, 2021

Note 15 - Other Postemployment Benefits – (continued)

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

The following table presents the OPEB liability of the Entity's calculated using the discount rate of 2.21%, as well as what it would be if it were calculated using a discount rate of 1-percent point lower 1.00% or 1-percent point higher 3.00% than the current rate (dollars in thousands):

	1% Decrease (1.21%)	Current discount rate (2.21%)	1% Increase (3.21%)
Total OPEB liability - governmental fund	\$ 806,821	\$ 732,515	\$ 669,630
Total OPEB liability - proprietary fund	\$ 1,496,362	\$ 1,358,552	\$ 1,241,922

Deferred Outflows of Resources and Deferred Inflows of Resources

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

In addition, as of June 30, 2021, employer OPEB payments subsequent to the measurement date in the amount of \$57 thousand and \$105.9 thousand were reported in the governmental and proprietary funds, respectively, as deferred outflows of resources and were recognized as a reduction of the total OPEB liability in the year ended June 30, 2021.

Note 16 - 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 \$7.5 million to support the activities of InvestPR as of June 30, 2021. There was no amount receivable from the entity.

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

As of and for the year ended June 30, 2021

Note 16 - Related-Party Transactions – (continued)

Puerto Rico Industrial Development Corporation (PRIDCO)

The Puerto Rico Industrial Development Company (PRIDCO) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth), created in 1942 by Act No. 188, as amended. PRIDCO is engaged in promoting the development of new local enterprises and encouraging U.S. and foreign investors to establish and expand their business operations in Puerto Rico. To accomplish its mission, PRIDCO, among its many programs, constructs industrial facilities for lease or sale to qualified enterprises. The Department pays rent to PRIDCO for several offices and during the fiscal year 2021 it amounted to approximately \$2.0 million.

Note 17 - Commitments and Contingencies

Commitments

Operating leases

The Department leases various properties and equipment under operating lease agreements with related parties. The agreements generally have terms of one year or less and are automatically renewed if sufficient funds are available. Lease agreements covering periods in excess of one-year are cancelable at the Department's option upon 30 days written notice to the lessor. Rental expenditures for the year ended June 30, 2021, amounted to approximately \$1.7 million.

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 on the normal course of operations. The management of the Department believes that the ultimate liability, if any, in connection with these matters will not have a material effect on the Department's financial position and results of operations. The Department has accrued \$5.2 million to cover potential liability related to outstanding claims and litigations in the administration fund.

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

As of and for the year ended June 30, 2021

Note 17 - Commitments and Contingencies – (continued)

Contingencies

Federal Awards

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

Note 18 - Collective Bargaining Agreements

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

Note 19 - Subsequent Events

The Department has evaluated subsequent events through February 15, 2023, the date on which the financial statements were available to be issued. Except as disclosed in Note 11 and the following paragraphs, management considers that no other events have occurred subsequent to the date of the statement of net position and through the date that these financial statements were available to be issued that would require additional adjustment or disclosure.

Commonwealth Plan of Adjustment

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

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

As of and for the year ended June 30, 2021

Note 19 - Subsequent Events – (continued)

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

On March 15, 2022, the Puerto Rico's Government and the Oversight Board of PROMESA completed the exchange of more than \$33 billion of existing bonds and other claims into \$7 billion of new bonds plus a \$7 billion cash payment and a so-called contingent value instrument that pays out if Puerto Rico's sales-tax collections exceed projections. Annual debt service after the debt restructuring will amount to approximately \$1.15 billion.

In addition, on that date, the Commonwealth made about \$10 billion in cash payments to various creditor groups, including payments to public employees of the Puerto Rico Government and unsecured creditors, that mostly reside in Puerto Rico, who held longstanding claims against the government. These cash payments enable the Puerto Rico Government to significantly reduce debt service going forward. The \$10 billion cash component includes \$8.3 billion in debt related claims, including the \$7 billion cash payment to bondholders of the restructured debt mentioned above, and \$1.8 billion that will be paid to a multitude of residents of Puerto Rico, local creditor groups, including \$1.5 billion for current and former employee related claims, including \$1.4 billion deposited into a government defined contribution plan accounts (Act 106-2017 Defined Contribution) to restore employee contributions made and \$94 million payments to more than 35,000 pension plan participants who were affected by the 2013 pension freeze.

**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, 2021

	Governmental fund		
	2021	2020	2019
Proportion (percentage) of the net collective total pension liability	0.13640%	0.12030%	0.08720%
Proportion share (amount) of the collective total pension liability	\$ 38,286,252	\$ 29,894,323	\$ 27,324,999
	Business Type fund		
	2021	2020	2019
Proportion (percentage) of the net collective total pension liability	0.19291%	0.18942%	0.19116%
Proportion share (amount) of the collective total pension liability	\$ 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  
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Schedule of Proportionate Share of the Collective Net OPEB Liability

June 30, 2021

	Governmental fund			
	2021	2020	2019	2018
Proportion (percentage) of the net collective total OPEB liability	0.08375%	0.08219%	0.07000%	0.07000%
Proportion share (amount) of the collective total OPEB liability	\$ 732,515	\$ 683,970	\$ 695,347	\$ 570,050
	Business Type fund			
	2021	2020	2019	2018
Proportion (percentage) of the net collective total OPEB liability	0.1553%	0.15255%	0.14218%	0.12950%
Proportion share (amount) of the collective total OPEB liability	\$ 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, 2021

Assets	Workforce Innovation and Opportunity Act Fund	State Energy Program Fund	Weatherization Assistance Program Fund	STEP Fund	EDA Fund	Federal Contracting Center Funds	Total
Cash in commercial banks	\$ 368,216	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 368,216
Due from:							
Federal government , net	14,044,397	332,818	1,532,938	-	-	383,790	16,293,943
Other Governmental entities	394,019	157,821	-	34,000	154,830	-	740,670
Other assets	<u>16,779</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,666</u>	<u>-</u>	<u>54,445</u>
Total assets	<u>\$ 14,823,411</u>	<u>\$ 490,639</u>	<u>\$ 1,532,938</u>	<u>\$ 34,000</u>	<u>\$ 192,496</u>	<u>\$ 383,790</u>	<u>\$ 17,457,274</u>
Liabilities and Fund Balances							
Liabilities:							
Accounts payable and accrued liabilities	\$ 2,361,326	\$ -	\$ 906,205	\$ -	\$ -	\$ 17,305	\$ 3,284,836
Due to:							
US Department of Labor	930,982	-	-	-	-	-	930,982
Subrecipients	9,814,646	-	-	-	-	-	9,814,646
Internal balances	1,704,384	490,639	626,733	34,000	192,496	397,044	3,445,296
Commonwealth of Puerto Rico	<u>12,073</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,073</u>
Total liabilities	<u>\$ 14,823,411</u>	<u>\$ 490,639</u>	<u>\$ 1,532,938</u>	<u>\$ 34,000</u>	<u>\$ 192,496</u>	<u>\$ 414,349</u>	<u>\$ 17,487,833</u>
Fund balances:							
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted (deficit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,559)</u>	<u>(30,559)</u>
Total fund balance (deficit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,559)</u>	<u>(30,559)</u>
Total liabilities and fund balances	<u>\$ 14,823,411</u>	<u>\$ 490,639</u>	<u>\$ 1,532,938</u>	<u>\$ 34,000</u>	<u>\$ 192,496</u>	<u>\$ 383,790</u>	<u>\$ 17,457,274</u>

Department of Economic Development and Commerce of Puerto Rico  
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Statement of Activities - Federal Programs Funds Combining Schedule

June 30, 2021

Revenues	Workforce Innovation Opportunity Act Fund	State Energy Program Fund	Weatherization Assistance Program Fund	STEP Fund	EDA Fund	Federal Contracting Center Funds	Total
Revenues from Federal Agencies	\$ 82,818,902	\$ 1,156,639	\$ 1,193,599	\$ 97,471	\$ 193,813	\$ 371,225	\$ 85,831,649
Other Income	-	-	-	-	-	88,482	88,482
Total assets	<u>\$ 82,818,902</u>	<u>\$ 1,156,639</u>	<u>\$ 1,193,599</u>	<u>\$ 97,471</u>	<u>\$ 193,813</u>	<u>\$ 459,707</u>	<u>\$ 85,920,131</u>
Expenditures:							
Program direct expenditures	\$ 58,447,019	\$ 969,927	\$ 95,149	\$ -	\$ -	\$ -	\$ 59,512,095
Administrative expenditures	19,984,434	36,842	231,891	97,471	123,988	384,741	20,859,367
Salaries and fringe benefits	1,749,936	14,543	843,526	-	-	-	2,608,005
Other	2,545,352	135,327	23,033	-	69,825	74,966	2,848,503
Capital Outlays	92,161	-	-	-	-	-	92,161
Total expenditures	<u>\$ 82,818,902</u>	<u>\$ 1,156,639</u>	<u>\$ 1,193,599</u>	<u>\$ 97,471</u>	<u>\$ 193,813</u>	<u>\$ 459,707</u>	<u>\$ 85,920,131</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>\$ (30,559)</u>	<u>\$ (30,559)</u>