LANDA UMPIERRE PSC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Economic Development Bank for Puerto Rico

(A Component Unit of the Commonwealth of Puerto Rico)

Single Audit Package

June 30, 2020

(With Independent Auditors' Report Thereon)

MOORE

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Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

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June 30, 2020

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Independent Auditors' Report

To the Audit Committee of the
Economic Development Bank for Puerto Rico
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying statement of net position of the Economic Development Bank (the "Bank") for Puerto Rico as of June 30, 2020 and the statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Bank'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 basic 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 the basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the basic 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 Bank's internal controls. 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 basic financial statements.

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

Unmodified Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of June 30, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

The Bank's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Bank will continue as a going concern. As discussed in Note 2 to the basic financial statements, the Bank has suffered from an exit of deposits from other government entities and a high default rate on its loan portfolio, which have negatively impacted the Bank's liquidity. In an effort to improve liquidity, the Bank began executing since 2017 a strategy of monetizing most of its legacy loan portfolio through sales to third parties. However, such sales have also contributed to a significant reduction in its loan portfolio, therefore, extinguishing most of the interest income that used to be generated by such loan base and jeopardizing the operational feasibility of the Bank. This combination of events also curtailed the ability of the Bank to honor and repay the deposits held at the Bank by its depositors. These and other conditions and events raise substantial doubt about the Bank's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Litigation

As discussed in Note 13, various loan sales executed by the Bank during the past years, including the loan sale during fiscal year 2019, have been subjected to numerous litigations originated by impacted borrowers and by the Bank itself, claiming for the most part, among other remedies, the annulment of such sale contracts. Most of these cases are still outstanding and in discovery proceedings. It is still uncertain whether or not the courts will nullify the different loan sale agreements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis in pages 4 to 10 and the schedules of proportionate share of total pension liability and related ratios and schedule of proportionate share of total other postemployment benefit liability in pages 62 and 63 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 inquires 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bank's basic financial statements. The accompanying schedule of expenditures of federal awards, in pages 64-66, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. 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 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 information is fairly stated, in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 2, 2022, on our consideration of the Bank's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Bank's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Bank's internal control over financial reporting and compliance.

Initial Audit Engagement

The basic financial statements of the Bank as of and for the year ended June 30, 2019 were audited by another firm, who expressed an unmodified opinion on those statements on September 21, 2021.

Landa Umpierre PSC

San Juan, Puerto Rico
May 2, 2022

Certified Public Accountants
License No. 95 expires on December 1, 2023.
Stamp No. E447553 of the Puerto Rico Society of CPAs
was affixed to the record copy of this report.

This section discussion contains an analysis of the statements of net position of the Economic Development Bank for Puerto Rico (the Bank) as of June 30, 2020 and 2019, and its changes in financial position for the year then ended. The information included in this section should be read in conjunction with the basic financial statements of the Bank and its notes.

The activities of the Bank are accounted for as enterprise funds, which include the activities of the Bank's principal operating fund and those of the Bank's blended component unit, Economic Development Bank Capital Investment (EDBCI). EDBCI was created to account for and focus separately on the activities and investments in local equity and venture capital funds. The required financial statements for an enterprise fund are as follows: statement of net position; statement of revenue, expenses, and changes in net position; and statement of cash flows. These financial statements report information using accounting methods like those used by private financial institutions.

The statement of net position includes all the Bank's assets and liabilities, classified as current, noncurrent, capital assets, and net position. This statement provides information as of a specific date about the nature and amount of investments in resources (assets), the obligations to creditors (liabilities), and its deferred outflows/inflows of resources. It also provides the basis for evaluating the Bank's capital structure.

The statement of revenue, expenses, and changes in net position includes revenue earned and expenses incurred by the Bank for a specific period (12 operating months beginning on July 1 and ending on June 30). This statement measures the results of the Bank's operation and can be used to determine whether the Bank has successfully recovered all its costs through user fees and other charges. This statement distinguishes interest and non-interest revenue and expenses.

The statement of cash flows reports cash receipts, cash payments, and changes in cash resulting from operations, noncapital financing, capital and related financing, and investing activities. This statement provides information about the Bank's cash flows and how cash is obtained, used, and what was the change in cash balance during the reporting period beginning on July 1 and ending on June 30.

Financial Highlights

- Net position decreased by approximately $4 million, as a result of the net operating loss for the year.
- Total interest income amounted to approximately $2.6 million, a decrease of approximately $1.1 million over the prior year's results; while, total non-interest income amounted to approximately $5.7 million, a decrease of approximately $1.1 million over the prior year non-interest income of approximately $6.9 million.

Comparison of 2020 and 2019 Assets, Liabilities, and Net Position

Condensed financial information on assets, liabilities, and net position is presented below (dollar amounts in thousands):

			Increase/(decrease)	
Net Position	**2020**	**2019**	**Amount**	**Percentage**
Assets:				
Current assets	$ 115,969	$ 119,097	$ (3,128)	-3%
Noncurrent assets	42,160	45,292	(3,132)	-7%
Deferred outflows of resources	5,475	1,983	3,492	176%
Total assets and deferred outflows of resources	163,604	166,372	(2,768)	-2%
Liabilities:				
Current liabilities	147,039	146,986	53	0%
Noncurent liabilities	31,448	30,359	1,089	4%
Deferred inflow of resources	1,395	1,282	113	9%
Total liabilities and deferred inflows of resources	179,882	178,627	1,255	1%
Net Position:				
Net investment in capital assets	2,543	2,470	73	3%
Restricted for special loan programs	8,520	7,189	1,331	19%
Unrestricted	(27,340)	(21,914)	(5,426)	25%
Net Position	$ (16,277)	$ (12,255)	$ (4,022)	33%

At June 30, 2020, the Bank's total assets and deferred outflows of resources were $163.6 million ($40.6 million from EDBCI) compared to $166.4 million at June 30, 2019 ($37.2 million from EDBCI). The decrease of $2.8 million represents 2% of the 2019 total assets balance. Total loan portfolio increased by 2.9% when compared to balances as of June 30, 2019. Loan disbursements decreased from $15 million in 2019 to $2.6 million in 2020, while principal collected on loans decreased from $42.4 million for fiscal year 2019 to $2 million for fiscal year 2020. The related allowance for loan losses decreased by $71,000 or 1.4% of the 2019 balance. The net loan portfolio increased by $578,000.

At June 30, 2020, the Bank's total liabilities and deferred inflows of resources were $179.9 million compared to $178.6 million at June 30, 2019. The increase of $1.3 million represents 1% of the 2019 total liabilities. Total time deposits were $144.6 million as of June 30, 2020. Time deposits consist totally of certificates of deposit of public funds from other governmental institutions. Total time deposits decreased by $266,000. As of year-end, the notes payable balance was $5.5 million, which reflects a repayment of approximately $708,000 during fiscal year 2020 and the origination of a $250,000 note payable to the US Department of Agriculture – Rural Development for an Intermediary Relending Program.

The Bank had net position of $(16.3) million at June 30, 2020, a decrease of $4 million or 33% when compared to June 30, 2019. This decrease results from the $4 million net operating loss for the year. Additional information about net position composition is presented in Note 11 to the basic financial statements.

Comparison of 2020 and 2019 Revenue, Expenses, and Changes in Net Position

Condensed financial information on revenue, expenses, and changes in net position is presented below (in thousands):

Revenue Expense, and Change in Net Position	2020	2019	Increase/(Decrease) Amount	Increase/(Decrease) Percentage
Interest Income:				
Interest income from loans	$ 1,349	$ 1,764	$ -415	-24%
Interest income from investment and deposits	1,266	1,999	-733	-37%
Total interest income	2,615	3,763	-1,148	-31%
Total non-interest income	5,782	6,891	-1,109	-16%
Total operating revenue	8,397	10,654	-2,257	-21%
Operating expenses:				
Provision/(release) for loan losses	-	(1,999)	1,999	-100%
Total interest expense	1,300	1,242	58	5%
Pension and other post employment benefits credit adjustments	(1,140)	(16,453)	15,313	-93%
Noninterest expenses	12,259	15,009	(2,750)	-18%
Total operating expenses	12,419	(2,201)	14,620	-664%
Net changes in net position	$ (4,022)	$ 12,855	$ (16,877)	-131%

For the year ended June 30, 2020, the Bank presents a net operating loss or net change in net position of ($4) million when compared to the net operating income of $12.9 million for the year ended June 30, 2019. The decrease in operating income resulted from the net effect of the following:

a. Interest Income

Total interest income decreased by approximately 31% or $1.1 million, from $3.7 million in 2019 to $2.6 million in 2020. This decrease in interest income was mainly the result of decreased average loan transaction volumes during the fiscal year.

b. Non-interest income

Non-interest income decreased by approximately $1.1 million, from a $6.9 million in fiscal year 2019 to a $5.8 million in 2020. This decrease was mainly due to a decrease in other income of $3 million, from $3.9 million in 2019 to $932,000 in 2020, mainly due to the reversal in 2019 of $3 million from the liabilities for guaranteed obligations due to the expirations of the guarantees granted. On the other hand, the net realized and unrealized gains on investment increased in 2020 by $2.3 million, from $2.6 million in 2019 to $4.9 million in 2020.

c. Provision for Loan Losses

Compared to 2019, the provision for loan losses shows a decrease of $2 million. This is mainly due to the $2 million of loan losses release recognized in 2019 and the lack of any loan losses provision or release in 2020. From 2017 to 2019 the Bank sold most of its impaired and lower quality loans for which the Bank had already provided for in the previous years; therefore, not requiring any adjustments during the fiscal year 2020. During 2019 the Bank recognized a release of previously recognized loan loss provisions in the amount of approximately $2 million to adjust the allowance for loan losses to the current estimated level at June 30, 2019.

d. Interest Expense

Total interest expense increased by 5% or approximately $58,000, from $1,242,000 in 2019 to $1,300,000 in 2020. This increase in interest expense was mainly the result of increased average principal balances owed.

e. Pension and Other Post Employment Benefits Credit Adjustments

Compared to 2019, the pension and other postemployment benefits credit adjustments shows a decrease of $15.3 million, from approximately $16.5 million in 2019 to $1.1 million in 2020. This is mainly due to the change in accounting standard related to Pensions experimented in 2019. In 2019 the Bank's change its accounting for pension costs from the provisions of GASB Statement No. 68 to the provisions of GASB Statement No. 73, resulting in a decrease in the 2019 beginning balance of all its pension related accounts in the aggregate amount of approximately $15.8 million, accounted for prospectively. This transition adjustment in addition to the approximately $0.7 million credit impact of the 2019 actuarial calculations, resulted in the $16.5 million credit adjustments recognized for the year 2019.

f. Non-interest Expenses

Non-interest expenses decreased by approximately $2.7 million or 18% during fiscal year 2020. This decrease in non-interest expenses resulted from the net effect of the following:

- During 2019, a total of $1,999,000 in fees and expenses related to the loan portfolio sale of September 2018.

- Salaries and employee benefits increased by 35.8% or $2 million from approximately $5.5 million in 2019 to approximately $7.5 million in 2020. This increase is mainly due to the fact that the 2020 pension expense of approximately $1.4 million was recorded within the salary and employee benefits caption, while for the year 2019 the pension and other postretirement benefits credit adjustments (principally caused by the change to GASB Statement No. 73 in the accounting for pension costs) were presented separately and not within the salary and employee benefit expense caption.

- Losses from sale of foreclosed assets decreased by 55.9% or $505,000, from approximately $903,000 in 2019 to approximately $398,000 in 2020.
- Professional fees decreased by 18.7% or $116,000, from approximately $620,000 in 2019 to approximately $504,000 in 2020.

- Provision for foreclosed assets decreased 97.2% or $2,645,000, from $2.7 million in 2019 to $75,000 in 2020.

- Occupancy and related expenses (including depreciation and amortization) increased by 0.2% or $2,000, from approximately $816,700 in 2019 to approximately $818,600 in 2020.

- Advertising expense decreased by 69.7% or $68,800, from approximately $98,800 in 2019 to approximately $30,000 in 2020.
- Loss on impairment in investments increased by $1.4 million, from zero in 2019 to $1.4 million in 2020.

- All other non-interest expenses decreased by 32.8 % or $775,500, from approximately $2.4 million in 2019 to approximately $1.6 million in 2020.

Analysis of the Overall Financial Position and Results of Operations

The average balance of funds available from deposits and the related investments reflect a decrease when comparing 2020 to 2019, mainly due to the net operating loss of $4 million. When compared with fiscal year 2020, cash and cash equivalents, including Treasury bills, decreased 4.2% or $4.6 million, from $108.7 million in 2019 to $104.1 million in 2020.

On the labilities side, time deposits balances from other governmental and financial institutions decreased $266,000 or 0.2%, providing tolerable levels of funding to maintain the Bank's activities. Interest rates during fiscal years 2020 and 2019 remained low.

During the fiscal years 2020 and 2019, $42,000 and $4.1 million were recovered in previously charged off loans, respectively.

Discussion of Significant Capital Assets and Long-Term Debt Activity

During fiscal year 2020, approximately $147,000 in capital assets were acquired and approximately $216,000 were retired. As of year-end, the total note payable balance was $5.5 million, which reflected a repayment of approximately $708,000 during fiscal year 2020 and the origination of a $250,000 note payable to the US Department of Agriculture – Rural Development for an Intermediary Relending Program. Additional information about capital assets and long-term debt activity is presented in Notes 6 and 9 to the basic financial statements, respectively.

Currently Known Facts

Going Concern Uncertainty

The Bank faces significant risk and uncertainties and currently does not have or is not expected to have enough liquid financial resources to meet its obligations as they become due in the ordinary course of its operations, without restructuring its debt or other initiatives to restructure its operations. As a result of the economic deterioration affecting the Puerto Rico government over the past several years, including downgrades in credit ratings of the Commonwealth's bonds, the private sector retired deposits and exercised their put options on notes payable from the Bank. In addition, the Government Development Bank's (GDB) financial and liquidity crisis made governmental agencies and public corporations move their deposits from the Bank to GDB, reducing the Bank's capacity to issue commercial loans or make investments in financial instruments. In addition to these factors, the investments held by the Bank declined in value and the Bank operated only on the interest income generated by its loan portfolio. This posed a difficult liquidity situation for the Bank because, due to the high default rate on its loan portfolio, its ability to raise cash through loan repayments was limited. Then, as a result and in looking for additional sources of liquidity, the Bank began executing in 2017 the strategy of monetizing most of its legacy loan portfolio to third parties. However, such sales, although providing some temporary liquidity relief, have also contributed to a significant reduction in its loan portfolio, therefore, extinguishing most of the interest income being generated by such loan base and jeopardizing the operational feasibility of the Bank. This combination of events also curtailed the ability of the Bank to honor and repay the deposits held at the Bank by its depositors. The Bank does not receive or require recurrent assignments of funds from the Puerto Rico's Legislature or from other governmental entities to finance its operations.

The conditions and events discussed above and throughout these basic financial statements, raises substantial doubt about the Bank's ability to continue as a going concern.

Management's Future Plans

Strategic Plan - The Bank is working on a strategic business plan for the next five years with new business strategies aimed at improving their operations; starting with the search for capitalization through the State Small Credit Initiative (SSBCI), which is a federal funds program the Bank worked from 2011 through 2017 from which it received $14.6 million in capital for loan participations and venture capital investments, and which was re-approved under the American Rescue Plan Act of 2021 with an allocation of over $109 million to Puerto Rico. The program requires applications to be Completed by February 11, 2022 and the Bank expects drawdowns of one third the total allocation by the second quarter of calendar year 2022.

Among the initiatives is a layered guarantee programs to increase the guarantees that certain federal agencies offer, such as Small Business Administration (SBA), to increase the current approval rates and thus, the amounts of loans disbursed to the economy.

Government Sponsored Initiatives - The Bank will have a direct participation in the Government of Puerto Rico Disaster Recovery Action Plan for the use of CDBG-DR funds (estimated in approximately $16 billion covering various years through 2032) awarded by the U.S Government in response to the hurricanes Irma and María. The Bank as a sub-grantee, is working on the small business financing program, which provides up to $50,000 grants to small businesses that incurred in losses due to Hurricanes Irma and Maria on 2017, aligned to eligible CDBG activities in the economic development and job creation or retention course of action from the Puerto Rico Recovery Plan. The Bank will benefit by recovering costs involved in deploying the program.

The Bank is evaluating other opportunities to define the Bank's role and future operations within the current economic and fiscal government environment.

Plans for the Bank to honor and repay the deposits held by its depositors are still awaiting a final course of action.

Litigation

The loan sale executed by the Bank during the year ended June 30, 2019, described also in Note 5, has been subjected to numerous litigations originated by impacted borrowers and by the Bank itself, claiming for the most part, among other remedies, the annulment of such sale contracts.

With respect to the loan sales executed in the years prior to fiscal year 2019, several former borrowers of the Bank are suing both the assignee of such loans and the Bank alleging the such sales were null and void and that the buyer of the loans lacked standing to collect. With respect to the current year loan sales, former borrowers and the Bank itself initiated separate litigations against the ultimate buyers, as well as the intermediary advisor contracted by the Bank's management then, alleging that such advisor failed to abide by applicable laws in the sale process, among other claims. The majority of the remedies being requested is seeking to declare the loan sale null and consequently return all consideration received by the Bank, return all the loans sold to the buyers or arrive at an equivalent compensation, among other remedies.

Most of these cases are still outstanding, in discovery proceedings and pending resolution. Although legal counsel believes that no liability is foreseen in the cases where the Bank is a defendant, it is still uncertain whether or not the courts will nullify the September 2018 loan sale agreements or assign liability to the Bank in other litigations presented. An eventual determination of nullity by the courts may cause the accompanying basic financial statements to be restated accordingly.

Contacting the Bank's Financial Management

This financial report is designed to provide a general overview of the Bank's finances for those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Economic Development Bank for Puerto Rico, P.O. Box 2134, San Juan, PR 00922-2134.

Economic Development Bank for Puerto Rico

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position

June 30, 2020

ASSETS	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
CURRENT ASSETS:				
Cash and due from banks	$ 90,955,386	5,450,349	(5,450,349)	$ 90,955,386
Interest bearing deposits	13,144,347	—	—	13,144,347
Cash and cash equivalents	104,099,733	5,450,349	(5,450,349)	104,099,733
Loans, net of allowance for loan losses of $2,991,543	11,301,142	—	—	11,301,142
Accrued interest receivable	568,263	2,489	(2,489)	568,263
Total current assets	115,969,138	5,452,838	(5,452,838)	115,969,138
NONCURRENT ASSETS:				
Investments	382,991	29,879,674	—	30,262,665
Loans, net of allowance for loan losses of $2,334,857	1,076,007	—	—	1,076,007
Real estate available for sale	2,434,654	—	—	2,434,654
Other assets	609,736	—	—	609,736
Due from (to) other fund	(5,275,754)	5,275,754	—	—
Capital assets:				
Land	2,735,000	—	—	2,735,000
Building and improvements	12,181,195	—	—	12,181,195
Furniture and equipment	4,903,400	—	—	4,903,400
Less accumulated depreciation and amortization	(12,043,111)	—	—	(12,043,111)
Total capital assets	7,776,484	—	—	7,776,484
Total noncurrent assets	7,004,118	35,155,428	—	42,159,546
Total assets	$ 122,973,256	$ 40,608,266	$ (5,452,838)	$ 158,128,684
Deferred outflows of resources:				
Pension related	5,438,868	—	—	5,438,868
Other post employment benefit related	36,863	—	—	36,863
Total deferred outflow of resources	5,475,731	—	—	5,475,731
LIABILITIES				
CURRENT LIABILITIES:				
Time deposits	$ 150,072,790	$ —	$ (5,450,349)	$ 144,622,441
Accrued interest payable	68,226	—	(2,489)	65,737
Note payable	1,000,289	—	—	1,000,289
Other current liabilities	1,350,239	—	—	1,350,239
Total current liabilities	152,491,544	—	(5,452,838)	147,038,706
NONCURRENT LIABILITIES:				
Note payable	4,483,216	—	—	4,483,216
Total pension liability	23,338,959	—	—	23,338,959
Total other post employment benefit liability	430,970	—	—	430,970
Other liabilities	3,195,201	—	—	3,195,201
Total noncurrent liabilities	31,448,346	—	—	31,448,346
Total liabilities	183,939,890	—	(5,452,838)	178,487,052
Deferred inflows of resources - pension related	1,394,634	—	—	1,394,634
NET POSITION:				
Invested in capital assets	2,542,979	—	—	2,542,979
Restricted for special loan programs	8,520,282	—	—	8,520,282
Unrestricted	(67,948,798)	40,608,266	—	(27,340,532)
Total net position	$ (56,885,537)	$ 40,608,266	$ —	$ (16,277,271)

The accompanying notes are an integral part of these basic financial statements.

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenue, Expenses, and Changes in Net Position

For the Year Ended June 30, 2020

	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
OPERATING REVENUE:				
INTEREST INCOME:				
Loans	$ 1,348,619	$ —	$ —	$ 1,348,619
Investments	1,083,446	—	—	1,083,446
Deposits with other banks and commercial paper	183,147	22,471	(22,471)	183,147
Total interest income	2,615,212	22,471	(22,471)	2,615,212
NONINTEREST INCOME				
Net realized and unrealized gain on investments	—	4,850,078	—	4,850,078
Other income	1,024,908	—	(92,765)	932,143
Total noninterest income	1,024,908	4,850,078	(92,765)	5,782,221
Total operating revenue	3,640,120	4,872,549	(115,236)	8,397,433
OPERATING EXPENSE:				
INTEREST EXPENSE:				
Time deposits	969,264	—	(22,471)	946,793
Promissory note payable	352,940	—	—	352,940
Total interest expense	1,322,204	—	(22,471)	1,299,733
NON INTEREST EXPENSES:				
Salaries and employee benefits	7,448,533	—	—	7,448,533
Pension and other post employment benefits credit adjustments	(1,140,468)	—	—	(1,140,468)
Depreciation and amortization	451,390	—	—	451,390
Occupancy and related expenses	367,243	—	—	367,243
Professional fees	551,295	45,515	(92,765)	504,045
Advertising	29,999	—	—	29,999
Loss on impairment in investments	—	1,394,352	—	1,394,352
Loss on sale of foreclosed assets	397,877	—	—	397,877
Provision for losses on disposition of real estate held for sale	75,000	—	—	75,000
Other	1,591,539	—	—	1,591,539
Total noninterest expenses	9,772,408	1,439,867	(92,765)	11,119,510
Total operating expenses	11,094,612	1,439,867	(115,236)	12,419,243
Net changes in net position	(7,454,492)	3,432,682	—	(4,021,810)
TOTAL NET POSITION, beginning of year	(49,431,045)	37,175,584	—	(12,255,461)
TOTAL NET POSITION, end of year	$ (56,885,537)	$ 40,608,266	$ —	$ (16,277,271)

The accompanying notes are an integral part of these basic financial statements.

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows

For the Year Ended June 30, 2020

	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
Cash flows from operating activities:				
Cash payments for goods and services	$ (2,664,393)	$ (45,515)	$ —	$ (2,709,908)
Cash payments to employees	(7,289,583)	—	—	(7,289,583)
Other operating income	69,559	104,733	—	174,292
Cash received from principal collections on loans	2,008,527	—	—	2,008,527
Cash received from interest collections on loans	879,969	—	—	879,969
Cash disbursed for loaned amounts	(2,586,394)	—	—	(2,586,394)
Net cash used by operating activities	(9,582,315)	59,218	—	(9,523,097)
Cash flows from non-capital financing activities:				
Transfer between funds	5,278,490	(5,278,490)	—	—
Net increase/(decrease) in time deposits	(1,171,383)	—	905,765	(265,618)
Net increase/(decrease) in notes payable	250,000	—	—	250,000
Interest paid on time deposits	(985,467)	—	20,847	(964,620)
Net cash used in noncapital financing activities	3,371,640	(5,278,490)	926,612	(980,238)
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(146,859)	—	—	(146,859)
Principal payment on capital debt	(707,820)	—	—	(707,820)
Interest paid on capital debt	(356,479)	—	—	(356,479)
Net cash used in capital and related financing activities	(1,211,158)	—	—	(1,211,158)
Cash flows from investing activities:				
Acquisition of investments	—	(953,717)	—	(953,717)
Principal collections and maturities of investments	6,300	5,246,377	—	5,252,677
Net decrease/ (increase) in:				
Interest bearing deposits with other banks	—	905,765	(905,765)	—
Interest collected on investments, notes receivable, interest-bearing deposits with other banks, and commercial paper	1,267,335	20,847	(20,847)	1,267,335
Proceeds from sales of foreclosed assets	1,570,682	—	—	1,570,682
Net cash provided in investing activities	2,844,317	5,219,272	(926,612)	7,136,977
Net increase in cash and cash equivalents	(4,577,516)	—	—	(4,577,516)
CASH AND CASH EQUIVALENTS, beginning of year	108,677,249	—	—	108,677,249
CASH AND CASH EQUIVALENTS, end of year	$ 104,099,733	$ —	$ —	$ 104,099,733

(Continue)

Economic Development Bank for Puerto Rico

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows

For the Year Ended June 30, 2020

	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
Reconciliation of operating income to net cash provided by Operating activities:				
Operating income (loss)	$ (7,454,492)	$ 3,432,682	$ —	$ (4,021,810)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	451,390	—	—	451,390
Net realized and unrealized gain on investments	—	(4,745,345)	—	(4,745,345)
Loss on impairment of investments	—	1,394,352	—	1,394,352
Provision for losses on foreclosed assets	75,000	—	—	75,000
Loss on sale of foreclosed assets	397,877	—	—	397,877
Net pension liability	—	—	—	—
Interest income from investments	(1,244,122)	(22,471)	22,471	(1,244,122)
Decrease in accrued interest receivable from loans	(468,650)	—	—	(468,650)
Interest expense	1,277,262	—	(22,471)	1,254,791
Decrease in other assets	(546,139)	—	—	(546,139)
Decrease in deferred outflow of resources	(3,492,634)	—	—	(3,492,634)
Decrease in loans receivable	(577,867)	—	—	(577,867)
Increase in total pension and other post employment benefits liability	3,002,464	—	—	3,002,464
Increase in other liabilities	(1,115,489)	—	—	(1,115,489)
Decrease in deferred inflow of resources	113,085	—	—	113,085
Net cash used by operating activities	$ (9,582,315)	$ 59,218	$ —	$ (9,523,097)
Supplemental cash flow information and noncash transactions:				
Decrease in fair value of investments	$ —	$ (4,745,345)	$ —	$ (4,745,345)
Retirement of fully depreciated capital assets	$ 216,125	$ —	$ —	$ 216,125
Loans written-off	$ 112,821	$ —	$ —	$ 112,821
Investments charged off	$ —	$ 10,730,000	$ —	$ 10,730,000

(Concluded)

The accompanying notes are an integral part of these basic financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Economic Development Bank for Puerto Rico (the Bank) was created by the Puerto Rico Development Bank Act No. 22 of July 24, 1985, as amended, and constitutes a public corporation of the Commonwealth of Puerto Rico (the Commonwealth). The Bank is a component unit included in the Commonwealth's financial reporting entity and is a separate legal entity. The Bank promotes the development of the private sector of the economy of Puerto Rico. This is accomplished by making direct loans, loan guarantees, loan participations, and/or direct investments available to any person or business organization devoted to manufacturing, agriculture, trade, tourism, or other service enterprises, whose economic activity may have the effect of substituting imports, without this being understood as a limitation.

The Bank's operation consisted principally in granting commercial loans and capital investments to small businesses, receiving deposits from other governmental or commercial financial institutions, issuing notes and other debts, and investing in securities and other financial instruments, similar to a private commercial bank. As further discussed in Note 2, a series of events and circumstances that have deteriorated the Bank's liquidity, have limited significantly some of the aforementioned operating activities of the Bank. All revenue, such as interest, gains, dividends, and fees related to these activities, are presented as operating income. All expenses related to these revenue activities, such as interest expense, provision for losses, and administrative expenses, are considered operating expenses. For financial statements presentation, operating revenue is segregated between interest income and non-interest income, and operating expenses between interest expense, and non-interest expenses.

The Bank is not required to pay any taxes on any assets acquired or to be acquired for its operations or activities, or on the revenue received from any of its operations or activities.

In 2006, the Bank's board of directors created a component unit named Economic Development Bank Capital Investment (EDBCI). EDBCI is a blended component unit of the Bank, which is presented as another enterprise fund. The balances and transactions of EDBCI have been blended with the Bank in accordance with U.S. generally accepted accounting principles (GAAP) because, though legally separated, it was created and can be dissolved through resolutions of the Bank's board of directors. The board of directors of EDBCI is the same as that of the Bank. EDBCI operation consists only of supporting the Bank's mission in promoting the development of the private sector of the economy of Puerto Rico, investing in equity and other forms of capital of start-up, early, or later stage local enterprises or venture capital funds.

In October 2016. EDB created a component unit named Economic Development Bank Insurance Agency (EDBIA). EDBIA is a blended component unit of the Bank. The balances and transactions of EDBIA have been blended with the Bank in accordance with U.S generally accepted accounting principles (GAAP) because, though legally separated, it was created and can be dissolved through resolutions of the Bank's board of directors. The board of directors of EDBIA is the same as that of the Bank. EDBIA operation consists only of supporting the Bank's mission in promoting the development of the private sector of the economy of Puerto Rico. In February 2017, EDBIA received the broker certification to become the insurance agency of local insurance producers. A separate enterprise fund for EDBCI is not presented given the immateriality of its balances and activities.

In June 2020 EDB, pursuant to a subrecipient agreement signed March 2020, started its participation in the Government of Puerto Rico Disaster Recovery Action Plan for the use of CDBG-DR funds covering various years through 2032, awarded by the U.S Government in response to the hurricanes Irma and María. The Bank as a sub-grantee, is working on the small business financing program, which provides up to $50,000 grants to small businesses that incurred in losses due to Hurricanes Irma and Maria on 2017, aligned to eligible CDBG activities in the economic development and job creation or retention course of action from the Puerto Rico Recovery Plan. A separate enterprise fund for EDBCI is not presented given the immateriality of its balances and activities during the year 2020.

The accounting policies followed by the Bank are in accordance with GAAP, as applicable to governmental entities. The activities of the Bank are accounted for in an enterprise fund. Accordingly, the Bank follows the accrual basis of accounting and the economic resources measurement focus. Revenue is recognized when earned, regardless of when received, and expenses are recognized when incurred, regardless of when paid. The most significant accounting policies follow:

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates made by management include the allowance for loan losses, allowance for losses on foreclosed assets and liability on loan guarantees; the useful lives of capital assets; the valuation of capital assets and investments; and accruals for legal claims and other contingencies. The current economic environment has increased the degree of uncertainty inherent in estimates and assumptions.

Investments - The Bank follows GASB Statement No. 31 *Accounting and Financial reporting for Certain Investments and for External Investment Pools*. This Statement establishes accounting and financial reporting standards for all investments held by governmental external investment pools. For most other governmental entities, it requires that most investments be reported at fair value in the statements of net position.

The governing board authorizes the Bank to invest in the following:

- U.S. government and agencies obligations
- Obligations of the Commonwealth, its agencies, municipalities, public corporations, and instrumentalities
- Certificates and time deposits
- Commercial paper
- Bankers' acceptance
- Federal funds
- Securities purchased under agreements to resell
- Mortgage-backed and asset-backed securities
- Corporate notes
- External investment pools

The Bank's investment policies also establish limitations and other guidelines on amounts to be invested in the investment categories. Such policies provide the requirements in the institutions with which investment transactions can be entered into. In addition to Assets, Liabilities, and Investments Committee (ALCO), and the Board of Directors of the Bank may approve, as necessary, other transactions that the Bank may enter into.

Investments in debt securities are presented at fair value. Money market investments and investment contracts with a remaining maturity at time of purchase of one year or less are presented at amortized cost. Changes in the fair value of investments are presented in net realized and unrealized gains (losses) on investments in the statement of revenue, expenses, and changes in net position. Fair value is determined based on quoted market prices.

Investments also include common and preferred stocks of various local enterprises that do not have readily determinable fair value and investment positions in external investment pools. The investments in common and preferred stocks are temporary and the Bank generally does not have the ability to exercise significant influence over the investees' operating and financial policies, and therefore, such investments are carried at the lower of cost or net realizable value based on management's evaluation of the financial condition of each investee. Because of uncertainties inherent in the estimation process, management's evaluation of the financial condition of the investees and the related assessment of net realizable value may change in the near term.

Investment positions in external investment pools are reported at the net asset value of the shares held by the Bank. Such net asset value represents the estimated fair value per share of the pools' underlying net assets. The financial statements of these pools include securities whose fair values have been estimated by the pools' managers in the absence of readily ascertainable market values. The Bank's external investment pools that are not registered with the Securities and Exchange Commission are supervised by the Commissioner of Financial institutions, which is the governmental agency that regulates venture capital funds and the banking industry in Puerto Rico.

In order to value its investments, the Bank uses valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches; the market approach, the cost approach, or the income approach. The Bank categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation input used to measure the fair value of the asset. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable for the assets or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumptions of the default rate among underlying mortgages of a mortgage-backed security. Investments measured at Net Asset Value (NAV) as a practical expedient for fair value are not subject to level classification. Refer to Note 4 for further details.

Loans - Loans are presented at the unpaid principal balance reduced by the allowance for loan losses, and any deferred fees or costs on originated loans. In accordance with the Bank's charge-off policy approved on February 2012, unsecured loans are charged off against the allowance for loans losses within 60 days after they have payments due over 120 days. For collateralized loans, charge-offs are recognized for the amount of collateral deficiency within 60 days after they have payments due over

180 days. Although one of the factors evaluated by management in making this assessment is the number of days past due, the policy also allows the Bank to charge-off loans when special circumstances arise and upon the approval of the corresponding level of authority. Recoveries of loans previously charged off are credited to the allowance for loan losses.

The accrual of interest on loans ceases when loans become past due 90 days or more and/or on those loans undergoing judicial or bankruptcy proceedings. Once a loan is placed on nonaccrual status, all accrued but uncollected interest is reversed from interest income. Interest on all nonaccrual loans is thereafter included in earnings only to the extent actually collected. Loans designated as non-accruing are not returned to an accrual status until interest and principal are received on a current basis and those factors indicative of doubtful collection cease to exist.

Collections received for nonaccrual loans are applied, for financial statement purposes, to principal owed. The change in payment application for nonaccrual loans is intended to reduce the recorded exposure to losses as well as the related required levels of the allowance for losses. Delinquency history and collection efforts are monitored in accordance to the full accrual amortization schedule of the loan.

The allowance for loan losses is maintained at a level believed adequate by management to absorb potential losses in the loan portfolio. Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, past loan loss experience, economic conditions, volume growth, composition of the loan portfolio, and other relevant factors. Allowances for impaired loans are generally determined based on the present value of estimated cash flows, except for collateral dependent loans, which are estimated based on the fair value of collateral, less cost to sell, when applicable. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the loan portfolio, and the related allowance may change in the near term.

Classification of Loans and Allowance for Loan Losses - The current portion of loans includes the active principal of loans with maturities of one year or less and past due over three months and/or those loans undergoing judicial or bankruptcy proceedings. Also, these include the estimated current portion of loans with maturity over one year. The resulting difference was reported as the noncurrent portion. The allowance for loan losses was allocated between current and noncurrent proportionally based on the loan classification.

Loan Guarantee Program - Guarantee fees on the loan guarantee program are recognized as income when the fees are collected. Such fees are estimated not to exceed related guarantee expenses. The liability for guaranteed obligations is based on management's evaluation of the potential loss on each guarantee, net of amounts recoverable from collateral and the share of loss of the participating banks and is included in other liabilities. Because of uncertainties inherent in the estimation process, management's estimate of the allowance for losses on loan guarantees, and the related accrual for losses on loan guarantees may change in the near term.

Real Estate Available for Sale - Real estate available for sale comprises properties acquired in satisfaction of loans. Properties acquired through foreclosure are transferred to real estate available for sale and recognized at the lower of fair value minus estimated costs to sell or loan's carrying value, establishing a new cost basis. Subsequent declines in the value of real estate available for sale are provided for when it is probable the cost will not be recovered and that a loss will be incurred. An allowance for losses on real estate available for sale is maintained for subsequent valuation adjustments on a specific property basis.

Capital Assets - Capital assets are defined by the Bank as assets with an individual initial cost of over $500 and expected useful lives of over one year. Capital assets are stated at cost, less accumulated depreciation and amortization. Depreciation is computed on the straight-line basis over the estimated useful lives of the depreciable assets, which have been determined to be 3 years for computer software, 5 years for all furniture and equipment, and 40 years for building and improvements. Expenditures for major improvements that extend the useful life of the asset are capitalized. Maintenance and repairs are charged to expense as incurred.

Accounting for Compensated Absences - The employees of the Bank earn 15 days of vacation and 18 days of sick leave annually. Vacation may be accumulated up to a maximum of 60 days, respectively. In the event of employee resignation, an employee is paid for accumulated vacation days up to the maximum allowed (nothing is paid for accumulated sick leave days). An additional amount is accrued for certain salary related benefits associated with the payment of compensated absences. Such amounts are included in other liabilities and the accompanying financial statements.

Statements of Cash Flows - For purposes of reporting cash flows, cash includes cash on hand, amounts due from banks, items in process of collection and cash equivalents.

Deferred Outflows/ Inflows of Resources - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element 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. On the Bank's financial statements there are two major captions that qualify for reporting in this category: (i) pension related items and (ii) other postemployment benefit related items. Of the pension related items (further disclosed in Note 15), changes in proportion are recognized over the average of the expected remaining service lives of all plan members, which is 5 years for 2019. Pension benefit payments made subsequent to the measurement date will be recognized as a reduction of the total pension liability after the next measurement date. Of the other postemployment benefit related items (further disclosed in Note 16), only other postemployment benefit payments made subsequent to the measurement date are presented as a deferred outflow item, which will be recognized as a reduction of the total other postemployment liability after the next measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position and resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. On the Bank's financial statements there is one major caption that qualifies for reporting in this category, which consists of pension related items. With respect to the pension related items (further disclosed in Note 15), changes in assumptions 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.

Accounting for Pension Costs - As further disclosed in Note 15, effective July 1, 2017, a new "pay-as-you-go" (PayGo) system was enacted into law by Act No. 106 of 2017 (Act 106-2017), significantly reforming the defined benefit plan (the Plan) of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). Under the PayGo system, employers' contributions and other contributions ordered by special laws were all eliminated and substantially all of assets of the Plan were liquidated and its proceeds transferred to the Commonwealth's General Fund for payment of pension benefits; therefore, since the enactment of Act 106-2017, the Commonwealth's General Fund is making direct payments to the pensioners and then gets reimbursed for those payments by the participating employers.

As a result of the implementation of the PayGo system, the Plan did no longer meet the criteria of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27 (*Statement 68) to be considered a plan that is administered through a trust or equivalent arrangement and; therefore, was required to apply the guidance 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 amendments of Certain Provisions of GASB Statements No. 67 and 68* (Statement 73). Statement No. 73 maintains the "accrual basis" model under Statement 68, where the Total Pension Liability is actuarially determined. 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 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 Bank 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 actuarial calculation changed from one based on contributions to a new one based o benefit payments under the new PayGo system, the impact on all corresponding pension related accounts was accounted for prospectively as a change in accounting estimates. Further details on the accounting for pension costs and the impact of its adoption are disclosed in Note 15.

The Central Government and its component units are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan. Other employers also participate in the Plan. Because certain employers that are component units of the Commonwealth, such as the Bank, prepare individual financial statements, a proportionate share of pension related amounts is determined for these employers. Statement No. 73 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2019 actuarial measurement data was used for the pension benefits financial reporting recognition as of and for the fiscal year ended June 30, 2020.

The Bank's pension expense for the year ended June 30, 2020 amounted to a credit adjustment of approximately $1.1 million, and the Total Pension Liability as of June 30, 2020 amounted to approximately $23.3 million. Disclosures required under Statement No. 73 can be found in Note 15.

Accounting for Postemployment Benefits Other than Pensions - The Bank accounts for postemployment benefit costs other than pensions (OPEB) under the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017,* which also requires additional reporting and disclosures for OPEB benefits provided through the ERS sponsored Medical Insurance Plan Contribution (ERS MIPC). Statement No. 75 requires a liability for OPEB obligations, known as the Net OPEB Liability (Total OPEB Liability for unfunded plans), to be recognized on the balance sheets of participating employers. Changes in the Net OPEB Liability (Total OPEB Liability for unfunded plans) are immediately recognized as OPEB expenses. As a result, the Bank recognized an OPEB liability and OPEB expenses, for the medical insurance benefits provided through the ERS MIPC.

GASB Statement No. 75 employes an "accrual basis" model, where the total OPEB obligation (actuarially determined) is compared to the plan net position and the difference represents the Net OPEB Liability (Total OPEB Liability for unfunded plans). Further details on the accounting for OPEB costs and the impact of its adoption are disclosed in Note 16.

The Central Government and its component units are considered to be one employer. Other employers also participate in the ERS OPEB Plan. Because certain employers that are component units of the Commonwealth, such as the Bank, prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers. Statement No. 75 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

Because all participants in the ERS OPEB plan 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. However, a deferred outflow has been recognized only for the amount of the benefit payments made by the Bank subsequent to the measurement date, of approximately $37,000.

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2019 actuarial measurement data was used for the OPEB financial reporting recognition as of and for the fiscal year ended June 30, 2020.

The Bank's annual OPEB credit for the year ended June 30, 2020 amounted to approximately $6,000 and the OPEB liability as of June 30, 2020 amounted to approximately $431,000. Disclosures required under GASB Statement No. 75 can be found in Note 16.

New Accounting Pronouncement - Implemented

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*
- *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. The requirements of this Statement are effective immediately.

There was no effect on Bank's accounting or financial reporting as a result of implementing this standard.

Future Adoption of Accounting Pronouncements

The GASB has issued the following accounting pronouncements that have effective date after June 30, 2020:

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2019, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date.

GASB Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve 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 requirements of this Statement are effective for reporting periods beginning after December 15, 2018, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

GASB Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. 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 requirements of this Statement are effective for reporting periods beginning after December 15, 2019, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period.* The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify 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 Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

GASB Statement No. 90, *Majority Equity Interests-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 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

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 note 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 note disclosures. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

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. 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; 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; and terminology used to refer to derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2020, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

GASB Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. 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, as amended by GASB Statement No. 95, *Postponement of the effective dates of Certain Authoritative Guidance,* which allowed for a one-year postponement of its effective date. Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

GASB Statement No. 94, *Public-Private and Public-Public Partnership and Availability Payment Arrangement*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA): (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. 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. 96, *Subscription-Based Information Technology Arrangements (SBITA).* This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* 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.

This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should 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. This Statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities,* be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans,* or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* respectively.

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.

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 a commitment to promoting inclusiveness. The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

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

2. GOING CONCERN UNCERTAINTY

The Bank faces significant risk and uncertainties and currently does not have or is not expected to have enough liquid financial resources to meet its obligations as they become due in the ordinary course of its operations, without restructuring its debt or other initiatives to restructure its operations. As a result of the economic deterioration affecting the Puerto Rico government over the past several years, including downgrades in credit ratings of the Commonwealth's bonds, the private sector retired deposits and exercised their put options on notes payable from the Bank. In addition, the Government Development Bank's (GDB) financial and liquidity crisis made governmental agencies and public corporations move their deposits from the Bank to GDB, reducing the Bank's capacity to issue commercial loans or make investments in financial instruments. In addition to these factors, the investments held by the Bank declined in value and the Bank operated only on the interest income generated by its loan portfolio. This posed a difficult liquidity situation for the Bank because, due to the high default rate on its loan portfolio, its ability to raise cash through loan repayments was limited. Then, as a result and in looking for additional sources of liquidity, the Bank began executing in 2017 the strategy of monetizing most of its legacy loan portfolio to third parties. However, such sales, although providing some temporary liquidity relief, have also contributed to a significant reduction in its loan portfolio, therefore, extinguishing most of the interest income being generated by such loan base and jeopardizing the operational feasibility of the Bank. This combination of events also curtailed the ability of the Bank to honor and repay the deposits held at the Bank by its depositors. The Bank does not receive or require recurrent assignments of funds from the Puerto Rico's Legislature or from other governmental entities to finance its operations.

In response to the Commonwealth's current fiscal crisis, the United States Congress enacted PROMESA establishing the Oversight Board. On May 1, 2017, the temporary stay under Title IV of PROMESA expired, permitting substantial litigation brought by bondholders and other creditors against the Commonwealth and its component units to resume and new suits to be initiated. As a result, on May 3, 2017, the Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Title III Court). Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to Title III cases pursuant to PROMESA section 301(a). Accordingly, upon the filing of the Commonwealth's Title III case, an automatic stay immediately went into effect to stay creditor litigation. On March 15, 2022, the Financial Oversight and Management Board for Puerto Rico announced that the Plan of Adjustment to reduce the Commonwealth of Puerto Rico's debt became effective. For more details refer to Note 21 to the financial statements.

In general terms, PROMESA seeks to provide the Commonwealth with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits under Title IV of PROMESA; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of Title 11 of the United States Code (U.S. Bankruptcy Code).
The conditions and events discussed above and throughout these basic financial statements, raises substantial doubt about the Bank's ability to continue as a going concern.

Management's Future Plans

Strategic Plan - The Bank is working on a strategic business plan for the next five years with new business strategies aimed at improving their operations; starting with the search for capitalization through the State Small Credit Initiative (SSBCI), which is a federal funds program the Bank worked from 2011 through 2017 from which it received $14.6 million in capital for loan participations and venture capital investments, and which was re-approved under the American Rescue Plan Act of 2021 with an allocation of over $109 million to Puerto Rico. The program requires applications to be submitted by December 11, 2021 and the Bank expects drawdowns of one third the total allocation by the beginning of calendar year 2022.

Among the initiatives is a layered guarantee programs to increase the guarantees that certain federal agencies offer, such as Small Business Administration (SBA), to increase the current approval rates and thus, the amounts of loans disbursed to the economy.

Government Sponsored Initiatives - The Bank will have a direct participation in the Government of Puerto Rico Disaster Recovery Action Plan for the use of CDBG-DR funds, estimated in approximately $10 billion (grand total for Puerto Rico), awarded by the U.S Government in response to the hurricanes Irma and María. The Bank as a sub-grantee, is working on the small business financing program, which provides up to $50,000 grants to small businesses that incurred in losses due to Hurricanes Irma and Maria on 2017, aligned to eligible CDBG activities in the economic development and job creation or retention course of action from the Puerto Rico Recovery Plan. The Bank will benefit by recovering costs involved in deploying the program.

The Bank is evaluating other opportunities to define the Bank's role and future operations within the current economic and fiscal government environment.

Plans for the Bank to honor and repay the deposits held by its depositors are still awaiting a final course of action.

3. CASH AND CASH EQUIVALENTS AND DUE FROM BANKS AND INTEREST-BEARING DEPOSITS

Custodial credit risk is the risk that, in the event of a financial institution failure, the Bank will not be able to recover its deposits. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of the federal depository insurance. All securities pledged as collateral are held by the Secretary of Treasury. The Bank does not have a formal policy for custodial credit risk for cash opened with commercial banks outside Puerto Rico. The Bank's policies for deposits placed with banks establish maximum exposure limits for each institution based on the institution capital, financial condition and credit rating assigned by nationally recognized rating agencies.

The table presented below discloses the level of custodial credit risk assumed by the Bank at June 30, 2020.

Description		Carrying Amount		Depository Bank Balance		Amount uninsured and uncollateralized
Cash and equivalents and due from banks	$	90,955,386	$	95,789,590	$	4,197,213
Interest-bearing deposits with banks		13,144,347		13,144,347		—
Total	$	104,099,733	$	108,933,937	$	4,197,213

On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). Under the Qualifying Modification, holders of certain bond and deposit claims against GDB exchanged their claims for bonds (at an upfront exchange ratio of 55%) issued by a newly created public instrumentality—the GDB Debt Recovery Authority (the DRA) created under Act No. 109 of August 24, 2017, known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act)—and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio (including the beneficial interest on a promissory note issued to the Bank), its real estate owned assets and its unencumbered cash. This GDB Restructuring Act required certain offsets between financial instruments assets and liabilities held by GDB; therefore, the deposits held at GDB were applied to certain overnight deposits payable by the Bank (see Note 8).The resulting newly created public instrumentality at June 30,2020 is presented as investment for $383,000 in the accompanying Statement of Net Position (Refer to Note 4).

4. INVESTMENTS

At June 30, 2020, securities investments were registered in the name of the Bank and were held in the possession of the Bank's custodian institution. The Bank's investment policies, as authorized by Act number 22 of July 24, 1985, Article 3, allow management to purchase securities under agreements to resell. There were no securities under agreement to resell activity during the years ended June 30, 2020. The Bank's investment policies establish the minimum amount of acceptable collateral. The market prices of the collateral are revised monthly, and the margin amount adjusted accordingly.

Custodial Credit Risk Deposits - Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the transaction, the Bank may not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Interest Rate Risk -In accordance with its investment policy, the Bank manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio generally to less than three years.

Investments in external investment pools and equity securities are not subject to the maximum maturity policy since they do not have a maturity date. These instruments are not sold on secondary markets and are not priced in any stock exchange, and as such, its fair value depends on the performance of the involved enterprises. The inherent risk in these investments is managed through credit analysis, periodic reviews of results of operations, and meetings with subject companies and investment pools managers.

Credit Risk -The Bank's investment policy limits long-term investment in corporate debt to the top three ratings issued by nationally recognized statistical rating organizations, and short-term investments in corporate debt to the top two ratings issued by nationally recognized statistical rating organizations.

As of June 30, 2020, the Bank had the following investments:

Investment Type		Fair Value	Weighted Average Maturity (Years)
Government bond	$	382,991	20.0
External investment pools		29,879,674	N/A
Total fair value	$	30,262,665	

As discussed in Note 3, on November 29, 2018, GDB completed the restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA. Under the Qualifying Modification, holders of certain bond and deposit claims against GDB exchanged their claims for bonds (at an upfront exchange ratio of 55%) issued by a newly created public instrumentality, the DRA. The municipal bonds presented in the table above, represents former GDB's senior notes held by the Bank, but converted into the new DRA issued bonds at the exchange ratio of 55%, and presented at fair value. The investment in the DRA issued bonds is not rated.

The Bank, through EDBCI, also invests in venture capital through external investment pools and through direct investment in equity securities. The Bank's investments in external investment pools and equity securities are not rated by a nationally recognized statistical rating organization. The related credit risk is measured through credit analysis, periodic reviews of results of operations, and meetings with subject companies' management. In addition, an allowance for possible losses in venture capital investments is recorded as a measure of providing a fair value in the financial statements.

As of June 30, 2020, the venture capital balances comprised the following:

External investment pools	$	31,274,025
Equity investments		4,974,000
		36,248,025
Allowance for losses in equity investment		(6,368,351)
Fair value of venture capital investments	$	29,879,674

The investment strategy of the external investment pools is to seek companies in or outside Puerto Rico that require capital growth or seed capital, although the investment recipients must have operations in Puerto Rico. The current investments on external equity investment pools are on different investment stages of their life cycle. Some of the funds continue evaluating new investment alternatives and others are in its sell-off stage.

In accordance with the partnership agreements for each of the external investment pools, the Bank's investments can only be redeemed upon distribution from funds managers; usually in the form of a sale of its holdings or dividends distributed. The assets held by the funds in sell-off stage should be liquidated within the next three years; whereas the assets held by investment stage funds will take from seven to ten years for liquidation, as expected per its respective partnership agreements. As of June 30, 2020, the Bank does not intend to sell or redeem investments in any external investment pool for an amount different to that presented in the financial statements.

The Bank was exposed to the following custodial credit risk for investments held at June 30, 2020:

Unisured and registered, with securities held by the counterparty's trust department or agent in the Bank's name	$ 382,991
Unisured and unregistered, with securities held by the Bank	29,879,674
Total	$ 30,262,665

Concentration of Credit Risk - The Bank places no limit on the amount it may invest in any one issuer as a percentage of the investment portfolio. As of June 30, 2020, more than 5% of the Bank's investments are in Venture Capital (99%).

Sale of Investments - No sales of investments took place during the year ended June 30, 2020.

The following table shows the investments by fair value level held by the Bank at June 30, 2020:

Investments by Fair Value Level		Fair Value Measurement Levels		
		Level 1	Level 2	Level 3
Municipal bonds	$ 382,991			
Total investments by fair value level	$ 382,991	$ —	$ 382,991	$ —
		$ —	$ 382,991	$ —
Investments measured at NAV				
External investment pools:				
Guayacán Private Equity Funds	24,684,315			
Venture Capital Fund	4,195,358			
Others	1,000,001			
Total investments by fair value level	$ 30,262,665			

The debt securities classified in Level 2 of the fair value hierarchy are valued using inputs other than quoted prices under Level 1. Investments measured at Net Asset Value (NAV) as a practical expedient for fair value are not subject to level classification.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES

The balance of current and noncurrent loans consists of loans originated by the Bank and amounts paid under the loan guarantee program. During the year ended June 30, 2020, the Bank has made no payments under the loan guarantee program.

Loans distribution among industry sectors as of June 30, 2020 is as follows:

Agricultural	$ 951,884
Commercial	2,217,498
Services	5,532,324
Manufacturing	838,629
Tourism	8,163,214
Total Loans	17,703,549
Allowance for loans losses	(5,326,400)
	$ 12,377,149

The reconciliation of loans with the statement of net position as of June 30, 2020 is as follows:

Current portion	$ 11,301,142
Noncurrent portion	1,076,007
Total Loans	$ 12,377,149

The Bank has defined impaired loans as all loans with interest and/or principal past due 90 days or more and other loans for which, based on current information, it is probable that the debtor will be unable to pay according to the contractual terms of the loan agreement. The Bank generally measures impairment based upon the present value of a loan's expected future cash flows, except where foreclosure or liquidation is probable or when the primary source of repayment is provided by collateral. In these circumstances, impairment is measured based upon the fair value of the collateral less estimated selling and disposal costs. The present value of a loan's expected future cash flows is calculated using the loan's effective interest rate based on the original contractual terms.

Cash payments received on impaired loans are recorded in accordance with the contractual terms of the loan. The principal portion of the payments is used to reduce the principal balance of the loan; the interest portion is recognized as interest income. When management believes that collectability of principal is doubtful, the interest portion may be applied to principal.

At June 30, 2020, loan delinquency by industry sector was as follows:

	0 – 30 Days	31 – 60 Days	61 – 90 Days	91+ Days	Outstanding Balance
Agricultural	$ 896,287	$ 33,448	$ 1,325	$ 20,824	$ 951,884
Commercial	1,918,954	15,140	26,987	256,417	2,217,498
Services	3,659,102	20,402	—	1,852,820	5,532,324
Manufacturing	713,204	—	—	125,425	838,629
Tourism	8,163,214	—	—	—	8,163,214
Total	$ 15,350,761	$ 68,990	$ 28,312	$ 2,255,486	$ 17,703,549

The following is a summary of information on loans considered to be impaired in accordance with ASC subtopic 310-35-35 Receivables, as of June 30, 2020 and the related interest income for the years then ended:

Recorded investment in impaired loans not requiring an allowance for loan losses	$	1,685,000
Recorded investment in impaired loans requiring an allowance for loan losses		2,606,000
Total recorded investment on impaired loans	$	4,291,000
Related valuation allowance	$	829,000
Average recorded investment on impaired loans	$	19,381,000
Interest income recognized	$	—

At June 30, 2020, loans on which the accrual of interest has been discontinued (cash basis loans), due to delinquency over 89 days and/or due to restructurings, amounted to $5,030,782 ($2,176,555 over 89 days and $2,854,227 restructured loans). The additional interest income that would have been recorded if these loans had performed in accordance with their original terms is estimated at approximately $357,000 during 2020.

The balance of nonaccrual loans by industry sector at June 30, 2020, were as follows:

Agricultural	$	—
Commercial		198,311
Services		4,543,832
Manufacturing		125,425
Tourism		163,214
Total	$	5,030,782

The balance of loans classified as troubled debt restructured by industry sector and the related effect in the allowance for loan losses at June 30, 2020 is as follows:

		Principal		Allowance
Agricultural	$	—	$	—
Commercial		96,224		36,279
Services		2,686,529		854,607
Manufacturing		—		—
Tourism		—		—
Total	$	2,782,753	$	890,886

The following table present the troubled debt restructuring modified during the year ended June 30, 2020:

	Premodification	Postmodification
Outstanding recorded investment	$ 96,224	$ 96,224
Number of contracts	1	1
Weighted average trate	6.39%	6.39%
Weighted average term (months)	68	111

Of the total troubled debt restructurings during 2020 no contracts defaulted after their modifications were processed.

Changes in the total allowance for loan losses for the year ended June 30, 2020 were as follows:

Balance, beginning of year	$ 5,397,598
Loans charged off as uncollectible	(112,821)
Recoveries	41,623
Balance, end of year	$ 5,326,400

The following table presents the changes and the balance in the allowance for loan losses and the recorded investment in gross loans by industry sector and based on impairment method for the year ended June 30, 2020:

	Agricultural	Commercial	Services	Manufacturing	Tourism	Total
Allowance for loan losses:						
Beginning balance	$ 435,316	$ 3,115,675	$ 1,634,041	$ 533,389	$ (320,823)	$ 5,397,598
Provision charged to provisions	(259,038)	(2,438,541)	(64,217)	(212,355)	2,974,151	—
Loans charged-off as uncollectible	(27,264)	(57,207)	—	(28,350)	—	(112,821)
Recoveries	5,148	23,654	6,501	4,171	2,149	41,623
Ending balance	154,162	643,581	1,576,325	296,855	2,655,477	5,326,400
Ending allowance attributable to loans:						
Individually evaluated for impairment	—	—	828,845	—	—	828,845
Collectively evaluated for impairment	154,162	643,581	747,480	296,855	2,655,477	4,497,555
Ending allowance	154,162	643,581	1,576,325	296,855	2,655,477	5,326,400
Loans:						
Individually evaluated for impairment	—	—	4,290,637	—	—	4,290,637
Collectively evaluated for impairment	951,884	2,217,498	1,241,687	838,629	8,163,214	13,412,912
Total loan balance	$ 951,884	$ 2,217,498	$ 5,532,324	$ 838,629	$ 8,163,214	$ 17,703,549

In September 2018, the Bank sold various loans with a carrying value of approximately $32.6 million, net of related allowance of almost $49 million, which include an impairment adjustment related to this sale of approximately $37.4 million made as of June 30, 2018, to properly reflect the carrying value based on the actual sale in the June 30, 2018 financial statements. This sale also included approximately $265.2 million in loan balances charged-off from the Bank's financial statements. No gain or loss resulted from the transaction as management had already recognized in prior years' financial statements the losses inherent in such portfolios.

This loan sale has been subjected to numerous litigations questioning their validity. Refer to Note 13 for more details.

6. CAPITAL ASSETS

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

	Beginning Balance	Additions	Reductions / Reclassifications	Ending Balance
Land	$ 2,735,000	—	—	$ 2,735,000
Building and improvements	12,057,233	123,962	—	12,181,195
Furniture and equipment	5,096,628	22,897	(216,125)	4,903,400
Total cost	19,888,861	146,859	(216,125)	19,819,595
Less accumulated depreciation and amortization:				
Building and improvements	(7,111,067)	(323,561)	—	(7,434,628)
Furniture and equipment	(4,696,779)	(127,829)	216,125	(4,608,483)
Total accumulated depreciation and amortization	(11,807,846)	(451,390)	216,125	(12,043,111)
Capital assets, net	$ 8,081,015	$ (304,531)	$ —	$ 7,776,484

The Bank's principal premises are partially rented to various lessees under lease terms expiring at various future dates. Minimum future rentals to be received for the next two years ending June 30, 2021 and 2022 are approximately $177,500 and $11,700, respectively. Rent revenue amounting to approximately $298,000 was recorded as other income in the accompanying 2020 statement of revenue, expenses, and changes in net position.

7. REAL ESTATE AVAILABLE FOR SALE AND OTHER ASSETS

Real estate available for sale and other assets as of June 30, 2020 consist of the following:

Real estate available for sale	$ 2,434,654
Other assets	
Accounts receivable - Small Business Financing program	348,761
Rent receivable	71,988
Accounts receivable from other Commonwealth component units	14,266
Other	174,721
Total other assets	609,736
Total real estate available for sale and other assets	$ 3,044,390

Real estate available for sale at June 30, 2020, at the lower of carrying value or fair value, consisted of the following:

Beginning balance	$	4,477,414
Additions (new foreclosures)		—
Subtractions:		
Sales		(1,967,760)
Provision for lossses (decline in value)		(75,000)
Real estate available for sale at June 30, 2020	$	2,434,654

8. TIME DEPOSITS

Time deposits of $144,622,441 at June 30, 2020, consist of deposits with fixed maturity dates (not exceeding 12 months) received from other governmental institutions, commercial banks, or other financial institutions. Governmental time deposits (Commonwealth and its component units) are exempt by law from the collateral requirement applicable to commercial financial institutions, which are depositors of public funds. Governmental time deposits at June 30, 2020 amounted to approximately $144,622,441.

Time deposits in denominations of $100,000 or more amounted to approximately $144,424,608 at June 30, 2020.

The principal depositors of time deposits of the Bank and representing approximately 85% of the total time deposits balance at June 30, 2020 were the following: (1) Puerto Rico Housing Finance Authority, $67.0 million or 46%, (2) Government Development Bank or GDB, $35.1 million or 24%, (3) Puerto Rico Industrial Development Company, $15 million or 10%, (4) Company for National Parks, $6.9 million or 5%.

Management has recognized that the Bank is unable to pay its financial obligations in full and that it may need some type of debt relief or restructuring. Management of the Bank and FAFAA are currently evaluating all potential alternatives, which may eventually need to be approved or analyzed pursuant to PROMESA.

9. NOTES PAYABLE

The note payable with an outstanding balance of $5,233,505 as of June 30, 2020, is due to the Government Development Bank of Puerto Rico GDB Debt Recovery Authority ("GDB-DRA") (collateralized by a real estate mortgage) bears interest at the rate of 6% per annum, pays interest semiannually in June and December, and principal is paid each June. The note matures on June 1, 2026 and provides for annual payments of $1,064,000 including interest. The Bank has complied with the terms and conditions of this note payable with GDB-DRA and it is management intention to continue making debt service payments for this loan until fulfillment of this obligation.

The note payable with an outstanding balance of $250,000 as of June 30, 2020, is due to the United States Department of Agriculture ("USDA"). Effective on April 22, 2019, the USDA, under Rural Microentrepreneur Assistant Program (the "Program") agreed to advance a principal amount of $1 million, for which twenty-five (25) percent were advanced at the loan closing, and the rest were to be advanced, on a quarterly basis or as requested in writing by the Bank for a thirty-six (36) month period, whichever occur first. The note payable bears interest at a rate of 1% per annum from the date the funds were advanced. Principal and interest were to be paid monthly starting on April 22, 2023. Effective on October 20, 2020, the Board of Directors of the Bank, decided to return the advances received which were paid effective on November 10, 2020.

Note payable activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Additions	Principal payment	Ending Balance	Due Within One Year
Note payable to GDB-DRA	$ 5,941,325	$ —	$ (707,820)	$ 5,233,505	$ 750,289
Note payable to USDA	—	250,000	—	250,000	250,000
	$ 5,941,325	$ 250,000	$ (707,820)	$ 5,483,505	$ 1,000,289

The maturities and interest payments of the note payable for each of the next five fiscal years and thereafter are as follows:

Years ending June 30,	Principal	Interest
2021	$ 1,000,289	$ 310,259
2022	795,306	265,016
2023	843,025	217,060
2024	893,606	166,225
2025	947,223	112,341
2026	1,004,056	55,223
Total	$ 5,483,505	$ 1,126,124

10. OTHER LIABILITIES

The activity for the other noncurrent liabilities during 2020 was as follows:

	Beginning Balance	Provision	Reductions	Ending Balance
Compensated absences	$ 428,785	$ 195,000	$ (3,717)	$ 620,068
Legal Claims	416,055	—	—	416,055
Liability for guaranteed obligations	591,012	—	(591,012)	—
Early retirement program liability	2,922,461	—	(763,383)	2,159,078
Total	$ 4,358,313	$ 195,000	$ (1,358,112)	$ 3,195,201

11. NET POSITION

The Bank's net position invested in capital assets and restricted as of June 30, 2020 are composed of the following:

Net investment in capital assets:		
Capital assets	$	19,819,595
Accumulated depreciation and amortization		(12,043,111)
Related GDB note payable		(5,233,505)
Total	$	2,542,979
Restricted for special loan programs:		
Economic Development Administration	$	4,211,012
Day Care Centers Loan Fund		4,309,270
Total	$	8,520,282

The Bank is a recipient of two grants from the Economic Development Administration Directive System ("EDA"), subscribed by the U.S. Department of Commerce to operate a program under a revolving loan fund directed to assist businesses that suffered physical or economic damage because of Hurricane Hugo, and to advance the economic development of Puerto Rico. The Bank matched EDA's award pursuant to the terms of the grant agreements. The funds received from the collection of principal and interests of loans granted under the program are deposited in the fund to be used to disburse new qualified loans. At June 30, 2020, the outstanding principal of loans granted under the terms of EDA Revolving loan Fund amounted to $716,982, and is included in loans, net in the accompanying statements of net position. The grants are routinely subject to financial and compliance audits in accordance with the provisions of the U.S. Office of Management and Budget Circular A133 or to compliance audits by EDA. The latter has the authority to determine liabilities as well as to limit, suspend, or terminate the federal assistance.

On October 6, 1989, a revolving loan fund grant that was administrated by GDB was transferred to the Bank for administration under the same terms as when the program was established by GDB. At the time, such fund had a total contribution of $1,250,000 ($1,000,000 from EDA and $250,000 from GDB) and a portfolio consisting of 15 loans with an aggregate outstanding principal balance of $504,299. The fund was pooled into the fund previously administered by the Bank when the Bank reimbursed $250,000 to GDB for their original contribution to such fund. As a result, the Bank's contribution to the fund equals 25% of EDA's contribution to the fund.

The Commonwealth approved Law No. 212 of August 29, 2000, as amended, which Creates the Day Care Centers Loan Fund, for the purpose of financing the development of day care centers for children, multiple activity centers for elderly persons, and long-term Care institutions. The Bank is responsible for the administration of the fund. At June 30, 2020, there were no outstanding principal of loans granted under the terms of the Day Care Centers Loan Fund.

Net position restricted for the special loan program as of June 30, 2020 consists of the following:

Cash and due from banks	$	7,628,387
Loans and interest receivable, net of allowance for loan losses of $13,911		703,071
Other assets		234,125
Total restricted assets		8,565,583
Accounts payable and other liabilities		45,301
Total restricted net assets	$	8,520,282

12. INTERAGENCY AGREEMENTS AND RELATED PARTY TRANSACTIONS

Pursuant subrecipient agreement between the Bank and Puerto Rico Department of Housing signed March 22, 2020, the Bank will have a direct participation in the Government of Puerto Rico Disaster Recovery Action Plan for the use of CDBG-DR funds awarded by the U.S Government in response to the hurricanes Irma and María. The Bank as a sub-grantee, is working on the small business financing program, which provides up to $50,000 grants to small businesses that incurred in losses due to Hurricanes Irma and Maria on 2017, aligned to eligible CDBG activities in the economic development and job creation or retention course of action from the Puerto Rico Recovery Plan. The subrecipient agreement budget provides for a designation of $25 million for a period ending March 22, 2022. The Bank will benefit by recovering costs involved in deploying the program. Subsequently effective May 3, 2021, the subrecipient agreement was amended to increase the designation amount to 53.9 million. Refer to Note 21.

The Bank has entered into interagency agreements with various government agencies. Such agreements provide for the deposit of funds in the Bank amounting in the aggregate to approximately $2.7 million to be used for loan programs to benefit socially and economically disadvantaged families and unemployed persons. Loans are granted based on the requirements established by such governmental agencies and the Bank is responsible for the administration of the loan portfolio. During the fiscal year ended June 30, 2020, these fund programs had made no payments to the Bank for loans guaranteed; therefore, these loans are not included in the accompanying statements of net position.

The Bank entered into an interagency agreement with the Economic Development and Commerce Department (a governmental unit of the Commonwealth). Such agreement provides for the transfer of the funds from the previously created Hurricane Georges Guarantee Loan Fund and the Education Loan Program Guarantee Fund to a new loan fund program, The new loan fund program grants direct loans and guarantees to small and medium-sized entrepreneurs in the economic sectors of manufacturing, services, and Commerce, Guarantee claims Under Hurricane Georges Guarantee Loan Fund and Education Loan Program Guarantee Fund may be paid by the new fund. At June 30, 2020, there was no outstanding principal of loans granted under all the Economic Development and Commerce Department loans and loan guarantee programs.

The Bank entered into an interagency agreement with the Tourism Company of Puerto Rico (a component unit of the Commonwealth) to create the Loan and Guarantee Tourism Fund. At June 30, 2020, there was no outstanding principal of loans granted under this fund.

On August 17, 2001, the Commonwealth approved Law No. 117, which creates the Agricultural Guarantee Loan Fund to secure loans granted by the Bank and Commercial banks to farmers and agricultural entities. This fund will be financed through annual appropriations to be provided by the Commonwealth up to $100 million during a four-year period. The Bank has entered into an alliance with the Commonwealth's Department of Agriculture (the Department) for the administration of this fund, which among other things, requires that the Department establish the operational procedures of the Fund, while the Bank will administer the fund. At June 30, 2008, the fund had received $10 million related to the initial appropriation, which was deposited in the Bank. At June 30, 2020, there was no outstanding principal of all loans granted under the Agricultural Guarantee Loan Fund program.

The Bank entered into an interagency agreement with the Department of Agriculture (a governmental unit of the Commonwealth) and the Fund for the Comprehensive Development of the Agriculture, a component unit of the Puerto Rico Land Authority (a component unit of the Commonwealth), to create the Guarantee Loan Program - "La Llave para tu Agro-empresa." At June 30, 2020, there was no outstanding principal of loans granted under the program.

The Bank and the governmental agencies participating in the interagency agreements described above are jointly liable for any litigation that may arise in connection with the administration of such loan programs. At June 30, 2020, there was no pending or threatened litigation under such programs.

13. COMMITMENTS AND CONTINGENCIES

Litigation

The loan sale executed by the Bank during the year ended June 30, 2019, described also in Note 5, has been subjected to numerous litigations originated by impacted borrowers and by the Bank itself, claiming for the most part, among other remedies, the annulment of such sale contracts.

With respect to the loan sales executed in the years prior to fiscal year 2019, several former borrowers of the Bank are suing both the assignee of such loans and the Bank alleging the such sales were null and void and that the buyer of the loans lacked standing to collect. With respect to the current year loan sales, former borrowers and the Bank itself initiated separate litigations against the ultimate buyers, as well as the intermediary advisor contracted by the Bank's management then, alleging that such advisor failed to abide by applicable laws in the sale process, among other claims. The majority of the remedies being requested is seeking to declare the loan sale null and consequently return all consideration received by the Bank, return all the loans sold to the buyers or arrive at an equivalent compensation, among other remedies.

Most of these cases are still outstanding, in discovery proceedings and pending resolution. Although legal counsel believes that no liability is foreseen in the cases where the Bank is a defendant, it is still uncertain whether or not the courts will nullify the September 2018 loan sale agreements or assign liability to the Bank in other litigations presented. An eventual determination of nullity by the courts may cause the accompanying basic financial statements to be restated accordingly.

At June 30, 2020, the Bank is also defendant in various lawsuits arising from the ordinary course of business and not related to the loan sale transactions. Management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, resulting from such lawsuits would not be material in relation to the Bank's financial position and results of operations. Because of the uncertainties inherent in the evaluation of pending or threatened litigation, the Bank's ultimate liability under such claims may be significantly different from management's current estimate.

Other Risks

The Bank is exposed to various risks of loss related to torts, theft, casualty, errors, and Omissions and other losses for which the Bank Carries Commercial insurance. Settled claims have not exceeded insurance coverage in any of the past three fiscal years. Also, the Bank obtains workers' compensation coverage from another component unit of the Commonwealth.

14. SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT AND MARKET RISK

The Bank's business activities are with customers located in Puerto Rico. The Bank's loan transactions are all directed toward small- and medium-size businesses in all sectors of Puerto Rico's economy. The collateral held on the Bank's loans varies, but usually includes chattel and real estate mortgages.

15. RETIREMENT PLANS

Plan Description

The ERS was a trust created by the Legislature under Act No. 447 of May 15, 1951, as amended (Act No. 447), to provide pension and other benefits to retired employees of the Commonwealth, its public corporations (including the Bank) and municipalities. Before the enactment of Act No. 106-2017 on August 23, 2017, ERS administered different benefit structures under Act No. 447, as amended, including a cost-sharing, multiple-employer, defined benefit program, a defined contribution program and a contributory hybrid program. Act 106-2017 approved a substantial pension reform for all of the Commonwealth's retirement systems, including the ERS. This reform modified most of the ERS's activities, eliminated the employer contributions, created the legal framework to implement a PayGo system, and required the ERS to liquidate substantially all of its assets and to transfer the proceeds from such liquidation to the Commonwealth for the payment of pension benefits. Under the PayGo system, the Commonwealth's General Fund makes direct payments to the pensioners and then gets reimbursed for those payments by the participating employer, including the Bank. Future benefits will not be paid by the ERS.

Under Act 106-2017, the ERS's board of trustees was eliminated and a new Retirement Board was created. Act 106-2017 also ordered a suspension of ERS's loan programs and ordered a merger of the administrative structures of the Retirement Systems. At the Retirement Board's discretion, the administration of ERS benefits may be externalized. The Retirement Board is currently responsible for governing both ERS, the Judiciary Retirement System (JRS), and Teachers Retirement Systems (TRS).

Act 106-2017 also created a Defined Contributions Plan, similar to a 401(k) plan, which is managed by a private entity. Act 106-2017 terminated the previously existing pension programs for ERS participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 have been enrolled into this new Defined Contributions Plan program. The accumulated balance on the accounts of the prior program were transferred to the member accounts in the new Defined Contributions Plan, effective as of June 22, 2020. ERS' active members of the defined contributions program retained certain benefits as stated under Act 91 of March 29, 2003.

The benefits provided to the Plan's participants were established by Commonwealth law and may be amended only by the Legislature with the Governor's approval. Certain benefit provisions were different for the three groups of members who entered the ERS before July 1, 2013, as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990 (contributory, defined benefit program).
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (together with Act No. 447 participants, the Defined Benefit Program).
- Members of Act No. 305 of September 24, 1999 (Act No. 305) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (the System 2000 Program).

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, became members of a newly established defined contribution program similar to the System 2000 Program (the Contributory Hybrid Program) as a condition to their employment. In addition, employees who as of June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3 of April 4, 2013 (Act 0302013) froze all future benefits accrued under the define contribution formula used for the System 2000 program participants.

A summary of benefits and eligibility requirements is presented below:

(a) Service Retirement Eligibility Requirements

(1) *Eligibility for Act No. 447 Members-Act* No. 447 members who were eligible to retire as ofJune 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age50 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with8 years of credited service as a Mayor. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

Act No. 447 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire with 10 years of creditedservice upon attainment of the retirement eligibility age shown in the table below.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements of the table above, Act No. 447 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013, are eligible to retire directly from active service upon the attainmentof age 55 with 30 years of credited service.

(2) *Eligibility for Act No. 1 Members* - Act No. 1 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with10 years of credited service, (3) for Public Officers in High Risk Positions, any age with 30 years ofcredited service, and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(3) *Eligibility for System 2000 Members* - System 2000 members in High Risk Positions and attainment of age 60 who were eligible to retire as ofJune 30, continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 Public Officers members could retire upon attainment of age 55.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire uponattainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

(4) *Eligibility for Members Hired after June 30,* 2013-Attainment of age 58 if a Public Officer in a High-Risk Position and attainment of age 67 otherwise.

(b) Compulsory Retirement

All Act No. 447 and Act No. 1 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of credited service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authorityas applicable.

(c) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the DefinedContribution Hybrid Contribution Account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

(1) *Accrued Benefit as of June 30, 2013 for Act No. 447 Members* - The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as ofJune 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30,2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excessof $6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting theCoordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service areconsidered pre-July 1, 2013 contributions; the contributions to the Defined Contribution Hybrid Contribution Account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to $6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(2) *Accrued Benefit as of June 30, 2013 for Act No. 1 Members* - The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act No. 1, Mayors with at least 8 years of credited service as a Mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(d) Special Benefits

(1) Minimum Benefits

- Past Ad hoc Increases
  The legislature, from time to time, increases pensions for certain retirees as described in ActNo. 124 approved on June 8, 1973 and Act No. 23 approved on September 23, 1983.
- Minimum Benefits for Members who Retired before July 1, 2013 (Act No. 156 of 2004, ActNo. 35 of 2007, and Act No. 3 of 2013).
  The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007and $300 per month up to June 30, 2007).
- Coordination Plan Minimum Benefit

  A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, whenadded to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

(2) Cost-of-Living Adjustments (COLA) to Pension Benefits

The Legislature, from time to time, increased pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year since1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35 of 2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month (Act No. 35 of 2007).

(3) Special "Bonus" Benefits

- Christmas Bonus (Act No. 144, as Amended by Act No. 3)
  An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013.
- Medication Bonus (Act No. 155, as Amended by Act No. 3)
  An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage isnot required. The amount is prorated if there are multiple beneficiaries.

Effective July 1, 2017, contributions by members consists of 8.5% of compensation and are being directly deposited by the Treasury Department in the individual member accounts under the new Defined Contributions Plan. Also, as of that date, the ERS participants shall make no individual contributions or payments to the accumulated pension benefits payment accounts or additional contributions to the ERS. Total employee contributions for the different retirement programs during the year ended June 30, 2019, were approximately $341,000.

Total Pension Liability of ERS

The total pension liability as of June 30, 2019 (the measurement date used for financial reporting for fiscal year 2020) was determined by an actuarial valuation of July 1, 2018 that was rolled forward to June 30, 2019 and assuming no gains or losses.

(1) *Actuarial Methods and Assumptions*

The actuarial valuation used the following actuarial methods and assumptions, applied to all periods in the measurement:

Actuarial cost method	Entry age normal
Actuarial assumptions:	
Inflation rate	Not applicable
Salary increases	3.0% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four years extension of Act No. 66-2014 and the current general economy.

The mortality tables used in the June 30, 2019 actuarial valuations were as follows:

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

- Post-retirement Healthy Mortality- Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for 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-2017 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 Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for

Females. These 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.

Actuarial assumptions were revised periodically to more closely reflect actual, as well as anticipated future experience. Due to the change in the census collection date to the beginning of the fiscal year, rather than the end of the fiscal year, demographic gain/loss during the year was limited to the difference between actual and expected benefit payments, which arose from differences in termination and retirement activity and mortality versus expectations.

(2) *Discount Rate*

The ERS is in a deficit position. Therefore, the tax-free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate was 3.50% as of June 30, 2019.

The Bank's proportionate share of total pension liability of ERS

The Bank's proportionate share of the total pension liability of the ERS and the proportion percentage of the aggregate total pension liability of ERS allocated to the Bank as of June 30, 2019 (the measurement date) was $23,338,959 and 0.09392%, respectively.

The Bank's proportion of ERS's total pension liability was based on the ratio of the Bank's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date.

The following table presents the Bank's proportionate share of the total pension liability for ERS calculated using the discount rate of 3.50%, as well as what the Bank's proportionate share of the net pension liability would be if it were calculated using a discount rate of 1% point lower (2.50%) or 1% point higher (4.50%) than the current rate (based on a proportion percentage of 0.09392% of the aggregate total pension liability of the ERS allocated to the Bank as of June 30, 2019 (measurement date)):

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
The Bank's proportionate share of total pension liability	$ 26,540,749	$ 23,338,959	$ 20,738,820

Pension expense and deferred outflows of resources and deferred inflows of resources from pension activities

A pension expense recognized by the Bank for the year ended June 30, 2020 related to the ERS amounted to $1,048,468.

Deferred outflows and deferred inflows of resources from pension activities reported in the Bank's statements of net position as of June 30, 2020 are as follows:

Deferred Outflows of Resources		
Changes in proportion	$	3,995,513
Bank's Pay Go pension benefits payments made subsequent to the measurement date		1,443,355
	$	5,438,868
Deferred Inflows of Resources		
Changes in assumptions	$	791,259
Differences between expected and actual experience in measuring total pension liability		603,375
	$	1,394,634

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2020 will be recognized in the pension expense as follows:

Years ending June 30,		Amount
2021	$	(278,927)
2022		(278,927)
2023		(278,927)
2024		(278,927)
2025		(278,926)
	$	(1,394,634)

The previous amounts do not include employer specific deferred outflows related to changes in proportion; therefore, the deferred outflows of $3,995,513 related to changes in proportion have not been included in the table above.

Deferred outflows of resources related to pension benefit payments made by the Bank subsequent to the measurement date which amounted to $1,443,355 as of June 30, 2020, will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. This amount is also not included in the table above.

Additional information on the ERS is provided in its standalone financial statements for the year ended June 30, 2018, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940 2004.

Early Retirement Program

The Bank extended to its employees a voluntary early retirement program. During the year ended June 30, 2017, a program was approved by the Bank's Board of Directors based on provisions established on Act No. 211, which was enacted December 8, 2015. Act No. 211 provides that eligible employees may retire from employment with the Bank in exchange for an early pension and other benefits. Act No. 211 only applied to employees with twenty years or more participating in ERS created pursuant to Act No. 447 of 1951 and have not reached 61 years of age.

The Act No. 211 provides that the employee will receive an annuity equivalent to 60% of the average compensation, as defined, as of December 31, 2015 and until the participating member attained 61 years old, which is the age the employee will become part of the Retirement System. The Bank is responsible for the payment of the employer contribution to the Social Security and Medicare, based on the 60% of the average compensation as of December 31, 2015. Also, is responsible for the payment of the related employee and employer contributions to the Retirement System based on the 100% of average salary as of December 31, 2015, for amounts which guarantees a 50% minimum compensation to eligible employee of its average compensation as of June 30, 2013. The participating employee will also receive the benefits of health insurance for a period not more than two years, and until the employee reaches 61 years old.

Total cost related to this early termination benefits amounted to approximately $5.5 million. As of June 30, 2020, the total liability related to these termination benefits was approximately $2.2 million. Payments of such voluntary termination plans are expected to be made until June 30, 2027. The Bank's contributions to the early retirement programs during the year ended June 30, 2020 amounted to $763,382. The amounts represented 100% for the required contribution for the corresponding year.

16. OTHER POSTEMPLOYMENT BENEFITS

The Bank participates in the OPEB plan of the Commonwealth for retired participants also known as ERS MIPC. The ERS MIPC is administered on a pay-as-you-go basis.

ERS MIPC is an unfunded cost sharing, multiple employers defined benefit OPEB sponsored by the Commonwealth. This OPEB Plan was created under Act No. 95-1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS MIPC covers substantially all full-time employees of the Commonwealth, certain municipalities and component units of the Commonwealth, such as the Bank, not having their own post-employment benefit plans. For ERS MIPC, Commonwealth and Bank's employees became plan members upon their date of employment. Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age.

The MIPC covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provide that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The MIPC is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursements from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. The legislative appropriations are considered estimates of the payments to be made by the ERS MIPC. There is no contribution requirement from the plan members during active employment. The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

Actuarial methods and assumptions

The total OPEB liability as of June 30, 2020 was determined by an actuarial valuation as of June 30, 2018, which was rolled forward to June 30, 2019 (measurement date) and assumed no liability gains or losses. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period:

Inflation	Not applicable
Municipal bond index	3.50%, as per Bond Buyer General Obligation 20-Bond Municipal Bond Index
Projected salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017 and the current general economy.
Mortality	Pre-retirement Mortality:

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year, and projected forward using MP-2019 on generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2019 from the 2006 base year, and projected forward using MP-2019 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

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

Post-retirement Healthy Mortality:

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

Post-retirement Disabled Mortality:

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

The discount rate for June 30, 2019 and 2018 was 3.50% and 3.87%, respectively. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future, including for example, assumptions about future employment and mortality. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing costs between the employer and plan member at the time of each valuation. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Actuarial assumptions are revised periodically to more closely reflect actual, as well as anticipated future experience. Due to the change in the census collection date to the beginning of the fiscal year, rather than the end of the fiscal year, demographic gain/loss during the year is limited to the difference between actual and expected benefit payments, which arise from differences in termination and retirement activity and mortality versus expectations.

The Bank's Proportion of Total OPEB Liability of ERS MIPC

The Bank's proportionate share of the total OPEB liability of the ERS and the proportion percentage of the aggregate total OPEB liability of the ERS allocated to the Bank as of June 30, 2019 (measurement date) was $430,970 and 0.05178%. respectively.

As the ERS MIPC is a single employer plan and the benefits are not funded by an OPEB trust, GASB Statement No. 75 applies to the OPEB provided to each participating employer's own employees. The Central Government and its component units are considered to be one employer. Other employers also participate in the ERS OPEB Plan. Because certain employers that are component units of the Commonwealth, such as the Bank, prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers. GASB Statement No. 75 requires that such proportionate share should be consistent with the manner in which amounts that are paid as benefits come due are determined. The proportionate share as of each measurement date is based on the ratio of each agency and component unit's actual benefit payments to the total actual benefit payments paid during the year ending on the measurement date.

Sensitivity of total OPEB liability to changes in the discount rate.

The following table presents the Bank's proportionate share of the OPEB liability at June 30, 2020 (measurement date June 30, 2019) for ERS calculated using the discount rate of 3.50%, as well as what the Banks's proportionate share of the OPEB liability would be if it were calculated using a discount rate of 1% point lower (2.50%) or 1% point higher (4.50%) than the current rate:

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
The Bank's proportionate share of total OPEB liability	$ 472,647	$ 430,970	$ 395,497

OPEB Expense, deferred outflows of resources and deferred inflows of resources

OPEB credit adjustment recognized by the Bank for the year ended June 30, 2020 related to ERS MIPC amounted to approximately $29,261.

Because all participants are inactive, there are no deferred outflows or inflows of resources as any changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement year. However, a deferred outflow has been recognized only for the amount of the benefit payments made by the Bank subsequent to the measurement date, which amounted to $35,733 as of June 30, 2020, which will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2021.

Additional information on the OPEB Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employee's Retirement System is provided on its standalone Schedules of Employer Allocations and Schedules of OPEB Amounts by Employer for the years ended June 30, 2019 and 2018, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

17. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business, the Bank is a party to financial instruments with off- balance-sheet risk to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and to purchase investment and mortgage-backed securities, financial guarantees, and interest rate exchange agreements. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the accompanying statements of net position.

These off-balance-sheet risks are managed and monitored in manners similar to those used for on-balance-sheet risks. The Bank's exposures to credit losses for lending commitments are represented by the contractual amount of such transactions. The notional amounts for other off-balance-sheet risks express the dollar volume of the transactions, but the credit risk might be lower.

At June 30, 2020, the off-balance-sheet risks consisted of the following:

Financial instruments whose credit is represented by contractual amounts:	
Commitments to invest in venture capital	$ 7,533,000

Financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing financial guarantees is essentially the same as that involved in extending loan facilities to customers.

Commitments to extend credit are agreements to lend to a customer if there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include property, plant, and equipment, and income-producing commercial properties.

18. OTHER NON-INTEREST INCOME

Other non-interest income for the year ended June 30, 2020 consists of the following:

Rental income (Note 8)	$ 298,097
Liability for guaranteed obligation reversal	591,012
Miscellaneous income	43,034
Total	$ 932,143

19. OTHER NON-INTEREST EXPENSES

Other non-interest expenses for the years ended June 30, 2020 consist of the following:

Insurance	$	368,248
Repairs and maintenance		337,508
Electricity		298,594
Uncollectible loans expenses		173,284
Water		64,844
Telephone		43,330
Dues and Subscriptions		27,495
Office Supplies		18,442
Investment operations		16,541
Postage		7,395
Official meetings		5,984
Vehicles		3,277
Reimbursement of expenses to employees		2,411
Employees trainings and seminars		1,324
Miscellaneous		222,862
Total	$	1,591,539

20. FINANCIAL IMPACT OF COVID-19 PANDEMIC

The coronavirus (COVID-19) pandemic developed rapidly in 2020, with a significant number of cases globally, including Puerto Rico. As response to the pandemic, the Government of Puerto Rico (the Government) adopted various measures to contain the virus affecting the economic activity which in turn had implications in business operations. Specifically, since March 15, 2020, the Governor of Puerto Rico issued various Executive Orders (the Orders) which provides for a partial or total shutdown of certain Governmental operations, as well as business activities.

In May 2020, to reactivate the business activity, the Government through various measures, allowed the re-opening of business activities conditioned to the adoption of stringent health and security protocols. During the lockdown period the Bank continued providing services since the Bank is in the banking industry and was allowed to continue operations. The Bank's revenues, net profits and cash flows were not adversely impacted by the COVID-19 in 2020.

The COVID-19 outbreak has disrupting supply chains and affecting production, sales, and services across a range of industries. The extent of the final impact of COVID-19 on Bank's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Bank's customers, employees, and vendors all of which are uncertain and cannot be predicted.

21. SUBSEQUENT EVENTS

Subsequent events were evaluated through May 2, 2022, to determine if any such events should either be recognized or disclosed in the 2020 basic financial statements. Management believes that the subsequent events disclosed below are intrinsically related to the financial statements of the Bank. These might have been disclosed elsewhere in these financial statements, but management believes they require specific mentioning based on their relevance and materiality as a whole.

State Small Business Credit Initiative

In March 2021 the President of the United States signed the American Rescue Plan Act (ARPA), which provided, among other programs, $10 billion to fund the State Small Business Credit Initiative (SSBCI). The purpose of this program is to provide small business credit support and investment programs. The Bank participated in this program when originally approved under the Small Business Jobs Act of 2010, from which it received $14.6 million in capital for loan participations and venture capital investments. The SSBCI program was re-approved under ARPA with an allocation of over $109 million to Puerto Rico. The program requires full applications to be submitted by February 11, 2022 and the Bank expects drawdowns of one third the total allocation before the end of fiscal year 2022.

Subrecipient Agreement Amendment

Pursuant subrecipient agreement between the Bank and Puerto Rico Department of Housing signed March 22, 2020, the Bank will have a direct participation in the Government of Puerto Rico Disaster Recovery Action Plan for the use of CDBG-DR funds awarded by the U.S Government in response to the hurricanes Irma and María. Subsequently effective May 3, 2021, the subrecipient agreement was amended to increase the designation amount from $25 million to 53.9 million.

Conversion of Credit Cards to Term Loans

In October 2020, the credit cards receivable balance of $965,000 outstanding at June 30, 2020 were converted to term loans.

Implementation of Commonwealth's Plan of Adjustment for the Debt

Prior to March 15, 2022, the Commonwealth and many of its component units suffered a fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, an economic recession that persisted since 2006, prior liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations. As the Commonwealth's tax base shrunk and its revenues were affected by prevailing economic conditions, an increasing portion of the Commonwealth's general fund budget consisted of health care and pension-related costs and debt service requirements through fiscal year 2019, resulting in reduced funding for other essential services. The Commonwealth's historical liquidity constraints, among other factors, adversely affected its credit ratings and its ability to obtain financing at reasonable interests rates.

On June 30, 2016, the United States Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) to address these problems, which included the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), an in-court restructuring process under Title III of PROMESA, and an out-of-court restructuring process under Title

VI of PROMESA. Thereafter, the Commonwealth and other governmental entities including, the Puerto Rico Sales Tax Financing Corporation (COFINA), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the Puerto Rico Highways and Transportation Authority (HTA), the Puerto Rico Electric Power Authority (PREPA), and the Public Building Authority (PBA) initiated proceedings under Title III, and the Government Development Bank for Puerto Rico (GDB), the Puerto Rico Infrastructure Financing Authority (PRIFA), and the Puerto Rico Convention Center District Authority (PRCCDA) initiated proceedings under Title VI, each at the request of the Governor to restructure or adjust their existing debt.

On July 30, 2021, the Oversight Board—as representative to the Commonwealth, ERS, and PBA in their respective Title III cases—filed its *Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.* [ECF No. 17629] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628], which was approved by the United States District Court for the District of Puerto Rico (the Title III Court).

On October 26, 2021, the Governor signed into law Act No. 53 of 2021 (Act 53), known as the "Law to End the Bankruptcy of Puerto Rico," which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of its monthly pension cut provisions in an amended version of that plan.

On November 3, 2021, the Oversight Board filed its *Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.* [ECF No. 19053] (the Eighth Amended Plan), which further revised the Seventh Amended Plan to eliminate its monthly pension cut provisions consistent with Act 53, among other things. The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021 and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1] (as confirmed, the Commonwealth Plan of Adjustment).

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Eighth Amended Plan [ECF No. 19812] (the Findings of Fact) and an order confirming the Eighth Amended Plan [ECF No. 19813] (the Commonwealth Confirmation Order). In both the Commonwealth Confirmation Order and Findings of Fact, the Title III Court found that Act 53 properly authorized the issuance of new bonds and provided adequate means for implementation of the Commonwealth Plan of Adjustment.

Between January 28, 2022 and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. By March 11, 2022, the First Circuit denied all parties' motions for a stay pending appeal, which allowed the Commonwealth Plan of Adjustment to become effective despite the appeals. Oral argument on the merits of the appeals is currently scheduled for April 28, 2022.

On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

As of the Effective Date, the Commonwealth Plan of Adjustment reduced the Commonwealth's total funded debt obligations from approximately $34.3 billion of prepetition debt to only approximately $7.4 billion, representing a total debt reduction of 78%. This debt reduction will also reduce the

Commonwealth's maximum annual debt service (inclusive of COFINA debt service) from approximately $4.2 billion to $1.15 billion, representing a total debt service reduction of 73%. Also as of the Effective Date, all of the legacy Commonwealth general obligation bonds, ERS bonds, and PBA bonds were discharged, and all of the Commonwealth, ERS, and PBA obligations and guarantees related thereto were discharged. In addition, all Commonwealth laws that required the transfer of funds from the Commonwealth to other entities are deemed preempted, and the Commonwealth has no obligation to transfer additional amounts pursuant to those laws. Importantly, effectuating the Commonwealth Plan of Adjustment provides a path for Puerto Rico to access the credit markets and develop balanced annual budgets.

A critical component of the Commonwealth Plan of Adjustment is the post-Effective Date issuance of new general obligation bonds (the New GO Bonds) and contingent value instruments (CVIs) that provides recoveries to GO and PBA bondholders, as well as holders of clawback claims against the Commonwealth and certain of its component units and instrumentalities.

Municipal governments typically issue amortizing debt—i.e., debt with principal maturities due on a regularly scheduled basis over a duration that varies generally between 20 and 40 years. The Commonwealth's New GO Bonds will mature over 25 years and will include both Capital Appreciation Bonds (CABs) and Current Interest Bonds (CIBs). All of the CABs and CIBs will have term bonds with mandatory sinking fund payments. This is intended to optimize cash available to pay debt service since the municipal market has a yield curve, and bonds are not priced to the average life as is the case in other markets, because specific investors may purchase bonds in differing parts of the maturity curve, including individual investors, corporations and mutual funds.

The New GO Bonds were issued with an aggregate original principal amount of approximately $7.4 billion, consisting of approximately (i) $6.6 billion of New GO CIBs, (ii) $442.5 million of New GO CABs with a 5.375% interest rate, and (iii) $288.2 million of New GO CABs with a 5.0% interest rate. They have 11 different maturity dates and will be secured by (a) a statutory first lien, (b) a pledge of the amounts on deposit in the Debt Service Fund, and (c) a pledge of the Commonwealth's full faith, credit and taxing power in accordance with Article VI, Section 2 of the Commonwealth Constitution and applicable Puerto Rico law. The New GO Bonds are dated as of, and will accrue or accrete interest from, July 1, 2021.

The Commonwealth Plan of Adjustment also provides for the issuance of CVIs, an instrument that gives a holder the right to receive payments in the event that certain triggers are met. The Commonwealth Plan of Adjustment establishes revenue-based performance benchmarks and permits the holders of CVIs to receive payments on account of the CVIs only if the benchmarks are exceeded. The CVIs issued under the Commonwealth Plan of Adjustment are based on over-performance collections of the Commonwealth's 5.5% sales and use tax (SUT), with some CVIs also being subject to over-performance collections of rum tax. The CVIs represent a conditional promise by the Commonwealth to pay CVI holders only if the SUT or rum tax baselines are exceeded in a given fiscal year. The outperformance metric will be measured as of the end of each fiscal year (i.e., June 30) beginning in fiscal year 2022 and is based on a SUT and rum tax collections baselines for fiscal years 2022 to 2043 as established in the Board-certified fiscal plan for the Commonwealth, dated May 27, 2020. As with the New GO Bonds, the Commonwealth pledged its full faith, credit and taxing power under the Puerto Rico Constitution and applicable Puerto Rico law for payment of the CVIs. The CVIs will be deemed issued on July 1, 2021.

The CVIs are also divided into two categories: (i) general obligation debt CVIs (GO CVIs), which will be allocated to various holders of GO bondholder claims; and (ii) clawback debt CVIs (the Clawback CVIs), which will be allocated to claims related to HTA, PRCCDA, PRIFA, and MBA bonds. The GO CVIs have a 22-year term. The Clawback CVIs have a 30-year term. The GO CVIs are subject to a lifetime cap of $3.5 billion, with maximum annual payments of $200 million plus any unused amounts from previous years subject to cumulative annual payments not exceeding $400 million. Similarly, the Clawback CVIs are subject to a $5.2 billion aggregate lifetime cap, allocated across the different types of bond claims, with maximum annual payments of (i) $175 million plus any unused amounts from previous years, not to exceed cumulative annual payments of $350 million, for fiscal years 1-22 of the 30-year term; and (ii) $375 million plus any unused amounts from previous years, not to exceed cumulative annual payments of $750 million, for fiscal years 23-30 of the 30-year term. The CVIs also apply an annual payment waterfall in which the first $100 million will be paid to GO CVIs and the next $11,111,111 will be paid to Clawback CVIs.

The Commonwealth Plan of Adjustment classifies claims into 69 classes, with each receiving the following aggregate recoveries:

- Various categories of Commonwealth bond claims (Classes 15-50): 73% recovery consisting of cash, New GO Bonds, and GO CVIs.

- Various categories of PBA bond claims (Classes 1-12, 14): 79% recovery in cash in addition to the New GO Bonds and GO CVIs that PBA bondholders receive on account of their guarantee claims against the Commonwealth.

- Various categories of clawback creditor claims (Classes 59-63): 23% recovery consisting of the Clawback CVIs.

- ERS bond claims (Class 65): 16% recovery consisting of cash and interests in the ERS Private Equity Portfolio (as defined in and established under the Commonwealth Plan of Adjustment).

- Various categories of general unsecured claims (Classes 13, 58, and 66): 21% recovery in cash.

- Other miscellaneous claims (Classes 52-57, 64, 67-69): 26% recovery in cash.

For general unsecured claims, the Commonwealth Plan of Adjustment provides for separate levels of creditor cash recoveries at each debtor, as applicable. All general unsecured claims against the Commonwealth, ERS, and PBA are discharged, except certain Eminent Domain/Inverse Condemnation Claims (as defined in the Commonwealth Plan of Adjustment) that are not discharged until they receive payment in full, subject to an appeal of the Title III Court's ruling on such claims. If that ruling is reversed, then the Eminent Domain/Inverse Condemnation Claims will be dischargeable and impaired. All other general unsecured creditors at the Commonwealth will receive up a pro rata share of the general unsecured creditor reserve fund (the GUC Reserve), plus amounts received by the Avoidance Actions Trust (as defined in and established under the Commonwealth Plan of Adjustment) up to 40% of the value of their claim. The GUC Reserve was funded with $200 million on the Effective Date and will be replenished with an additional aggregate total amount of $375 million funded in incremental amounts annually through December 31, 2025. Depending on the outcome of the appeal regarding Eminent Domain/Inverse Condemnation Claims, the GUC Reserve amount could be reduced by up to $30 million. ERS's general unsecured creditors will receive pro rata cash distributions from a fund established for ERS general unsecured creditors, which consists of $500,000 plus any net recoveries by the Avoidance Actions Trust allocable to ERS. PBA's general unsecured creditors will be entitled to a cash payment equal to 10% of their claim upon allowance.

Importantly, the Commonwealth Plan of Adjustment preserves all accrued pension benefits for active and retired public employees under Class 51. However, participants of the Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) and Teachers Retirement System of Puerto Rico (TRS) will be subject to a benefits freeze and the elimination of any cost of living adjustments previously authorized under the JRS and TRS pension plans.

During the pendency of the PROMESA cases, a variety of legal issues were raised related to creditor claims. As a result of the recoveries provided under the Commonwealth Plan of Adjustment, the COFINA plan of adjustment, and the Title VI qualified modifications for GDB, PRIFA, and PRCCDA, substantially all of those litigation proceedings have been resolved and dismissed. Certain claims, however, were not discharged under the Commonwealth Plan of Adjustment, including: (i) the Eminent Domain/Inverse Condemnation Claims (Class 54); (ii) the Tax Credit Claims (Class 57); (iii) the resolution of certain claims subject to the ACR process (see Commonwealth Plan of Adjustment § 82.7); and (iv) certain Underwriter Actions related to indebtedness issued by the Commonwealth or any of its agencies or instrumentalities against any non-debtors (see Commonwealth Plan of Adjustment § 92.2(f)). Additional litigation proceedings also will be dismissed upon the effective date of the HTA plan of adjustment, which is currently expected to be proposed in April 2022.

For further information, refer to the final versions of the Commonwealth Plan of Adjustment, Findings of Fact, and Confirmation Order, which are available at https://cases.primeclerk.com/puertorico/Home-DocketInfo.

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Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Required Supplementary Information:
Schedule of Proportionate Share of Total Pension Liability

For the Year Ended June 30, 2020

	2020*	2019*	2018*
Proportion of Total Pension Liability	0.09392%	0.08302%	0.07707%
Proportionate Share of Total Pension Liability	$ 23,330,959	$ 20,330,023	$ 21,963,579
Covered - Employee Payroll	—	—	—
Proportionate Share of Total Pension Liability as Percentage of Covered- Employee Payroll	N/A	N/A	N/A

* The amounts presented have a measurement date of the previous year end.
* Currently there are no active participants in this plan. Therefore, the covered payroll disclosure is omitted

Fiscal year 2019 was the first year that the Bank transitioned from GASB Statement No. 68 to GASB Statement No. 73 as a result of the PayGo implementation. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See accompanying independent auditors' report

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Required Supplementary Information:
Schedule of Proportionate Share of Total OPEB Liability

Last Three Years (Amounts were Determined as of June 30, of Each Year)

		2020*	2019*	2018*
Proportion of total OPEB liability		0.51780%	0.05194%	0.05333%
Proportionate Share of total OPEB liablity (asset)	$	430,970	$ 437,442	$ 490,879
Covered - Employee Payroll		—	—	—
Proportionate share of total OPEB liability (asset) as a percentage of its covered-employee payroll		N/A	N/A	N/A

* The amounts presented have a measurement date of the previous year end.

* Currently there are no active participants in this plan. Therefore, the covered payroll disclosure is omitted.

Fiscal year 2017 was the first year that the new requirements of GASB Statement No. 75 were implemented by the Bank. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See accompanying independent auditors' report

Economic Development Bank for Puerto Rico

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

Federal Grantor/Pass-through Grantor/ Program Title	CFDA Number	Pass-through Entity Identifying Number		Expenditures
U.S. Department of Commerce:				
Economic Adjustment Assistance Program	11.307	—	$	2,397,161
U.S. Department of Housing and Urban Development/Puerto Rico Department of Housing:				
Small Business Financing Program	14.218	12596748		481,509
			$	2,878,670

See notes to schedule of expenditures of federal awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal award activity of the Economic Development Bank for Puerto Rico ("the Bank"), a Component Unit of the Commonwealth of Puerto Rico, under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Bank, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is presented using the basis of accounting which is described in Note 1 to the Bank's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. INDIRECT COST RATE

The Bank has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

4. LOAN PROGRAM

The Bank participates in the Economic Adjustment Assistance Program (EDA). The changes in the outstanding balance of loans for the year ended June 30, 2020, follow:

Grant Number	Unpaid Principal Balance of Loans at June 30, 2019	Loans Disbursements	Principal Amount Charged Off	Principal Repayments	Unpaid Principal Balance of Loans at June 30,2020
39-02981	$ 383,759	$ 163,755	$ 11,890	$ 110,149	$ 425,475
39-02222	90,079	84,102	—	110,179	64,002
39-03111	185,302	89,601	26,194	21,204	227,505
Totals	$ 659,140	$ 337,458	$ 38,084	$ 241,532	$ 716,982

Federal awards expended includes the balance of revolving loan fund ("RLF") loans outstanding at the end of the fiscal year, the cash and investment balance in the RLF at the end of the fiscal year and the unpaid principal of loans written off during the fiscal year. Only the federal share of the RLF was used in the determination as follows:

Description	Total Federal Award June 30, 2020
Balance RLF loans outstanding	$ 716,982
Cash Balance (Acc. 103000)	3,320,352
Unpaid principal of loans written off during the year	38,084
Total	4,075,418
Federal share %	58.82%
Total federal expenditures under RLF	$ 2,397,161

5. Financing Program

The Bank participates as subrecipient in the Small Business Financing Program.

	Total Federal Award June 30, 2020
Federal expenditures under this program	$ 485,509

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

To the Board of Directors of
Economic Development Bank for Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Economic Development Bank for Puerto Rico ("the Bank"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Bank's basic financial statements and have issued our report thereon dated May 2, 2022. Our report on the basic financial statements includes an emphasis-of-matter paragraph describing conditions, discussed in Note 2 to the basic financial statements, that raised substantial doubt about the entity's ability to continue as a going concern.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bank's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bank's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned cost as item 2020-01 that we consider to be a material weakness.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bank's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bank's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Landa Umpierre PSC

San Juan, Puerto Rico
May 2, 2022

Certified Public Accountants
License No. 95 expires on December 1, 2023.
Stamp No. E447554 of the Puerto Rico Society of CPAs
was affixed to the record copy of this report.

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

To the Board of Directors of
Economic Development Bank for Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the Economic Development Bank for Puerto Rico ("the Bank") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Bank's major federal programs for the year ended June 30, 2020. The Bank's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

Other matter

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-02. Our opinion on each federal program is not modified with respect with these matters.

The Bank's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Bank's response was not subjected to the auditing procedures applied in the audit of compliance and accordingly, we express no opinion on the response.

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

Report on Internal Control over Compliance

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

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

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

The Bank's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Bank's response was not subjected to the auditing procedures applied in the audit of compliance and accordingly, we express no opinion on the response.

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

Landa Umpierre PSC

San Juan, Puerto Rico
May 2, 2022

Certified Public Accountants
License No. 95 expires on December 1, 2023.
Stamp No. E447555 of the Puerto Rico Society of CPAs
was affixed to the record copy of this report.

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

Section I-Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Significant deficiencies identified?	_____ yes __X__ no
• Material weakness identified?	__X__ yes _____ none reported
Noncompliance that is material to financial statements noted?	_____ yes __X__ no

Federal Awards

Internal control over major programs:	
• Significant deficiencies identified?	_____ yes __X__ no
• Material weakness identified?	_____ yes __X__ none reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a) ?	__X__ yes _____ no

Identification of Major Programs

Federal Grantor/Program Title	CFDA Number	Expenditures
U.S. Department of Commerce Economic Adjustment Assistance Program	11.307	$ 2,397,161
U.S. Department of Housing and Urban Development/Puerto Rico Department of Housing:		
Small Business Financing Program	14.218	$ 481,509

Auditee qualify as low-risk auditee? _____ yes __X__ no

Section II-Financial Statement Findings

Finding Number 2020-01 Monthly Cash Accounts Reconciliations

Criteria

Monthly cash account reconciliation process is the primary internal control procedure relating to the Bank's cash accounts. In order to make the financial reports generated by the accounting system as meaningful as possible, the Bank should reconcile the general ledger accounts for cash, to supporting documentation on a monthly basis. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations. A cash reconciliation that reconciles from the bank balance to the general ledger balance should be prepared to determine that all cash transactions have been recorded properly and to discover bank errors. These reconciliations and adjustments will ensure meaningful and accurate financial statements.

Condition

During fiscal 2020, cash account reconciliations were prepared, however, the accounts were not completely reconciled during the months from March 2020 to end of fiscal years 2020, 2021 and part of 2022. As of June 30, 2020, there were unreconciled amounts in two (2) accounts. Although unreconciled amount may appear not to be material to the overall financial position of the Bank, it may obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent. Unreconciled amounts should be investigated and not be allowed to carry over from month to month.

Cause

The lack of adequate reconciliation of cash accounts resulted in an ineffective and inefficient financial statement closing process and caused additional time and effort to the Bank in the delayed reconciliation process of these accounts.

Effect

There were numerous unidentified reconciled items accumulated during the unreconciled months that needed additional time to subsequently complete the reconciliations, to ensure proper identification and accounting of all reconciling items. This resulted in a material weakness in the internal control related to cash.

Recommendation

Performing timely monthly cash reconciliations reduces the risk that errors will go undetected and/or uncorrected. This could lead to misstatements not being identified and resolved in a timely manner. Therefore, we recommend that the Bank perform monthly bank reconciliations within 15 to 30 days of the month-end and that reconciling items are resolved within 45 to 60 days from the date that they are identified. That will ensure the timely identification and resolution of errors and will ensure that general ledger balances are accurate and properly supported.

Management response

The Bank concurs with this finding. The delay in the preparation of the cash reconciliations was caused by the inability of the finance personnel to work at the Bank during the Covid-19 curfew established by the Governor of Puerto Rico in March 2020 in conjunction with the understaffing of the accounting department. All bank accounts were subsequently reconciled, and management is taking further proactive actions to establish other methods of remote access to ascertain continuity of the performance of these controls in situations when personnel is unable to visit the premises of the Bank. Also, the Bank Is working toward recruiting additional personnel for the accounting department.

Section III-Federal Award Findings and Questioned Costs

Finding Number: 2020-02 Single Audit Package and Data Collection Form Due Dates
CFDA No.

11.307 Economic Adjustment Assistance

Name of Federal Agency

US Department of Commerce

Federal Award Number

Grant No. 39-02981, 39-02222, 39-03111

Program Requirement:

Not applicable

Questioned Costs:

None

Condition:

Data Collection Form and Single Audit reporting package were not submitted within nine months after the end of the audit period.

Criteria:

Uniform Guidance, Part 200.512 (a) established that the audit must be completed, and the data collection form and reporting package must be submitted within the earlier of 30 days after the receipt of the auditor's reports, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Cause:

Information to complete the financial statements audit procedures was not available within the required period.

Effect:

Data collection form and single audit report were not submitted in a timely manner as required by the Uniform Guidance.

Context:

Data collection form and single audit package for 2020 fiscal year.

Recommendation:

Data collection form and single audit package shall be submitted within the required due date.

Views of Responsible Officials and Planned Corrective Action:

Management agrees with the finding. The situation occurred because of a delay in the issuance of the audited financial statements due to the lack of information regarding new Government Accounting Standards Board pronouncements. This lack of information affected the issuance of the audited financial statements of all Puerto Rico government units. Central government officials are working to correct this situation and provide the necessary data on a timely manner so that future audited financial statements are issued with sufficient time to comply with the deadlines for submission of the Data Collection Form and the Single Audit reporting.

Economic Development Bank for Puerto Rico
(A Component Unit of the Commonwealth of Puerto Rico)

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2020

Finding reference number	Finding description	Finding current status
2019-001	The Bank sold loans from the revolving loan portfolio without the prior approval from EDA.	Corrected
2019-002	Data collection form and single audit report were not submitted in a timely manner as required by the Uniform Guidance.	Not corrected

CORRECTIVE ACTION PLAN

The Economic Development Bank for Puerto Rico ("the Bank") submits the following corrective action plan for the year ended June 30, 2020.

The findings from the June 30, 2020 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Finding	Recommendation	Corrective Action	Status	Contact Person
2020-001 Monthly Cash Accounts Reconciliations	Management should perform monthly bank reconciliations within 15 to 30 days of the month-end and resolve reconciling items within 45 to 60 days from the date that they are identified. That will ensure the timely identification and resolution of errors and will ensure that general ledger balances are accurate and properly supported.	Management agrees with the finding. The delay in the preparation of the cash reconciliations was caused by the inability of the finance personnel to work at the Bank during the Covid-19 curfew established by the Governor of Puerto Rico in March 2020 in conjunction with the understaffing of the accounting department. All bank accounts were subsequently reconciled, and management is taking further actions to establish other methods of remote access to ascertain continuity of the performance of these controls in situations when personnel is unable to visit the premises of the Bank. Also, the Bank Is working toward recruiting additional personnel for the accounting department.	Corrected	Samuel Carlo, Comptroller
2020-002 Single Audit Package and Data Collection Form Due Dates	Data collection form and single audit package shall be submitted within the required due date.	Management agrees with the finding. The situation occurred because of a delay in the issuance of the audited financial statements due to the lack of information regarding new Government Accounting Standards Board pronouncements. This lack of information affected the issuance of the audited financial statements of all Puerto Rico government units. Central government officials are working to correct this situation and provide the necessary data on a timely manner so that future audited financial statements are issued with sufficient time to comply with the deadlines for submission of the Data Collection Form and the Single Audit reporting.	In-Process	Samuel Carlo, Comptroller

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