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, 2021

(With Independent Auditors' Report Thereon)

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

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PO Box 363642
San Juan, PR 00936
T 787-765-4644
F 787-763-5504
www.landaumpierre.com

Independent Auditors' Report

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

Report on the Basic Financial Statements

We have audited the accompanying statement of net position (deficit) of the Economic Development Bank for Puerto Rico (the "Bank") as of June 30, 2021 and the statements of revenue, expenses and changes in net position (deficit), and cash flows for the year then ended, and the related notes to the basic 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 the 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, 2021, 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 basic 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 to the basic financial statements. 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 15 to the financial statements, 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 loan sale agreements. 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 basic 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 63 and 64 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 67-69, 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 basic 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 December 28, 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.

Landa Umpierre PSC

San Juan, Puerto Rico
December 28, 2022

Certified Public Accountants
License No. 95 expires on December 1, 2023.
Stamp No. E494433 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, 2021 and 2020, and its changes in financial position for the years 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 units, such as the Economic Development Bank Capital Investment (EDBCI) and the Community Development Block Grant – Disaster Recovery - Small Business Financing (CDBG-DR SBF Program). EDBCI was created to account for and focus separately on the activities and investments in local equity and venture capital funds. CDBG- DR SBF Program fund was created to account for and focus separately on the activities of pass-through subrecipient agreement with the Puerto Rico Department of Housing (PRDH) in relation to the disbursements of grants to eligible small business affected by Hurricanes Irma and Maria in 2017.

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 similar to 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 increased by approximately $11.5 million, mainly as a result of the net operating income for the year.

- Total interest income amounted to approximately $138,000, a decrease of approximately $2.5 million over the prior year's results; while total non-interest income amounted to approximately $52.7 million, an increase of approximately $48.7 million over the prior year non-interest income of approximately $3.9 million.

- The Bank, as subrecipient of CDBG-DR SBF Program funds was awarded approximately $31 million in 2021 to be disbursed as grants to eligible small businesses affected in 2017 by Hurricanes Irma and Maria.

Comparison of 2021 and 2020 Assets, Liabilities, and Net Position

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

Net Position	2021	2020	Increase/(Decrease) Amount	Percentage
Assets:				
Current assets	$ 111,984	$ 115,969	$ (3,985)	-3%
Noncurrent assets	62,728	42,160	20,568	49%
Deferred outflows of resources	8,450	5,475	2,975	54%
Total assets and deferred outflows of resources	183,162	163,604	19,558	12%
Liabilities:				
Current liabilities	152,378	147,039	5,339	4%
Noncurent liabilities	34,483	31,448	3,035	10%
Deferred inflow of resources	1,105	1,395	(290)	-21%
Total liabilities and deferred inflows of resources	187,966	179,882	8,084	4%
Net Position:				
Net investment in capital assets	2,926	2,543	383	15%
Restricted for special loan programs	8,580	8,520	60	1%
Unrestricted	(16,310)	(27,340)	11,030	-40%
Net Position	$ (4,804)	$ (16,277)	$ 11,473	-70%

At June 30, 2021, the Bank's total assets and deferred outflows of resources were $183.2 million ($61.4 million from EDBCI) compared to $163.6 million at June 30, 2020 ($40.6 million from EDBCI). The increase of $19.6 million represents 12% of the 2020 total assets balance. Total loan portfolio increased by 2.9% when compared to balances as of June 30, 2020. Loan disbursements decreased from $2.6 million in 2020 to $945,000 in 2021, while principal collected on loans decreased from $2 million for fiscal year 2020 to $1.1 million for fiscal year 2021. The related allowance for loan losses decreased by $180,000 or 3.4% of the 2020 balance. The net loan portfolio decreased by $432,000.

At June 30, 2021, the Bank's total liabilities and deferred inflows of resources were $188.0 million compared to $179.9 million at June 30, 2020. The increase of $8.1 million represents 4% of the 2020 total liabilities. Total time deposits were $145.4 million as of June 30, 2021. Time deposits consist totally of certificates of deposit of public funds from other governmental institutions. Total time deposits increased by $749,000. As of year-end, the notes payable balance was $4.5 million, which reflects a repayment of approximately $1 million during fiscal year 2021.

The Bank had net position of $(4.8) million at June 30, 2021, an increase of $11.5 million or 70.5% when compared to June 30, 2020. This increase results from the $12.3 million net operating income for the year, net of $867,000 capital transfer out.

Additional information about net position composition is presented in Note 13 to the basic financial statements.

Comparison of 2021 and 2020 Revenue, Expenses, and Changes in Net Position

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

Revenue, Expenses and Changes in Net Position	2021	2020	Increase/(Decrease) Amount	Increase/(Decrease) Percentage
Interest Income:				
Interest income from loans	$ (24)	$ 1,349	$ (1,373)	-102%
Interest income from investment and deposits	162	1,266	(1,104)	-87%
Total interest income	138	2,615	(2,477)	-95%
Total noninterest income	52,746	3,990	48,756	1222%
Total operating revenue	52,884	6,605	46,279	701%
Operating expenses:				
Total interest expense	1,010	1,300	(290)	-22%
Noninterest expenses	39,534	9,327	30,207	324%
Total operating expenses	40,544	10,627	29,917	282%
Income (loss) before capital - transfer out	12,340	(4,022)	16,362	
Capital - transfer out	(867)	—	867	100%
Net changes in net position	$ 11,473	$ (4,022)	$ 15,495	-385%

For the year ended June 30, 2021, the Bank presents a net income or net change in net position of $11.5 million when compared to the net operating loss of $4 million for the year ended June 30, 2020. The increase in operating income resulted from the net effect of the following:

a. Interest Income

Total interest income decreased by approximately 95% or $2.5 million, from $2.6 million in 2020 to $138,000 in 2021. This decrease in interest income was mainly the result of an $8 million loan falling in nonaccrual status and the decrease in interest rates by the end of fiscal year ended June 30, 2020 and throughout fiscal year ended June 30, 2021.

b. Noninterest income

Noninterest income increased by approximately $48.8 million, from a $4 million in fiscal year 2020 to a $52.7 million in 2021. The increase is mainly due to the Grant revenue from the CDBG-DR SBF Program received during fiscal year ended June 30, 2021 of $31 million, and to an increase in net realized and unrealized gains on investments of $17.8 million, from $3.5 million in 2020 to $21.2 million in 2021.

c. Provision for Loan Losses

There was no provision nor release for/of loan losses during the fiscal years ended June 30, 2021 and 2020.

d. Interest Expense

Total interest expense decreased by 22% or approximately $290,000, from $1,300,000 in 2020 to $1,010,000 in 2021. This decrease in interest expense was mainly the result of reduced interest rates.

e. Pension and Other Post-Employment Benefits Credit Adjustments

Compared to 2020, the pension and other postemployment benefits credit adjustments shows an increase of $1.53 million, from approximately $1.07 million in 2020 to $2.6 million in 2021. This is mainly due to the additional pension benefits accumulated during year ended June 30, 2021, and other changes in actuarial assumptions. Refer to Note 17 to the basic financial statements. 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.

f. Noninterest Expenses

Noninterest expenses increased by approximately $30.2 million or 324% during fiscal year 2021. This increase in noninterest expenses resulted from the net effect of the following:

- CDBG-DR SBF Program Grant expenditures during the year ended on June 30, 2021 of $31 million.
- Salaries and employee benefits increased by 15.5% or $976,000, from approximately $6.3 million in 2020 to approximately $7.3 million in 2021. This is mainly due to an increase of $1.53 million in pension expense, from $1.07 million in 2020 to $2.6 million in 2021, net of a decrease in payroll of approximately $700,000, due to a reduced headcount and related payroll expense.
- Professional fees increased by 29.8% or $150,000, from approximately $504,000 in 2020 to approximately $654,000 in 2021.
- Provision for foreclosed assets decreased 73.3% or $55,000, from $75,000 in 2020 to $20,000 in 2021.
- Occupancy and related expenses (including depreciation and amortization) decreased by 2% or $16,000, from approximately $818,600 in 2020 to approximately $802,100 in 2021.
- Advertising expense increased by 25% or $7,500, from approximately $30,000 in 2020 to approximately $37,500 in 2021.
- All other noninterest expenses decreased by 3 % or $34,412, from approximately $1.59 million in 2020 to approximately $1.56 million in 2021.

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 2021 to 2020, mainly due to the negative cashflows from operating activities of $6.8 million. When compared with fiscal year 2021, cash and cash equivalents, decreased 6.4% or $6.7 million, from $104.1 million in 2020 to $97.4 million in 2021.

On the liabilities side, time deposits balances from other governmental and financial institutions increased $749,000 or 0.5%, mainly due to the accrual of interest for 2021. Interest rates during fiscal years 2021 and 2020 remained low.

During the fiscal years 2021 and 2020, $56,000 and $42,000 were recovered in previously charged off loans, respectively.

Discussion of Significant Capital Assets and Long-Term Debt Activity

During fiscal year 2021, approximately $63,000 in capital assets were acquired and approximately $39,700 were retired. As of year-end, the total note payable balance was $4.5 million, which reflected a repayment of approximately $750,000 during fiscal year 2021. Additional information about capital assets and long-term debt activity is presented in Notes 6 and 11 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 the 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. As part of their strategic business plan, the Bank submitted the application for the participation in the State Small Business Credit Initiative (SSBCI). The SSBCI is a federal funds program, re-approved under the American Rescue Plan Act of 2021, that aims to empower small businesses to access capital needed to invest in job-creating opportunities as the country emerges from the pandemic. Under this program, Puerto Rico was assigned over $109 million. The Bank had received funds of approximately $14.6 million under the program from 2011 through 2017 used for loan participations and venture capital investments. As a result, the Bank is positive that they will receive approval by the review committee for their application. If approved, the Bank will begin to receive drawdowns from the total allocation during fiscal year 2023.

Other initiatives contemplated in the strategic business plan is a layered guarantee program. The Bank seeks 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 is having a direct participation in the Government of Puerto Rico Disaster Recovery Action Plan for the use of CDBG-DR SBF Program 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. The program is aligned to eligible CDBG-DR SBF Program 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 at June 30, 2021 are still awaiting a final course of action. Refer to Note 10 to the basic financial statements.

Litigation

The loan sale executed by the Bank during the year ended June 30, 2019, described also in Note 5 to the basic financial statements, 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 that 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 (Deficit)

June 30, 2021

ASSETS	EDB Operating Fund	EDB Capital Investment	CDBG-DR SBF Program	Eliminations	Total
CURRENT ASSETS:					
Cash and due from banks	$ 88,917,998	$ —	$ —	$ —	$ 88,917,998
Interest bearing deposits	8,494,063	13,393,551	—	(13,393,551)	8,494,063
Cash and cash equivalents	97,412,061	13,393,551	—	(13,393,551)	97,412,061
Loans, net of allowance for loan losses of $3,555,493	8,005,288	—	—	—	8,005,288
Account receivable - Department of Housing	—	—	6,488,548	—	6,488,548
Accrued interest receivable	78,159	2,214	—	(2,214)	78,159
Total current assets	105,495,508	13,395,765	6,488,548	(13,395,765)	111,984,056
NONCURRENT ASSETS:					
Investments	455,572	48,348,838	—	—	48,804,410
Loans, net of allowance for loan losses of $1,591,098	4,119,653	—	—	—	4,119,653
Real estate available for sale	2,094,974	—	—	—	2,094,974
Other assets	299,656	—	—	—	299,656
Due from (to) other fund	1,831,688	10,436	(1,842,124)	—	—
Capital assets:					
Land	2,735,000	—	—	—	2,735,000
Building and improvements	12,222,465	—	—	—	12,222,465
Furniture and equipment	4,865,185	—	—	—	4,865,185
Less accumulated depreciation and amortization	(12,413,774)	—	—	—	(12,413,774)
Total capital assets	7,408,876	—	—	—	7,408,876
Total noncurrent assets	16,210,419	48,359,274	(1,842,124)	—	62,727,569
Total assets	$ 121,705,927	$ 61,755,039	$ 4,646,424	$ (13,395,765)	$ 174,711,625
Deferred outflows of resources:					
Pension related	8,415,072	—	—	—	8,415,072
Other post employment benefit related	35,302	—	—	—	35,302
Total deferred outflow of resources	8,450,374	—	—	—	8,450,374
LIABILITIES					
CURRENT LIABILITIES:					
Time deposits	$ 158,765,107	$ —	$ —	$ (13,393,551)	$ 145,371,556
Accrued interest payable	71,137	1	—	(2,214)	68,924
Accounts payable and accrued liabilities	1,496,349	—	—	—	1,496,349
Accounts payable - grants	—	—	4,646,424	—	4,646,424
Note payable	795,306	—	—	—	795,306
Pension liability	1,313,566	—	—	—	1,313,566
Other post employment benefit liability	36,333	—	—	—	36,333
Other liabilities	1,206,598	—	—	—	1,206,598
Total current liabilities	163,684,396	1	4,646,424	(13,395,765)	154,935,056
NONCURRENT LIABILITIES:					
Note payable	3,687,910	—	—	—	3,687,910
Total pension liability	26,524,188	—	—	—	26,524,188
Total other post employment benefit liability	451,963	—	—	—	451,963
Total other liabilities	1,262,766	—	—	—	1,262,766
Total noncurrent liabilities	31,926,827	—	—	—	31,926,827
Total liabilities	195,611,223	1	4,646,424	(13,395,765)	186,861,883
Deferred inflows of resources - pension related	1,104,508	—	—	—	1,104,508
NET POSITION (DEFICIT):					
Invested in capital assets	2,925,660	—	—	—	2,925,660
Restricted for special loan programs	8,580,316	—	—	—	8,580,316
Unrestricted (deficit)	(78,065,406)	61,755,038	—	—	(16,310,368)
Total net position (deficit)	$ (66,559,430)	$ 61,755,038	$ —	$ —	$ (4,804,392)

The accompanying notes are an integral part of the 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 (Deficit)

For the Year Ended June 30, 2021

	EDB Operating Fund	EDB Capital Investment	CDBG-DR SBF Program	Eliminations	Total
OPERATING REVENUE:					
INTEREST INCOME:					
Loans	$ (23,631)	$ —	$ —	$ —	$ (23,631)
Investments	37,389	—	—	—	37,389
Deposits with other banks and commercial paper	123,945	21,426	—	(21,426)	123,945
Total interest income	137,703	21,426	—	(21,426)	137,703
NONINTEREST INCOME					
Net realized and unrealized gain on investments	72,581	20,178,412	—	—	20,250,993
Investment income	—	983,006	—	—	983,006
Grants revenue	—	—	30,672,609	—	30,672,609
Other income	526,891	—	—	(36,072)	490,819
Total noninterest income	599,472	21,161,418	30,672,609	(36,072)	52,397,427
Total operating revenue	737,175	21,182,844	30,672,609	(57,498)	52,535,130
OPERATING EXPENSE:					
INTEREST EXPENSE:					
Time deposits	713,736	—	—	(21,426)	692,310
Promissory note payable	317,549	—	—	—	317,549
Total interest expense	1,031,285	—	—	(21,426)	1,009,859
NONINTEREST EXPENSES:					
Salaries and employee benefits	3,332,474	—	1,487,640	—	4,820,114
Pension and other postemployment benefits	2,463,998	—	—	—	2,463,998
Grants expenditures	—	—	28,830,485	—	28,830,485
Depreciation and amortization	430,559	—	—	—	430,559
Occupancy and related expenses	371,577	—	—	—	371,577
Professional fees	654,361	36,072	—	(36,072)	654,361
Advertising	37,500	—	—	—	37,500
Provision for losses on disposition of real estate held for sale	20,000	—	—	—	20,000
Other	1,202,643	—	354,484	—	1,557,127
Total noninterest expenses	8,513,112	36,072	30,672,609	(36,072)	39,185,721
Total operating expenses	9,544,397	36,072	30,672,609	(57,498)	40,195,580
Income (loss) before capital - transfer out	(8,807,222)	21,146,772	—	—	12,339,550
Capital - transfer out	(866,671)	—	—	—	(866,671)
Net changes in net position (deficit)	(9,673,893)	21,146,772	—	—	11,472,879
TOTAL NET POSITION (DEFICIT), beginning of year	(56,885,537)	40,608,266	—	—	(16,277,271)
TOTAL NET POSITION (DEFICIT), end of year	$ (66,559,430)	$ 61,755,038	$ —	$ —	$ (4,804,392)

The accompanying notes are an integral part of the 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, 2021

	EDB Operating Fund	EDB Capital Investment	CDBG-DR SBF Program	Eliminations	Total
Cash flows from operating activities:					
Cash payments for goods and services	$ (2,536,031)	$ (36,072)	$ (354,484)	$ —	$ (2,926,587)
Cash payments to employees	(6,752,439)	—	(1,487,640)	—	(8,240,079)
Other operating income	(4,467,079)	6,248,325	—	—	1,781,246
Grants revenue	—	—	31,021,370	—	31,021,370
Grants expenditures	—	—	(29,179,246)	—	(29,179,246)
Cash received from principal collections on loans	1,197,762	—	—	—	1,197,762
Cash received from interest collections on loans	486,200	—	—	—	486,200
Cash disbursed for loaned amounts	(945,553)	—	—	—	(945,553)
Net cash (used in) provided by operating activities	(13,017,140)	6,212,253	—	—	(6,804,887)
Cash flows from non-capital financing activities:					
Capital-transfer out	(866,671)	—	—	—	(866,671)
Net increase/(decrease) in time deposits	8,692,317	—	—	(7,943,202)	749,115
Net increase/(decrease) in notes payable	(250,000)	—	—	—	(250,000)
Interest paid on time deposits	(694,304)	—	—	21,701	(672,603)
Net cash provided by (used in) noncapital financing activities	6,881,342	—	—	(7,921,501)	(1,040,159)
Cash flows from capital and related financing activities:					
Acquisition of capital assets	(62,951)	—	—	—	(62,951)
Principal payment on capital debt	(750,289)	—	—	—	(750,289)
Interest paid on capital debt	(314,010)	—	—	—	(314,010)
Net cash used in capital and related financing activities	(1,127,250)	—	—	—	(1,127,250)
Cash flows from investing activities:					
Acquisition of investments	—	(500,000)	—	—	(500,000)
Principal collections and maturities of investments	—	2,209,248	—	—	2,209,248
Net decrease/ (increase) in:					
Interest bearing deposits with other banks	—	(7,943,202)	—	7,943,202	—
Interest collected on investments, notes receivable, interest-bearing deposits with other banks, and commercial paper	143,248	21,701	—	(21,701)	143,248
Proceeds from sales of foreclosed assets	432,128	—	—	—	432,128
Net cash provided by (used in) investing activities	575,376	(6,212,253)	—	7,921,501	2,284,624
Net decrease in cash and cash equivalents	(6,687,672)	—	—	—	(6,687,672)
CASH AND CASH EQUIVALENTS, beginning of year	104,099,733	—	—	—	104,099,733
CASH AND CASH EQUIVALENTS, end of year	$ 97,412,061	$ —	$ —	$ —	$ 97,412,061

(Continued)

The accompanying notes are an integral part of the 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, 2021

	EDB Operating Fund	EDB Capital Investment	CDBG-DR SBF Program	Eliminations	Total
Reconciliation of operating (loss) income to net cash (used in) provided by					
Operating activities:					
Operating (loss) income	$ (8,807,222)	$ 21,146,772	$ —	$ —	$ 12,339,550
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:					
Depreciation and amortization	430,559	—	—	—	430,559
Net realized and unrealized gain on investments	(72,581)	(20,178,412)	—	—	(20,250,993)
Provision for losses on real estate held for sale	20,000	—	—	—	20,000
Net gain on sale of real estate held for sale	(112,448)	—	—	—	(112,448)
Interest income from investments and deposits with other banks	(166,218)	(21,425)	—	21,425	(166,218)
Interest expense	1,031,284	—	—	(21,425)	1,009,859
Changes in operating assets and liabilities:					
Decrease in accrued interest receivable	490,104	—	—	—	490,104
Decrease in other assets	310,080	—	—	—	310,080
Decrease in loans receivable	252,208	—	—	—	252,208
Increase in accounts receivable-Dept of Housing	—	—	(6,488,548)	—	(6,488,548)
(Increase) decrease in due from/to other funds	(7,107,442)	5,265,318	1,842,124	—	—
Increase in deferred outflows of resources	(2,974,643)	—	—	—	(2,974,643)
Increase in accrued interest payable	2,911	—	—	—	2,911
Increase in other current liabilities	146,110	—	—	—	146,110
Increase in pension liability	4,498,795	—	—	—	4,498,795
Increase in accounts payable -grants	—	—	4,646,424	—	4,646,424
Increase in other post employment benefit liability	57,326	—	—	—	57,326
Decrease in other liabilities	(725,837)	—	—	—	(725,837)
Decrease in deferred inflows of resources-pension related	(290,126)	—	—	—	(290,126)
Net cash (used in) provided by operating activities	$ (13,017,140)	$ 6,212,253	$ —	$ —	$ (6,804,887)
Supplemental cash flow information and noncash transactions:					
Increase in fair value of investments	$ (72,581)	$ (20,178,412)	$ —	$ —	$ (20,250,993)
Retirement of fully depreciated capital assets	$ 39,697	$ —	$ —	$ —	$ 39,697
Loans written-off	$ 236,017	$ —	$ —	$ —	$ 236,017

(Concluded)

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 to the basic financial statements, 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 noninterest income, and operating expenses between interest expense, and noninterest 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, the Bank 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 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 the Bank, pursuant to a subrecipient agreement signed on March 2020, started its participation in the Government of Puerto Rico Disaster Recovery Action Plan for the use of Community Development Block Grant-Disaster Recovery-Small Business Financing (CDBG-DR SBF Program) funds covering various years through 2032, awarded by the U.S Government in response to the impact of Hurricanes Irma and María. The Bank as a sub-grantee, is working on the small business financing program, which provides up to $50,000 in grants to small businesses that incurred losses due to Hurricanes Irma and Maria on 2017. The program is aligned to eligible CDBG-DR SBF Program activities in the economic development and job creation or retention course of action from the Puerto Rico Recovery Plan. In July 2020, a separate fund for CDBG-DR SBF Program was created and presented as a blended component unit of the Bank, to present separated its balances and activities during the year 2021. Refer to Note 13 to the basic financial statements.

The accounting policies followed by the Bank are in accordance with GAAP, as applicable to governmental entities as prescribed by the Governmental Accounting Standards Board (GASB). 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 follows:

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 revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates include the allowance for loan losses and foreclosed assets, the valuation of investments, impairment of investments and capital assets, liability on loan guarantees, accruals for legal claims and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Cash and Cash Equivalents and Short-Term Investments – The Bank considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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 statement of net position (deficit).

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 the Assets and Liabilities Committee (ALCO), 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 (deficit). 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 as well as 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.

Fair Value Measurements - GASB Statement No. 72 *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement requires a government to use 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: (i) the market approach, (ii) the cost approach, or (iii) the income approach. This Statement also establishes a hierarchy of inputs to valuation techniques used to measure fair value. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuations are observable. In determining the level of hierarchy in which the estimate is disclosed, the highest level, Level 1, is given to unadjusted quoted prices in active markets and the lowest level, Level 3, to unobservable inputs.

Level 1 – inputs whose values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs whose values are based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model derived valuations in which all significant inputs are observable.

Level 3 – inputs are unobservable inputs for asset or liability and may require a degree of professional judgment.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Commonwealth's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each investment. Investments measured at Net Asset Value (NAV) as a practical expedient for fair value are not subject to level classification. Refer to Note 4 to the basic financial statements 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 loan 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 for loan losses 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 for loan losses 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, which do not improve or extend the life of the respective assets 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 in 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 (deficit) 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 17 to the basic financial statements), changes in proportion are recognized over the average of the expected remaining service lives of all plan members, which is 5 years for 2021. 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 18 to the basic financial statements), 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 (deficit) 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 17 to the basic financial statements), 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 17 to the basic financial statements, 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 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 obtains reimbursement 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 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 17 to the basic financial statements.

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, 2020 actuarial measurement data was used for the pension benefits financial reporting recognition as of and for the fiscal year ended June 30, 2021.

The Bank's pension expense for the year ended June 30, 2021 amounted to approximately $2.5 million, and the Total Pension Liability as of June 30, 2021 amounted to approximately $27.8 million. Disclosures required under Statement No. 73 can be found in Note 17 to the basic financial statements.

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 employs 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 18 to the basic financial statements.

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 $35,000.

ERS elected to use July 1 of each fiscal year as the measurement date for financial information. Based on this election, the June 30, 2020 actuarial measurement data was used for the OPEB financial reporting recognition as of and for the fiscal year ended June 30, 2021.

The Bank's annual OPEB credit for the year ended June 30, 2021 amounted to approximately $57,000 and the OPEB liability as of June 30, 2021 amounted to approximately $488,000. Disclosures required under GASB Statement No. 75 can be found in Note 18 to the basic financial statements.

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 the 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 dates after June 30, 2021:

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.

GASB Statement No. 100 *Accounting changes and error corrections* - The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

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

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

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

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee’s pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

2. GOING CONCERN

The financial statements have been prepared on a going concern basis which assumes the Bank will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. At June 30, 2021, the Bank 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 and other initiatives that may provide liquidity in the operations of the Bank. The following conditions and events described below in connection with other events discussed throughout the basic financial statements are the cause for the doubt about the Bank's ability to continue as a going concern.

The Commonwealth has been facing a fiscal, economic and liquidity crisis, which resulted in significant governmental deficits, an economic recession, liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations that adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates. Moreover, the economic situation of the Commonwealth caused downgrades in credit ratings of the bonds outstanding that in turn caused the private sector to retire deposits from the Bank as well as exercised their put options on notes payable from the Bank. 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.

In 2017, the Bank began executing a strategy of monetizing most of its legacy loan portfolio to third parties looking for additional sources of liquidity. However, such sales, although providing some temporary liquidity relief, contributed to a significant reduction in the loan portfolio of the Bank. As a result, the interest income from loans was significantly reduced jeopardizing the operational feasibility of the Bank. This combination of events 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 the Puerto Rico Oversight Management and Stability Act Law 114-187 (PROMESA) on June 30, 2016. PROMESA seek 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).

Pursuant to PROMESA and the establishment of the Oversight Board, the United States Congress provided a mechanism to allow for the fiscal and economic discipline that ultimately resulted in the orderly restructuring of the Commonwealth obligations. After years of extensive litigation with creditors, on October 26, 2021, the Commonwealth enacted the Law to End the Bankruptcy of Puerto Rico (Law 53) to, among other things, approve the issuance of the New General Obligation Bonds and Contingent

Value Instruments necessary to implement the restructuring transactions contemplated in the Seventh Amended Plan of Adjustment. The Title III Court confirmed that version of the plan on January 18, 2022, and it became effective on March 15, 2022. On that date, the Commonwealth emerged from Title II of PROMESA after consummating its Eight Amended Plan of Adjustment. For more details refer to Note 23 to the basic financial statements.

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. As part of their strategic business plan, the Bank submitted the application for the participation in the State Small Business Credit Initiative (SSBCI). The SSBCI is a federal funds program, re-approved under the American Rescue Plan Act of 2021, that aims to empower small businesses to access capital needed to invest in job-creating opportunities as the country emerges from the pandemic. Under this program, Puerto Rico was assigned over $109 million. The Bank had received funds of approximately $14.6 million under the program from 2011 through 2017 used for loan participations and venture capital investments. As a result, the Bank is positive that they will receive approval by the review committee for their application. If approved, the Bank will begin to receive drawdowns from the total allocation during fiscal year 2023.

Other initiatives contemplated in the strategic business plan is a layered guarantee program. The Bank seeks 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 is having a direct participation in the Government of Puerto Rico Disaster Recovery Action Plan for the use of CDBG-DR SBF Program 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. The program is aligned to eligible CDBG-DR SBF Program 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 at June 30, 2021 are still awaiting a final course of action. Refer to Note 10 to the basic financial statements.

The Bank has evaluated these conditions and determined that the strategic plan and government sponsored initiatives would help the Bank raise income and profitability. The Commonwealth's remediated financial condition and plans to address its liabilities would also aid in the Bank's ability to continue as a going concern. The Bank believes that actions described above provide an opportunity for the Bank to continue as a going concern. There is no guarantee the Bank will be successful in achieving these objectives. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

3. CASH AND CASH EQUIVALENTS

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 accounts opened with commercial banks outside of 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, 2021.

Description	Carrying Amount	Depository Bank Balance	Amount uninsured and uncollateralized
Cash and due from banks	$ 88,917,998	$ 89,186,935	$ 476,644
Interest-bearing deposits with banks	8,494,063	8,494,063	—
Total cash and cash equivalents	$ 97,412,061	$ 97,680,998	$ 476,644

On November 29, 2018, GDB completed a 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 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 10 to the basic financial statements).The resulting newly created public instrumentality at June 30, 2021 is presented as an investment for $455,572 in the accompanying Statement of Net Position (Deficit) (Refer to Note 4 to the basic financial statements).

4. INVESTMENTS

At June 30, 2021, 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 agreements to resell at June 30, 2021. 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, 2021, the Bank had the following investments:

Investment Type		Fair Value	Weighted Average Maturity (Years)
Municipal bond	$	455,572	19.0
External investment pools		48,348,838	N/A
Total fair value	$	48,804,410	

As discussed in Note 3 to the basic financial statements, on November 29, 2018, the DRA 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 DRA exchanged their claims for bonds (at an upfront exchange ratio of 55%) issued by a newly created public instrumentality, the DRA. The municipal bond presented in the table above, represents former GDB's senior note 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. Refer to fair value disclosures in Note 9 to the basic financial statements.

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, 2021, the venture capital balances consist of the following:

External investment pools	$	49,953,838
Equity investments		4,974,000
		54,927,838
Allowance for possible losses in venture capital investments		(6,579,000)
Fair value of venture capital investments	$	48,348,838

The investment strategy of the external investment pools is to seek companies in or outside Puerto Rico that require capital growth or seed capital. The investment recipients must have operations in Puerto Rico. The current investments on external 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 fund 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, 2021, 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, 2021:

Uninsured and registered, with securities held by the counterparty's trust department or agent in the Bank's name	$ 455,572
Uninsured and unregistered, with securities held by the Bank	48,348,838
Total	$ 48,804,410

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, 2021, 99% of the Bank's investments are in venture capital.

Sale of Investments - No sales of investments took place during the year ended June 30, 2021.

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, 2021, the Bank has made no payments under the loan guarantee program.

The reconciliation of loans with the statement of net position (deficit) as of June 30, 2021 is as follows:

Current portion	$ 8,005,288
Noncurrent portion	4,119,653
Total loans, net	$ 12,124,941

Loans outstanding at June 30, 2021 have maturities that range from 2021 to 2032 and interest rates that range from 2% to 11.75%.

Loans distribution among industry sectors as of June 30, 2021 is as follows:

Agricultural	$ 689,988
Commercial	1,827,156
Services	5,757,909
Manufacturing	851,655
Tourism	8,144,824
Total Loans	17,271,532
Allowance for loans losses	(5,146,591)
Total loans, net	$ 12,124,941

The Bank has defined impaired loans as all loans with interest and/or principal past due over 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, 2021, loan delinquency by industry sector was as follows:

	0 – 30 Days	31 – 60 Days	61 – 90 Days	91+ Days	Outstanding Balance
Agricultural	$ 291,793	$ 78,347	$ 19,624	$ 300,224	$ 689,988
Commercial	1,807,357	—	—	19,799	1,827,156
Services	3,861,123	—	29,330	1,867,456	5,757,909
Manufacturing	824,034	—	—	27,621	851,655
Tourism	144,824	—	—	8,000,000	8,144,824
Total	$ 6,929,131	$ 78,347	$ 48,954	$ 10,215,100	$ 17,271,532

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, 2021 and the related interest income for the year then ended:

Recorded investment in impaired loans not requiring an allowance for loan losses	$ 957,163
Recorded investment in impaired loans requiring an allowance for loan losses	12,199,377
Total recorded investment on impaired loans	$ 13,156,540
Related valuation allowance	$ 4,410,567
Average recorded investment on impaired loans	$ 7,260,000
Interest income recognized	$ —

At June 30, 2021, 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 $13,038,604 ($10,244,430 over 89 days and $2,673,167 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 $262,000 during 2021. There were no other loans which the accrual of interest has been discontinued and of which terms have been extended that are not included in non-performing assets.

The balance of nonaccrual loans by industry sector at June 30, 2021, were as follows:

Agricultural	$	300,224
Commercial		19,799
Services		4,546,136
Manufacturing		27,621
Tourism		8,144,824
Total	$	13,038,604

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, 2021 is as follows:

	Principal	Allowance
Agricultural	$ —	$ —
Commercial	92,540	1,758
Services	2,673,167	185,104
Manufacturing	548,241	299,553
Tourism	—	—
Total	$ 3,313,948	$ 486,416

The following table present the troubled debt restructuring modified during the year ended June 30, 2021:

	Premodification	Postmodification
Outstanding recorded investment	$ 548,241	$ 548,241
Number of contracts	2	2
Weighted average rate	9.00%	9.50%
Weighted average term (months)	26	39

Of the total troubled debt restructurings during 2021 no contracts defaulted after their modifications were processed.

The Bank maintains an allowance for loan losses at a level that management considers adequate to provide for probable losses based upon an evaluation of known and inherent risks. The Bank's methodology for estimating the allowance for loan losses includes the consideration of factors such as economic conditions, portfolio risk characteristics, prior loss experience, and results of periodic credit reviews of individual loans. While management uses available information estimating probable loan losses, future additions to the allowance may be required based on factors beyond the Bank's control. As of June 30, 2021, management established an allowance for loan losses based upon the risk characteristics of the loans outstanding and the payment history of loans.

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, 2021:

	Agricultural	Commercial	Services	Manufacturing	Tourism	Total
Allowance for loan losses:						
Beginning balance	$ 154,162	643,581	1,576,325	296,855	2,655,477	$ 5,326,400
Provision for loan losses	125,762	(307,809)	(278,557)	400,700	59,904	—
Loans charged-off as uncollectible	(9,768)	(65,984)	(55,621)	(104,644)	—	(236,017)
Recoveries	14,536	26,087	4,512	11,073	—	56,208
Ending balance	284,692	295,875	1,246,659	603,984	2,715,381	5,146,591
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	211,348	—	950,978	548,241	2,700,000	4,410,567
Collectively evaluated for impairment	73,344	295,875	295,681	55,743	15,381	736,024
Ending allowance	284,692	295,875	1,246,659	603,984	2,715,381	5,146,591
Loans:						
Individually evaluated for impairment	347,414	—	4,260,885	548,241	8,000,000	13,156,540
Collectively evaluated for impairment	342,574	1,827,156	1,497,024	303,414	144,824	4,114,992
Total loans balance	$ 689,988	1,827,156	5,757,909	851,655	8,144,824	$ 17,271,532

Allocations of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

In September 2018, the Bank sold various loans with a carrying value of approximately $32.6 million, net of related allowance of approximately $49 million, which include an impairment adjustment related to this sale of approximately $37.4 million made as of June 30, 2019, to properly reflect the carrying value based on the actual sale in the June 30, 2019 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 15 to the basic financial statements for more details.

6. CAPITAL ASSETS

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

	Beginning Balance	Additions	Reductions / Reclassifications	Ending Balance
Land	$ 2,735,000	—	—	$ 2,735,000
Building and improvements	12,181,195	41,270	—	12,222,465
Furniture and equipment	4,903,400	21,681	(59,896)	4,865,185
Total cost	19,819,595	62,951	(59,896)	19,822,650
Less accumulated depreciation and amortization:				
Building and improvements	(7,434,628)	(327,498)	—	(7,762,126)
Furniture and equipment	(4,608,483)	(103,061)	59,896	(4,651,648)
Total accumulated depreciation and amortization	(12,043,111)	(430,559)	59,896	(12,413,774)
Capital assets, net	$ 7,776,484	$ (367,608)	$ —	$ 7,408,876

The Bank's principal premises are partially rented to various lessees under lease terms expiring at various future dates. Rent revenue amounting to approximately $250,100 was recorded as other income in the accompanying statement of revenue, expenses, and changes in net position for the year ended June 30, 2021.

At June 30, 2021 future minimum rental income are as follows:

2022	$	443,200
2023		163,600
2024		138,800
2025		30,600
	$	776,200

7. REAL ESTATE AVAILABLE FOR SALE

Activity for real estate available for sale during the year ended at June 30, 2021 was as follows:

Beginning balance	$	2,434,654
Additions (new foreclosures)		—
Subtractions:		
Sales		(319,680)
Provision for lossses (decline in value)		(20,000)
Ending balance	$	2,094,974

8. OTHER ASSETS

As of June 30, 2021 other assets are mainly composed of the following:

Rent receivable	$	47,391
Other prepaid expenses		42,751
Accounts receivable from other Commonwealth component units		14,266
Other		195,248
Total other assets	$	299,656

9. FAIR VALUE MEASUREMENTS

The Bank follows the guidance of GASB Statement No. 72 *Fair Value Measurements and Application.* This guidance requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. This guidance establishes fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The assets or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2021:

- *External investment pools:* Valued at net asset value (NAV) of units held. The NAV is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liability. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV.
- *Municipal Bond:* Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote, if available.
- *Impaired loans:* are evaluated and valued at the time the loan is identified as impaired, using the present value of expected cash flows (if used, such amounts are not included in the following tables), the loan's observable market price or the fair value of the collateral (less cost

to sell) if the loans are collateral dependent. Market value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. The value of the real estate collateral is determined based on appraisal by qualified licensed appraisers hired by the Bank.

- *Real estate available for sale:* are adjusted to fair value upon transfer of the loans to real estate available for sale. Subsequently, real estate available for sale are carried at the lower of carrying value or fair value. The estimated fair value for real estate available for sale included in Level 2 is determined by independent market-based appraisals and other available market information. Discounts applied to appraisals have predominantly been, estimated costs to sell or other reductions based on market expectations or an executed sales contract. If fair value of the collateral deteriorates subsequent to initial recognition, the Bank records the real estate available for sale as a nonrecurring Level 2 adjustment. Valuation techniques are consistent with those techniques applied in prior periods.

The preceding methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Bank believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table set forth the Bank’s assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2021:

	June 30, 2021	Level 1	Level 2	Level 3
Assets:				
Municipal bonds	$ 455,572	—	455,572	—
Investments measured at NAV:				
External investment pools:				
Guayacán Private Equity Funds	40,528,100			
Venture Capital Fund	7,142,024			
Others	678,714			
Total investments	$ 48,804,410			

External Investment Pools

June 30, 2021	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Guayacan Private Equity Funds	$ 40,528,100	$ 3,898,078	N/A	N/A
Venture Capital Fund	7,142,024	—	N/A	N/A
Others	678,714	3,125,000	N/A	N/A
	$ 48,348,838	$ 7,023,078		

The following table set forth the Bank's assets and liabilities that were accounted for at fair value on a nonrecurring basis at June 30, 2021:

	June 30, 2021	Level 1	Level 2	Level 3
Assets:				
Impaired loans	$ 13,156,540	—	—	13,156,540
Real estate available for sale	2,094,974	—	2,094,974	—
Total	$ 15,251,514	—	2,094,974	13,156,540

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.

The Bank's accounting policy is to recognize transfer between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers between levels for the year ended June 30, 2021.

10. TIME DEPOSITS

Time deposits of $145,371,556 at June 30, 2021, consist of deposits with fixed maturity dates (not exceeding 12 months) received from other governmental 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.

Time deposits in denominations of $100,000 or more amounted to $145,172,713 at June 30, 2021.

The principal depositors of time deposits of the Bank and representing approximately 88% of the total time deposits balance at June 30, 2021 were the following: (1) Puerto Rico Housing Finance Authority, $67.0 million or 46%, (2) Government Development Bank or GDB, $39.2 million or 27%, (3) Puerto Rico Industrial Development Company, $15 million or 10%, (4) Company for National Parks, $7 million or 5%.

On September 28, 2022, the Bank signed a settlement agreement with GDB to make a one-time payment of $3,100,000 in full and final satisfaction of the outstanding deposit amount of $35,406,146 at June 30, 2021. Refer to Note 23 to the basic financial statements.

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. The Bank is currently not repaying or receiving new deposits. Management of the Bank and Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) are currently evaluating all potential alternatives, which may eventually need to be approved or analyzed pursuant to PROMESA. The financial resolution of the repayment of Bank's deposits and/or the starting of receiving new deposits by the Bank is uncertain at the date of the issuance of the basic financial statements.

11. NOTES PAYABLE

The note payable with an outstanding balance of $4,483,216 as of June 30, 2021, 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 Bank had outstanding at June 30, 2020 a note payable due to the United States Department of Agriculture (USDA) for $250,000 pursuant to the Rural Microentrepreneur Assistant Program. The note payable bear interest at a rate of 1% from the date the funds were advanced. Principal and interest were to be paid monthly starting on April 22, 2023. On October 20, 2020, the Board of Directors of the Bank approved to return the advances received for the program. The funds were returned to the USDA on November 10, 2020.

Note payable activity for the year ended June 30, 2021 was as follows:

	Beginning Balance	Additions	Principal payment	Ending Balance	Due Within One Year
Note payable to GDB-DRA	$ 5,233,505	$ —	$ (750,289)	$ 4,483,216	$ 795,306
Note payable to USDA	250,000	—	(250,000)	—	—
	$ 5,483,505	$ —	$ (1,000,289)	$ 4,483,216	$ 795,306

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
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	$ 4,483,216	$ 815,865

12. OTHER LIABILITIES

The activity for other liabilities during 2021 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Less Due Within One Year	Noncurrent Liabilities
Compensated absences	$ 620,068	$ 95,000	$ (69,243)	$ 645,825	$ 221,482	$ 424,343
Legal Claims	416,055	—	—	416,055	416,055	—
Early retirement program liability	2,159,078	—	(751,594)	1,407,484	569,061	838,423
Total	$ 3,195,201	$ 95,000	$ (820,837)	$ 2,469,364	$ 1,206,598	$ 1,262,766

13. NET POSITION

The Bank's net position invested in capital assets and restricted as of June 30, 2021 are composed of the following:

Net investment in capital assets:		
Capital assets	$	19,822,650
Accumulated depreciation and amortization		(12,413,774)
Related GDB note payable		(4,483,216)
Total	$	2,925,660
Restricted for special loan programs:		
Economic Development Administration	$	4,260,900
Day Care Centers Loan Fund		4,319,416
Total	$	8,580,316

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 for 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, 2021, the outstanding principal of loans granted under the terms of EDA revolving loan fund amounted to $590,078, 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 *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) 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. Federal interest in EDA funds were released effective June 2021. As a result these funds are no longer subject to *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) audits.

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, 2021, there were no outstanding principal of loans granted under the terms of the Day Care Centers Loan Fund.

Net restricted assets for the special loan programs as of June 30, 2021 consists of the following:

Cash and due from banks	$	7,904,457
Loans and interest receivable, net of allowance for loan losses of $1,381		641,781
Other assets		44,018
Total restricted assets		8,590,256
Accounts payable and other liabilities		9,940
Total restricted net assets	$	8,580,316

CDBG-DR SBF Program

Pursuant to the subrecipient agreement between the Bank and the PRDH signed on March 22, 2020, the Bank has a direct participation in the Government of Puerto Rico Disaster Recovery Action Plan for the use of CDBG-DR SBF Program 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. The program is aligned to eligible CDBG-DR SBF Program 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. According to the subrecipient agreement the Bank disburse the grant to eligible participants, and then submits reimbursement application to PRDH. The agreement provides for the billing of direct and indirect cost related to the administration and maintenance of the program. The Program is subject to a general monitoring Plan. In case of the identification of a material noncompliance incident by the participant during the monitoring process, the noncompliant participant could be subject to the reimbursement of the grant. The Bank will benefit by recovering costs involved in deploying the program. During the year ended June 30, 2021, the Bank received $31.0 million in grants for the program and incurred in expenses amounting to $29.1 million for eligible participants of the program. Direct and indirect cost charged to this fund amounted to approximately $1.4 million and $354,000, respectively. The funds are subject to financial and compliance audits in accordance with provisions of the *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) or to compliance audits by U.S. Department of Housing, the latter has the authority to determine liabilities as well as to limit, suspend, or terminate the federal assistance.

Effective May 3, 2021, with Amendment A, the subrecipient agreement was amended to increase the designated amount to $53.9 million. Subsequently with Amendment B, effective November 1, 2021, and Amendment C, effective March 22, 2022, jointly with other amendments, the designated amount was increased to $130 million, including program grants and program delivery cost. The effective date of the agreement was extended up to March 22, 2024. Refer to Note 23 to the basic financial statements.

Capital transfer out

During year ended June 30, 2021, the Bank transferred out capital amounting to $866,671 to the Office of Energy Affairs for unused funds previously received from them for renewable energy rehabilitation projects. As stated by GASB 34 – *Basic Financial Statements*, this transaction is presented as a capital transfer out in the accompanying statement of changes in net assets.

14. INTERAGENCY AGREEMENTS AND RELATED PARTY TRANSACTIONS

Interagency Agreements

The Bank has entered into interagency agreements with various government agencies. Such agreements provide for the deposit of funds in the Bank to be used as collateral for the different loan programs designed to benefit socially and economically disadvantaged families as well as small and medium-sized entrepreneurs in the different economic sectors. Loans are granted based on the requirements established by such governmental agencies and the Bank is responsible for the administration of the loan portfolio.

As previously disclosed, pursuant to the subrecipient agreement between the Bank and the PRDH signed on March 22, 2020, the Bank has a direct participation in the Government of Puerto Rico Disaster Recovery Action Plan for the use of CDBG-DR SBF Program funds awarded by the U.S. Government in response to the Hurricanes Irma and María. The Bank received from the PRDH $31.0 million in grants for the program. As of June 30, 2021, the accounts receivable from PRDH amounted to $6.5 million for reimbursement of grants disbursed to participants and direct and indirect costs incurred. Refer to Note 23 to the basic financial statements.

On June 30, 2021, the Bank entered into an interagency agreement with the Economic Development and Commerce Department (a governmental unit of the Commonwealth). Such agreement provides for a collateral deposit held in the Bank for $983,886 as a guarantee for loans to young entrepreneurs for a maximum of $10,000 per loan under the “Programa Juvempresas”. At June 30, 2021, the Bank held loans amounting to approximately $17,000 under this 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, 2021, there was no pending or threatened litigation under such programs.

Related party transactions

The Bank as a member of the Commonwealth enters into transactions with different government agencies. At June 30, 2021, the Bank held deposits from the following government agencies:

Economic Development and Commerce Department	$	191,128
Energy Affairs Administration		2,980,020
GDB Debt Recovery Authority		39,234,057
Puerto Rico Film Commission		183,778
Puerto Rico Highway Authority		5,923,456
Puerto Rico Housing Finance Authority		67,476,080
Puerto Rico Industrial Development		15,193,384
Puerto Rico National Parks Company		6,979,589
Puerto Rico Ports Authority		543,412
Social Economic Development Administration		652,673
Funds from Economic Development and Commerce Department for "Programa Juvempresas"		983,886
Inactive Programs Guarantees from Other Agencies		5,030,093
	$	145,371,556

At June 30, 2021, the Bank had one investment outstanding for $455,572 from the GDB Debt Recovery Authority. In addition, the Bank has a note payable due to the same agency for $4,483,216 at June 30, 2021.

In 2021, the Bank made a payment of $25,000 to the Office of the Administration and Transformation of Human Resources for annual training of employees of the Bank. In addition, the Bank paid $439,000 to the Office of the Inspector General of Puerto Rico as a special disbursement required by Law to fund the operations of the agency in 2021.

Pursuant to the CDBG-DR SBF subrecipient agreement, the Bank has an accounts receivable at June 30, 2021 from the Department of Housing of $6,488,548 and received funds from the same government agency for $30,672,609.

During the year ended June 30, 2021, the Bank transferred out capital amounting to $866,671 to the Office of Energy Affairs for unused funds previously received from them for renewable energy rehabilitation projects.

15. COMMITMENTS AND CONTINGENCIES

Litigation

The loan sale executed by the Bank during the year ended June 30, 2019, described also in Note 5 to the basic financial statements, 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 sales were null and void and that the buyer of the loans lacked standing to collect. With respect to the loan sales executed in 2019, 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 are 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 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, 2021, 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.

16. SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT AND MARKET RISK

Loans

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. However, at June 30, 2021 the Bank had two loans that represented 58% of the $12,124,941 outstanding in the loan portfolio.

Deposits

Total deposits at June 30, 2021 amounted to $145,371,556 of which 84% represents deposits maintained in the Bank by three government agencies.

17. 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 defined 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 of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members 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 age 50 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with 8 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 credited service 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 attainment of 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 with 10 years of credited service, (3) for Public Officers in High Risk Positions, any age with 30 years of credited 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 of June 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 upon attainment 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 authority as 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 Defined Contribution 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 of June 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 excess of $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 the Coordination 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 are considered 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 Act No. 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, Act No. 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, 2007 and $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, when added 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 since 1992, 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 is not 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, 2021, were approximately $307,000.

Total Pension Liability of ERS

The total pension liability as of June 30, 2020 (the measurement date used for financial reporting for fiscal year 2021) was determined by an actuarial valuation as of July 1, 2019 which was rolled forward to June 30, 2020 (measurement date as of June 30, 2020).

(1) *Actuarial Methods and Assumptions*

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

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, 2020 actuarial valuations were as follows:

- Pre-retirement Mortality- For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

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

- Post-retirement Healthy Mortality- Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-10 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2020 on a generational basis. Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.
- Post-retirement Disabled Mortality- Rates which vary by gender are assumed for disabled retirees based on a study of Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

  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 discount rate for June 30, 2020 was 2.21%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (Go) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds.

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, 2020 (the measurement date) was $27,837,754 and 0.09917%, 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 2.21%, 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 (1.21%) or 1% point higher (3.21%) than the current rate (based on a proportion percentage of 0.09917% of the aggregate total pension liability of the ERS allocated to the Bank as of June 30, 2020 (measurement date):

	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
The Bank's proportionate share of total pension liability	$ 31,931,140	$ 27,837,754	$ 24,535,137

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

The pension expense recognized by the Bank for the year ended June 30, 2021 related to the ERS amounted to $2,463,998.

Deferred outflows and deferred inflows of resources from pension activities reported in the Bank's statements of net position as of June 30, 2021 are as follows:

Deferred Outflows of Resources	
Changes in proportion	$ 7,053,749
Bank's Pay Go pension benefits payments made subsequent to the measurement date	1,361,323
	$ 8,415,072
Deferred Inflows of Resources	
Changes in assumptions	$ 477,855
Differences between expected and actual experience in measuring total pension liability	626,653
	$ 1,104,508

Amounts reported as deferred outflows/inflows of resources from pension activities as of June 30, 2021 will be recognized in the pension expense as follows:

Years ending June 30,	Total deferred outflows of resources	Total deferred inflows of resources	Net amount of deferred outflows and inflows of resources
2021	$ 1,923,765	(276,127)	1,647,638
2022	1,923,765	(276,127)	1,647,638
2023	1,923,764	(276,127)	1,647,637
2024	1,282,455	(276,127)	1,006,328
	$ 7,053,749	(1,104,508)	5,949,241

Deferred outflows of resources related to pension benefit payments made by the Bank subsequent to the measurement date which amounted to $1,361,323 as of June 30, 2021, will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. 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, 2020, 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, 2021, the total liability related to these termination benefits was approximately $1.4 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, 2021 amounted to $751,594. The amounts represented 100% for the required contribution for the corresponding year.

18. 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, 2021 was determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020 (measurement date). The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period:

Inflation	Not applicable
Municipal bond index	2.21%, 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, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.
	Post-retirement Healthy Mortality:
	Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2020 on a generational basis. Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality:

Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

The discount rate for June 30, 2020 was 2.21%. 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, 2020 (measurement date) was $488,296 and 3.05583%. 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, 2021 (measurement date June 30, 2020) for ERS calculated using the discount rate of 2.21%, 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 (1.21%) or 1% point higher (3.21%) than the current rate:

	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
The Bank's proportionate share of total OPEB liability	$ 538,351	$ 488,296	$ 446,017

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

OPEB credit adjustment recognized by the Bank for the year ended June 30, 2021 related to ERS MIPC amounted to approximately $95,389.

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 $35,302 as of June 30, 2021, which will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2022.

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, 2020 and 2019, 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.

19. 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 provide additional funding for outstanding investments in venture capital. 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, 2021, the off-balance-sheet risks consisted of the following:

Financial instruments whose credit is represented by contractual amounts:		
Commitments to invest in venture capital	$	7,023,078
Commitments to extend credit	$	852,507

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. At June 30, 2021, there are no financial guarantees outstanding.

Commitments to provide additional funding for outstanding venture capital are based on the partnership agreement for each respective external investment pool. The current investments on external investment pools are on different investment stages of their life cycle. As a result, required additional funding is obtained from distributions received from other external investment pools.

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 for the total amount of the commitment. Collateral held varies but may include real estate, inventory, equipment and income-producing commercial properties.

At June 30, 2021, the Bank did not have a reserve outstanding for potential losses associated with unfunded loan commitments.

20. OTHER NON-INTEREST INCOME

Other non-interest income for the year ended June 20, 2021 consist of the following:

Rental income (Note 6)	$	250,100
Gain on sale of real estate available for sale		112,448
Miscellaneous income		128,271
Total	$	490,819

21. OTHER NONINTEREST EXPENSES

Other noninterest expenses for the year ended June 30, 2021 consist of the following:

Special disbursements - Office of the Inspector General of PR budget	$	439,000
Insurance		361,110
Repairs and maintenance		283,281
Electricity		252,621
Uncollectible loans expenses		93,026
Water		27,154
Telephone		37,876
Dues and Subscriptions		22,379
Office Supplies		11,083
Investment operations		6,170
Postage		7,095
Vehicles		2,579
Reimbursement of expenses to employees		293
Miscellaneous		13,460
Total	$	1,557,127

22. FINANCIAL IMPACT OF COVID-19 PANDEMIC

As the Covid-19 pandemic and the outbreak of new variants continue to have varying effects on different sectors of the economy, there is a potential for future negative impact. The Bank continues to monitor the impact COVID-19 will have over its operations. Consequently, the Bank cannot predict with certainty the ultimate impact COVID-19 will have on the Bank's future performance until the end of the global pandemic.

23. SUBSEQUENT EVENTS

Subsequent events were evaluated through December 28, 2022, to determine if any event should either be recognized or disclosed in the 2021 basic financial statements. Management believes that subsequent events disclosed below are intrinsically related to the basic financial statements of the Bank. Subsequent events included have been disclosed elsewhere in the basic financial statements, but management believes they require specific mentioning based on their relevance and materiality as a whole.

State Small Business Credit Initiative

In 2022, the Bank submitted the application for the participation in the State Small Business Credit Initiative (SSBCI). The SSBCI is a federal funds program, re-approved under the American Rescue Plan Act of 2021, that aims to empower small businesses to access capital needed to invest in job-creating opportunities as the country emerges from the pandemic. Puerto Rico was assigned over $109 million for this program. If approved, the Bank will begin to receive drawdowns from the total allocation during fiscal year 2023.

Subrecipient Agreement with the Puerto Rico Department of Housing

On March 22, 2020, the Bank signed a subrecipient agreement with the Puerto Rico Department of Housing (PRDH). The PRDH designed a Small Business Financing Program to provide recovery grants to small businesses and microenterprises and recovery or expansion loans for more established small businesses with the funds awarded by the U.S. Government in response to Hurricanes Irma and Maria. The approved plan allocated $225 million to this program for the use of CDBG-DR SBF Program funds to the PRDH. This subrecipient agreement designated $25 million to the Bank to serve as underwriter, servicer, and compliance manager for the program in partnership with the PRDH.

On May 3, 2021, the Bank signed Amendment A to the agreement for the increase of the designated amount from $25 million to $53.9 million. Subsequently, on November 10, 2021 the Bank signed Amendment B with PRDH that increased the amount designated to the Bank to $130 million. The Amendment C to the subrecipient agreement was signed on March 22, 2022 to extend the performance period of the agreement for forty-eight additional months ending on March 22, 2024. On December 1, 2022, the Bank signed Amendment D to the subrecipient agreement to increase the total agreement amount to $180 million.

Government Development Bank Time Deposit Settlement

On July 18, 2022, the Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF”) submitted to the Financial Oversight and Management Board for Puerto Rico an authorization request pursuant to Section 207 of PROMESA related to the Bank’s proposed “Settlement Agreement” with Government Development Bank for Puerto Rico (“GDB”). In this agreement, the Bank will make a one-time payment to GDB in the amount of $3,100,000 in full and final satisfaction of the outstanding EDB deposit amount of $35,406,146 at June 30, 2021. This settlement agreement was approved by Financial Oversight and Management Board for Puerto Rico on September 21, 2022. As a result, the Bank signed on September 28, 2022 the “Settlement Agreement” with GDB and made the required payment of $3,100,00 on the same date.

Implementation of the Commonwealth’s Plan of Adjustment for the Debt

For many years the Commonwealth was facing a fiscal, economic and liquidity crisis, which resulted in significant governmental deficits, an economic recession that has persisted since 2006, liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations that adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates.

Pursuant to PROMESA and the establishment of the Oversight Board, the United States Congress provided a mechanism to allow for the fiscal and economic discipline that ultimately resulted in the orderly restructuring of the Commonwealth obligations.

On October 26, 2021, the Governor of Puerto Rico signed Act No. 53 of 2021, “Puerto Rico Bankruptcy End Act”, which seeks to restructure the Commonwealth’s debt as part of the Oversight Board of PROMESA’s debt restructuring plan. The Act provided approval for the issuance of the New General Obligation Bonds and Contingent Value Instruments necessary to implement the restructuring transactions contemplated in the Seventh Amended Plan of Adjustment.

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

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

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

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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, 2021

	2021*	2020*	2019*	2018*
Proportion of Total Pension Liability	0.09917%	0.09392%	0.08302%	0.07707%
Proportionate Share of Total Pension Liability	$ 27,837,754	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	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)

	2021*	2020*	2019*	2018*
Proportion of total OPEB liability	0.05583%	0.51780%	0.05194%	0.05333%
Proportionate Share of total OPEB liablity (asset)	$ 488,296	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	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.

LANDA UMPIERRE PSC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

PO Box 363642
San Juan, PR 00936
T 787-765-4644
F 787-763-5504
www.landaumpierre.com

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, 2021, and the related notes to the financial statements, which collectively comprise the Bank's basic financial statements and have issued our report thereon dated December 28, 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 the 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 costs as item 2021-01 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 of 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*.

The Bank's Responses to Findings

The Bank's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Bank's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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
December 28, 2022

Certified Public Accountants
License No. 95 expires on December 1, 2023.
Stamp No. E494434 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 Expenditures of Federal Awards

For the Year Ended June 30, 2021

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	—	$	2,495,490
U.S. Department of Housing and Urban Development/Puerto Rico Department of Housing:				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii:				
Small Business Financing Program	14.228	12596748		30,672,609
			$	33,168,099

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, 2021. 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 basic 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 use the 10% de minimis indirect cost rate allowed under the Uniform Guidance for the CDBG-DR SBF Program fund.

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, 2021, are as follow:

Grant Number	Unpaid Principal Balance of Loans at June 30, 2020	Loans Disbursements	Principal Amount Charged Off	Principal Repayments	Unpaid Principal Balance of Loans at June 30,2021
39-02981	$ 425,475	$ 40,168	$ 43,940	$ 76,780	$ 344,923
39-02222	64,002	70,152	—	78,913	55,241
39-03111	227,505	2,368	23,055	16,904	189,914
Totals	$ 716,982	$ 112,688	$ 66,995	$ 172,597	$ 590,078

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, 2021
Balance RLF loans outstanding	$ 590,078
Cash Balance (Acc. 103000)	3,585,514
Unpaid principal of loans written off during the year	66,995
Total	4,242,587
Federal share %	58.82%
Total federal expenditures under RLF	$ 2,495,490

5. FINANCING PROGRAM

The Bank participates as subrecipient in the Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii: Small Business Financing Program.

	Total Federal Award June 30, 2021
Federal expenditures under this program	$ 30,672,609

LANDA UMPIERRE PSC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

PO Box 363642
San Juan, PR 00936
T 787-765-4644
F 787-763-5504
www.landaumpierre.com

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, 2021. 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 statutes, 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, 2021.

Other Matter

The results of our auditing procedures disclosed instances 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 2021-02, 2021-03 and 2021-04. 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
December 28, 2022

Certified Public Accountants
License No. 95 expires on December 1, 2023.
Stamp No. E494435 of the Puerto Rico Society of CPAs
was affixed to the record copy of this report.

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/Pass-through Grantor/ Program Title	CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Commerce:			
Economic Adjustment Assistance Program	11.307	—	$ 2,495,490
U.S. Department of Housing and Urban Development/Puerto Rico Department of Housing:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii:			
Small Business Financing Program	14.228	12596748	30,672,609
			$ 33,168,099

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

Section II-Financial Statement Findings

Finding Number 2021-01 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 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 any possible bank errors. 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. 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, 2021, 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 timely reconciliation of cash accounts resulted in an ineffective and inefficient financial statement closing process. This matter caused additional time and effort to the Bank in the detection and then, the correction of errors, on a timely matter.

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

A cash reconciliation, if effectively carried out, constitutes a partial audit of cash receipts and disbursements for the period of the reconciliation. To be effective, the reconciliations should be prepared on a monthly basis to provide additional control over cash accounts. In this way, potential errors or problems can be identified and corrected promptly, necessary adjustments can be posted on a timely basis, while underlying facts are still relevant, and supporting documents can be made available. Therefore, we recommend that the Bank perform monthly cash 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.

Views of Responsible Officials and Planned Corrective Action:

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 cash 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 NO. 2021-02	**PROGRAM REPORTS**
Federal Program:	CFDA 14.228 Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii: Small Business Financing Program
Grant Award Number:	Grant 12596748
Category:	Internal Control / Compliance
Compliance Requirement:	Reporting

Criteria:

The subrecipient agreement between the Bank and the Puerto Rico Department of Housing (PRDOH), establishes in the Terms and Conditions Section Part IV. Performance, Monitoring and Reporting, sub-section B. Reporting, that the Bank as subrecipient shall submit monthly progress reports to the PRDOH, on the form and with the content to be specified and required by the PRDOH. The monthly progress report should be received by PRDOH no later than the fifth day of the next month.

2 C.F.R. Section 200.328

Condition and Context:

During our review of compliance with the applicable reporting requirements by the Bank, we noted the following:

- Four (4) Monthly Administrative Reports, from a total of twelve (12), were not submitted in a timely manner as required in the terms and conditions of subrecipient agreement.
- In six (6) instances, from a total of twelve (12), the evidence of submission of the Monthly Administrative Reports, were not available to conclude about if the reports were submitted in a timely manner as required in the terms and conditions of subrecipient agreement.
- In nine (9) instances, from a total of twelve (12), the evidence of submission of the Monthly Performance Reports were not available to conclude about if the reports were submitted in a timely manner as required in the terms and conditions of subrecipient agreement.

In addition, we selected the Monthly Administrative Report (the administrative report) that belongs to the month of June 2021 and that must be submitted to PRDOH as required per the subrecipient agreement, and noted that the total grants obligated from the inception of the program (March 2020) through June 30, 2021 per the administrative report amounted to $24,532,821. However, as per the detail provided during our audit procedures, the awarded grants from the inception of the program (March 2020) through June 30, 2021, amounted to $29,179,246.

Cause:

Management failed to monitor compliance with established due dates and reporting accuracy as stated in the terms and conditions of subrecipient agreement.

Effect:

Absence of proper monitoring over reporting requirements, cause the Bank to be in noncompliance with federal awards requirements and the terms and conditions as established in subrecipient agreement.

Recommendation:

Management must establish internal controls that permit the promptly detection of any non-compliance of reporting requirements to avoid noncompliance with federal awards requirements and the terms and conditions as established in subrecipient agreement.

Questioned Costs

None.

Views of Responsible Officials and Planned Corrective Action:

During the monitoring process for the CDBG-DR Small Business Financing Program (CDBGDROS-21-05), the Bank presented to the Monitoring Division the reasons why it had not complied with the filing of the Monthly Administrative Report and Monthly Performance Report. The Bank also shared the emails with the efforts it had made with Horne de P.R. and Department of Housing (PRDOH) to include in Canopy the necessary filters so that the Bank could complete the pending reports.

On October 28, 2021, the Bank worked with an internal procedure as part of the corrective action plan to address Concern No. M1. On March 11, 2022, the Bank received the Clearance Letter of the On-site Monitoring Review to CDBG-DR Small Business Financing Program (CDBGDROS-21-05) that took place from January 22, 2021, to April 9, 2021, which included Concern No. M1: Noncompliance with timeline for reporting requirements to the PRDOH.

The Bank is currently in compliance with the Progress Reports that are filed through the Grant Compliance Portal (GCP), including the one of November 2022 that was approved by PRDOH on December 7, 2022. It is a requirement that the Bank has these approved reports for the filing of staffing billing.
Any questions or information please, contact Mr. Carlos Pescador, Project Manager.

FINDING NO. 2021-03	**ENVIRONMENTAL REVIEWS**
Federal Program:	CFDA 14.228 Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii: Small Business Financing Program
Grant Award Number:	Grant 12596748
Category:	Internal Control / Compliance
Compliance Requirement:	Special Test and Provisions

Criteria:

The subrecipient agreement between the Bank and the Puerto Rico Department of Housing (PRDOH), establishes in the Terms and Conditions Section Part III-Scope of Work, sub-section A. (2), that all services be made in accordance with PRDOH guidelines, HUD guidelines and regulations, and other applicable state and federal laws and regulations.

24 C.F.R. Part 58, National Environmental Policy Act (NEPA) establishes the requirements that subrecipients must follow in carrying out all HUD environmental review requirements.

Condition and Context:

From a total of 653 grants awarded to business applicants during the year ended June 30, 2021, amounting to $28,830,485, we selected a sample of twenty-six (26) awarded grants to verify compliance with environmental review requirements and noted that in nine (9) cases, representing 35% of the sample, the Environmental Review Report was signed by the Awarded Applicant after the Grant Award Agreement's date.

Cause:

Management did not maintain effective monitoring to ensure that required documents be consistently obtained.

Effect:

Absence of proper monitoring over required documentation cause the Bank to be in noncompliance with federal awards requirements and the terms and conditions as established in the subrecipient agreement.

Recommendation:

Management must establish internal controls that permit the promptly detection of any non-compliance of documentation requirements to avoid falling in noncompliance with federal awards requirements and the terms and conditions as established in subrecipient agreement.

Questioned Costs

None.

Views of Responsible Officials and Planned Corrective Action:

- The Environmental Review (ER) is a document required by the federal government. However, the SRA signed on March 22, 2020, Exhibit A - Scope of Work, did not designate a role in terms of the ER to the Bank. It was with the signing of amendment A to the SRA on May 3, 2021, assigned a limited responsibility to the EDB for the ER. As indicated in the section below, the EDB only needs to obtain the required information.

  4.6 Environmental Review

  4.6.1 Obtain all information required for Grant Manager and PRDOH to be able to conduct an appropriate environmental review. Such information may be location coordinates, cadaster number, and or mapping location.

- The ER is prepared, signed, and uploaded in Canopy by the Environmental Review Team (ER T) contracted by the Puerto Rico Department of Housing (PRDOH). In addition, they are responsible for completing the information in the ER and Award Coordination TAB. It is the ERT who is designated to prepare the ER.
- In the audit CDBGDR-IA-SBF-21-09-03 of December 16, 2021, carried out by the internal audit office of the DV, the EDB worked in coordination with them to correct the cases identified that were missing the ER. The BDE provided the ERT with the necessary information for the CEST or CENST to be completed, and correctly classified the ERs that were associated in Canopy under an incorrect classification. Likewise, the EDB worked on an action plan with the PRDOH and Horne of Puerto Rico to identify and work on any closed case without the ER.
- Based on the instructions sent by the DV on August 17, 2021, the BDE ensures that, prior to closing a case the ER is uploaded and the fields of Environmental Status and the Environmental Review Updated are completed. Canopy must indicate the Environmental Review Completed and the date of the preparation of the report.
- The DV and Horne of Puerto Rico, established in Canopy the necessary controls to prevent a case from being closed without having the ER, therefore, until the fields of Environmental Status and Updated are not completed the status of the case cannot change from Pending Award Coordination to Pending Award Signing.
- It should be noted that in the sample of 26 cases in the audit process of the Single Audit 2021, in the nine (9) cases indicated, the ER was prepared after the signing of the grant agreement, but in none of the cases were eligibility problems detected regarding this requirement.

FINDING NO. 2021-04 SINGLE AUDIT REPORT

Federal programs:	CFDA 11.307 Economic Adjustment Assistance Program CFDA 14.228 Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii: Small Business Financing Program
Grant Award Numbers:	Grant No. 39-02981, 39-02222, 39-03111 Grant 12596748
Category:	Internal Control / Compliance
Compliance requirement:	Special Test and Provisions

Criteria:

The subrecipient agreement between the Bank and the Puerto Rico Department of Housing (PRDOH), establishes in the Terms and Conditions Part X. Compliance with Federal Statutes, Regulations and the Terms and Conditions of the Federal Award and Additional PRDOH Requirements, P. Single Audit, that the Subrecipient must be audited as required by 2 C.F.R. part 200, subpart F when it is expected that the Subrecipient's Federal awards expended during the respectively fiscal year equaled or exceeded the threshold set forth in section 200.501 Audit Requirements.

2 C.F.R 200.501 (a) establishes that non-Federal entity that expends $750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for the year in accordance with the provisions of this part.

2 C.F.R 200.513 (a) (1) establishes that the audit must be completed, and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section must be submitted within the earlier 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. If the day fall on a Saturday, Sunday, or Federal holiday, the reporting package due the next business day.

Condition and Context:

The Single Audit Report of the Bank for the fiscal year ended June 30, 2021, was not submitted on March 31, 2022 as required by the Uniform Guidance. The Single Audit related to such period was completed after the 9 months deadline.

Cause:

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

Effect:

Noncompliance with the above-mentioned requirements could lead to administrative actions by the grantor.

Recommendation:

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

Questioned Costs

None.

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, 2021

Finding reference number	Finding description	Finding current status
2020-001	The Bank cash accounts reconciliations were not completely reconciled during the months from March 2020 to end of fiscal years 2020, 2021 and part of 2022	Not corrected
2020-002	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, 2021.

The findings from the June 30, 2021 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
2021-01 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 has recruited additional personnel for the accounting department.	Corrected	Samuel Carlo, Comptroller
2021-02 Program Reports	Management must establish internal controls that permit the promptly detection of any non-compliance of reporting requirements to avoid noncompliance with federal awards requirements and the terms and conditions as established in subrecipient agreement.	Management agrees with the finding. Management has developed internal procedures as part of the corrective action plan to address this finding. On March 11, 2022, the Bank received the Clearance Letter of the On-site Monitoring Review to CDBG-DR Small Business Financing Program (CDBGDROS-21-05) that took place from January 22, 2021, to April 9, 2021, which included Concern No. M1: Noncompliance with timeline for reporting requirements to the PRDOH. The Bank is currently in compliance with the Progress Reports that are filed through the Grant Compliance Portal (GCP)	Corrected	Samuel Carlo, Comptroller

2021-03 Environmental Reviews	Management must establish internal controls that permit the promptly detection of any non-compliance of documentation requirements to avoid falling in noncompliance with federal awards requirements and the terms and conditions as established in subrecipient agreement.	Management agrees with the finding. The Environmental Review (ER) is a document required by the federal government. However, the SRA signed on March 22, 2020, Exhibit A - Scope of Work, did not designate a role in terms of the ER to the Bank. It was with the signing of amendment A to the SRA on May 3, 2021, assigned a limited responsibility to the EDB for the ER. The Bank implemented internal controls to ensure that, prior to closing a case the ER is uploaded and the fields of Environmental Status and the Environmental Review Updated are completed. Also, the necessary controls were established to prevent a case from being closed without having the ER, therefore, until the fields of Environmental Status and Updated are not completed the status of the case cannot change from Pending Award Coordination to Pending Award Signing.	Corrected	Samuel Carlo, Comptroller
2021-04 Single Audit Report	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