LOCAL REDEVELOPMENT AUTHORITY
OF THE LANDS AND FACILITIES OF
NAVAL STATION ROOSEVELT ROADS
(A Component Unit of the Commonwealth of Puerto Rico)

FINANCIAL STATEMENTS AND
AUDITOR'S REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

LOCAL REDEVELOPMENT AUTHORITY OF THE LANDS AND FACILITIES OF NAVAL STATION ROOSEVELT ROADS
(A Component Unit of the Commonwealth of Puerto Rico)

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors and Management of the
Local Redevelopment Authority of the Lands and
Facilities of Naval Station Roosevelt Roads
San Juan, Puerto Rico**

Report on the Financial Statements

We have audited the accompanying statements of the **Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads** (the Authority), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2019, and the respective changes in financial position and where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Substantial Doubt about the Authority's Ability to Continue as a Going Concern

The accompanying basic financial statements of the Authority have been prepared assuming that the Authority will continue as a going concern. As discussed in **Note 12** to the basic financial statements, the Authority's recurring deficits and negative financial position raises substantial doubt about the Authority' ability to continue as a going concern. Management's plans in regard to these matters are also described in **Note 12**. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages **4-9** be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of expenditures of federal awards on page 35 is presented for purposes of additional analysis 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*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2020, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Authority's internal control over financial reporting and compliance.

September 28, 2020

Crowe PR PSC

Stamp number E419060 was
affixed to the original of this report

LOCAL REDEVELOPMENT AUTHORITY OF THE LANDS AND FACILITIES OF NAVAL STATION ROOSEVELT ROADS
(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Our discussion and analysis of the **Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads'** (the Authority) financial performance provides a narrative overview of the Authority's financial activities for the fiscal year ended June 30, 2019 and is intended to serve as an introduction to the basic financial statements. This Management Discussion and Analysis (the MD&A) is designed to assist the reader in focusing on significant financial matters and provide an overview of the Authority's financial activities. We encourage readers to review this information together with the Authority's financial statements that follow.

FINANCIAL HIGHLIGHTS

- The Authority's net position as of June 30, 2019, is $411,398, an increase of $449,987 from a net deficit of $(38,589) as of June 30, 2018.
- Rental income and fees increased by $315,881 or 43% when compared to the prior year.
- Utilities assessments increased by $127,182 or 97% when compared to the prior year.
- Operating expenses increased by $712,944 or 32% when compared to the prior year.
- Management believes that there is substantial doubt as to the ability of the Authority to continue as a going concern in accordance with Governmental Accounting Standards Board (GASB) Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

MAJOR FINANCIAL ELEMENTS

Operating Revenues – Operating revenues are recorded from the following sources: (1) facility rent and fees; and (2) utilities assessment fees that stand for charges for water and sewer services.

Non-operating Revenues – Revenues are recorded from the following sources: (1) legislative appropriations from the Commonwealth of Puerto Rico (the Commonwealth); (2) federal grants from the US Department of Defense (DoD) through the Office of Economic Adjustment (OEA), which are provided for operating expenses, and from the Federal Emergency Management Agency (FEMA); (3) revenue from the elimination of long-term debt with a public corporation; and (4) utility credits received by the Puerto Rico Electric Power Authority (PREPA) mostly due to the damages caused by the hit of Hurricane Maria and Irma during the fiscal year ended June 30, 2018.

Expenses – Expenses consist principally of payroll, professional services, security, water and sewer operation system, maintenance, insurance, materials, supplies, bad debt, and depreciation expense.

OVERVIEW OF THE FINANCIAL STATEMENTS FOR BUSINESS-TYPE ACTIVITIES

Proprietary Fund Financial Statements

Under GASB Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis - For State and Local Governments* (GASB Statement No. 34), the Authority presents its basic financial statements as proprietary fund financial statements.

The financial statements report information about the Authority using the full accrual accounting method as utilized by similar business activities in the private sector. The financial statements include the statement of net position (deficit), statement of revenues, expenses, and changes in net position (deficit), statement of cash flows, and notes to the financial statements.

- ***Statement of Net Position (Deficit)*** – This presents the financial position of the Authority on a full accrual basis of accounting with the capital assets recorded at historical cost as acquired from the US Department of the Navy (the Navy). The statement of net position (deficit) presents information on all of the Authority's assets and liabilities, with the difference reported as net position (deficit). Over time, increases and decreases in net position are one indicator of whether the financial position of the Authority is improving or deteriorating. A positive change in net position indicates the Authority's financial position is improving, while a negative change may indicate that the financial position is deteriorating.

  The statement of net position (deficit) provides information about the nature and amount of resources and obligations at year-end.

- ***Statement of Revenues, Expenses, and Changes in Net Position (Deficit)*** – The statement of revenues, expenses and changes in net position (deficit) presents the results of the Authority's activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

- ***Statement of Cash Flows*** – presents changes in cash, resulting from operational, investing, and capital and related financing activities. This statement presents cash receipts and cash disbursements information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

- ***Notes to the Financial Statements*** – The notes to the financial statements provide required disclosures and other information that are essential for a full understanding of the numeric data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

The financial statements were prepared by the Director of Finance and Administration from the detailed books and records of the Authority, which were audited by independent auditors.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Statement of Net Position (Deficit)

The table below is a condensed summary of assets, liabilities, and net position (deficit) as of June 30, 2019 and 2018:

	2019	2018	Change	%
ASSETS				
Current and other assets	$ 2,874,187	$ 2,138,857	$ 735,330	34 %
Capital assets, net	16,423,429	16,401,648	21,781	- %
Total assets	$ 19,297,616	$ 18,540,505	$ 757,111	4 %
LIABILITIES				
Current liabilities	$ 1,525,665	$ 1,388,378	$ 137,287	10 %
Long-term liabilities	17,360,553	17,190,716	169,837	1 %
Total liabilities	18,886,218	18,579,094	307,124	2 %
Total net position (deficit)	$ 411,398	$(38,589)	$ 449,987	1,166 %

Current assets – The Authority's current assets increased by $735,330 or 34%, due to an increase in the accounts receivable from rental activities. Accounts receivable, net of allowance for doubtful accounts increased by $590,469 or 208% mostly due to a rent agreement of $508,000 from another governmental entity.

Net position – The Authority's net position increased by $449,987 or 1,166%, mainly due to a significant increase in current assets.

Capital assets – The Authority acquired its land and property for future development from the Navy under an Economic Development Conveyance (EDC) Memorandum Agreement. However, original cost information for the former Navy facilities was not available precluding the Authority from distributing its cost to the different components. During the year 2016, the Authority obtained independent appraisals for all the land and properties for future development. As a result, the Authority learned the estimated market value of the acquired property approximates over $100 million, which is higher than the cost of acquisition pursuant to the EDC.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Statement of Net Position (Deficit) (Continued)

However, based on the independent appraisal values and the use of its best professional judgment on the estimated value on a per square foot basis, the Authority was able to distribute the acquisition cost to the different components of the acquired property, principally land, buildings, piers, and infrastructure. As a result, the Authority allocated approximately $4.4 million to depreciable assets like buildings, piers, and infrastructure as of June 30, 2016. The Authority recognized depreciation on depreciable buildings, piers and infrastructure that are currently being used as operating capital assets in the total amount of $148,056 and $149,560 for 2019 and 2018, respectively.

Remaining land and property for future development has been evaluated for impairment as of June 30, 2019 and have determined that no loss has been incurred as of this date.

Long-term debts – The Authority's obligation to commence payment of the initial consideration and installment payments due for the EDC to the Navy is conditioned upon the Navy's completion of certain environmental remediation and conveyance of the parcels referred to as SWMU 3 (Solid Waste Management Unit) and SWMU 70. At the time of issuance of these financial statements, the Navy has not conveyed to the Authority the parcels, to give rise to the commencement of the principal payments on the long-term debt related to this agreement. The Navy is currently performing environmental remediation on the parcels.

Statements of Revenues, Expenses and Changes in Net Position

The table below is a condensed summary of the revenues, expenses and changes in net position for the years ended June 30, 2019 and 2018:

Functions/Programs	2019	2018	Change	%
Operating revenues				
Rental income, utilities assessments, and others	$ 1,334,249	$ 874,112	$ 460,137	53 %
Operating expenses	2,922,440	2,209,496	712,944	32 %
Operating loss	(1,588,191)	(1,335,384)	(252,807)	19 %
Non-operating revenues (expenses)				
Legislative appropriations, federal grants, and others	2,466,802	1,878,131	588,671	31 %
Accrual for the characterization and disposition of equipment and materials	(195,000)	(100,000)	(95,000)	95 %
Accrual for the remediation of damage property incurred by tenants	(173,000)	(130,000)	(43,000)	33 %
	2,098,802	1,648,131	450,671	27 %
Change in net position	$ 510,611	$ 312,747	$ 197,864	63 %

OVERVIEW OF THE FINANCIAL STATEMENTS FOR BUSINESS-TYPE ACTIVITIES (CONTINUED)

Operating revenues - The Authority's rental, utilities assessments, and other revenues increased by $460,137 or 53%, mainly as a result of an increase in rental income, fees and utilities assessment fees due to new lessees.

Operating expenses - The Authority's operating expenses increased by $712,944, mainly as a result of increases in salaries, fringe benefits, salaries related costs, and professional services.

- Salaries, fringe benefits, and salaries related costs increased by $388,221 or 87% as a result of covering three crucial positions within the organization, the Finance and Administrative Director, In-house Legal Counsel, and promotion of the Project Manager to Development Director.

- Professional services increased by $149,753 or 29%, mostly due to legal and engineering services received during the year. In 2019, one of the riskiest tenants filed for bankruptcy, which brought the Authority to contract a specialized legal counsel. For engineering services, the Authority uses the services of environmental consultants for the reconstruction of the lands and facilities damaged by Hurricanes María and Irma in 2017.

Non-operating revenues - The Authority's non-operating revenues increased by $588,671 or 31%, mainly due to the elimination of the long-term debt of $652,441 and $44,932 in utility credits by the PREPA.

Non-operating expenses - The Authority's non-operating expenses increased by $138,000, mainly to increases to the provision for losses due to the Authority's estimated costs of $303,000 to address the unauthorized land alteration and the reparation of two monitoring wells within the two SWMU 70 and 74, by two different tenants. See **Note 10**, *Commitments and Contingent Liabilities*. It also includes $295,000 for the characterization and disposition of equipment and materials from a leased facility.

Going Concern, Liquidity Risk and Fiscal Plan

Going Concern and Liquidity Risk

The Authority is still in the early stages of fully developing the property assets. Only a small portion of the property has been leased. Accordingly, to offset recurring losses from operations, the Authority has relied significantly on legislative appropriations and federal awards and will continue to rely on those appropriations and awards in the foreseeable future. See **Note 12**, *Substantial Doubt About the Authority's Ability to Continue as a Going Concern*. Therefore, these matters raise substantial doubt about the Authority's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. However, the Authority is actively involved in a remediation plan to mitigate these factors, to the extent of its financial capabilities.

OVERVIEW OF THE FINANCIAL STATEMENTS FOR BUSINESS-TYPE ACTIVITIES (CONTINUED)

Fiscal Plan 2020

Pursuant to the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) and the requirements imposed by the Puerto Rico Management and Budget Office, the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), on May 27, 2020, certified the 2020 Fiscal Plan for the Commonwealth. The Oversight Board's Fiscal Plan commits to fiscal responsibility and implements specific revenue enhancements and targeted expenditure reductions to return Puerto Rico to fiscal stability and economic growth. For additional information regarding the Board Fiscal Plan, please refer to **Note 11**.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the resources it receives. If you have any questions about this report or need additional financial information, contact the Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads, Finance Department, 355 F.D. Roosevelt Ave. Office 106, Hato Rey, PR 00918.

LOCAL REDEVELOPMENT AUTHORITY OF THE LANDS AND FACILITIES OF NAVAL STATION ROOSEVELT ROADS
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION

JUNE 30, 2019

ASSETS	
CURRENT ASSETS	
Cash	$ 1,437,289
Cash restricted for salaries and contracts	201,333
Federal grant receivable, net	164,422
Tenants and other receivables, net of allowance for doubtful accounts of $462,244	895,240
Prepaid expenses	125,383
Total current assets	2,823,667
CASH RESTRICTED FOR DEBT SERVICE RESERVE	50,520
CAPITAL ASSETS, net	16,423,429
Total assets	19,297,616
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	338,896
Due to federal agency	52,052
Current portion of long-term debt	20,000
Lease security deposits	355,909
Compensated absences	160,808
Accrual for the characterization and disposition of equipment and materials	295,000
Accrual for remediation of property damage incurred by tenants	303,000
Total current liabilities	1,525,665
LONG-TERM DEBT, net	17,360,553
Total liabilities	18,886,218
NET POSITION	
Net investment in capital assets	83,429
Restricted for salaries and professional services	201,333
Restricted for debt service reserve	50,520
Unrestricted deficit	76,116
Total net position	$ 411,398

LOCAL REDEVELOPMENT AUTHORITY OF THE LANDS AND FACILITIES OF NAVAL STATION ROOSEVELT ROADS
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

OPERATING REVENUES	
Rental income and fees	$ 1,058,282
Utilities assessments	258,893
Other	17,074
Total operating revenues	1,334,249
OPERATING EXPENSES	
Salaries, taxes and benefits	847,825
Security and related	288,831
Professional services	661,449
Insurance	195,664
Water plant system	180,053
Depreciation expenses	148,056
Repairs and maintenance	203,924
Property services	59,890
Occupancy	35,482
Bad debt	261,669
Other expenses	39,597
Total operating expenses	2,922,440
Operating loss	(1,588,191)
NON-OPERATING REVENUES (EXPENSES)	
Federal grant	1,034,429
Legislative appropriations	735,000
Cancellation of debt gain	652,441
Utilities credits	44,932
Characterization and disposition of equipment and materials	(195,000)
Remediation of property damage incurred by tenants	(173,000)
Total non-operating revenues, net	2,098,802
NET CHANGE	510,611
NET DEFICIT, beginning of year	(99,213)
NET POSITION, end of year	$ 411,398

LOCAL REDEVELOPMENT AUTHORITY OF THE LANDS AND FACILITIES OF NAVAL STATION ROOSEVELT ROADS
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tenants and customers	$ 465,038
Payments to employees for services	(784,997)
Payments to other suppliers of goods and services	(1,300,806)
Other receipts	56,821
Net cash used in operating activities	(1,563,944)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Legislative appropriations	735,000
Federal grant	870,007
Net cash provided by non-capital financing activities	1,605,007
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	
Construction in progress	(169,838)
Federal loan advance	169,838
Net cash provided by capital and related financing activities	-
NET INCREASE IN CASH	41,063
CASH AND RESTRICTED CASH, beginning of year	1,648,079
CASH AND RESTRICTED CASH, end of year	$ 1,689,142
CASH AND RESTRICTED CASH	
Cash	$ 1,437,289
Cash restricted for salaries and contracts	201,333
Cash restricted for debt service reserve	50,520
	$ 1,689,142

Continues.

LOCAL REDEVELOPMENT AUTHORITY OF THE LANDS AND FACILITIES OF NAVAL STATION ROOSEVELT ROADS
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	$(1,588,191)
Adjustment to reconcile operating loss to net cash used in operating activities:	
Depreciation	148,056
Bad debt	261,669
Other	79,344
Net change in operating assets and liabilities:	
Accounts receivable	(852,137)
Accounts payable and accrued expenses	158,935
Lease security deposits	168,423
Compensated absences	59,957
	24,247
Net cash used in operating activities	$(1,563,944)

See accompanying notes to the basic financial statements.

1. ORGANIZATION

The Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads (the Authority) is a public corporation and government instrumentality of the Commonwealth of Puerto Rico (the Commonwealth), which was created as an independent corporate and political body, by Law No. 508 of September 29, 2004. The Authority's objective is to redevelop the lands and facilities of the Naval Station Roosevelt Roads (NSRR) and work with the private sector, in collaboration with the government, to provide incentives and tools needed to maximize the potential of the talented pool of workers, and the physical and ecological attributes found within the site. The Authority is exempt from the payment of any taxes on its revenues and properties.

On January 26, 2012, the U. S. Navy transferred 1,370 acres (Parcel III) of lands and facilities formerly used by the NSRR to the Authority. Another 2,039 acres (Parcels I and II) were transferred to the Authority on May 7, 2013, bringing the total acreage for redevelopment to 3,409. As of May 7, 2013, the Authority has control of these lands and facilities and is able to execute redevelopment projects. However, certain real property and associated improvements, known as carveouts within Sale Parcel III and Science Park, are environmentally suitable for lease subject to the conditions, notifications, and restrictions set forth in the Finding of Suitability to Lease, Revision 1, Carveouts Within Sale Parcel III and Science Park (FOSL).

The carveout properties comprise approximately 345 acres of noncontiguous areas of Parcel III and the Science Park parcels located primarily along the ridge overlooking the northeastern side of Ensenada Honda and also on the southern peninsula of Bahía de Puerca. Facilities located on the property include a marina, a gasoline filling station, hazardous waste and materials storage facilities, maintenance shops, storage buildings and recreational facilities. The carveout areas were removed from Sale Parcel III and Science Park because they are Resource Conservation and Recovery Act (RCRA) Solid Waste Management Units (SWMUs) and Areas of Concern (AOCs) with work remaining to be completed under the Administrative Order on Consent (Consent Order: US Environmental Protection Agency (EPA Docket No. RCRA0220077301; EPA 2007) that sets out the Navy's corrective action obligations under RCRA.

Financial independence – The Authority is subject to the annual budget approval and financial restraint of the Management and Budget Office, the Financial Oversight and Management Board for Puerto Rico (the Oversight Board) and the Federal Office of Economic Adjustment (OEA).

Board of directors – The Authority is directed by a Board of Directors constituted by 10 members. They are: Secretary of the Department of Economic Development and Commerce, who serves as Chairperson; two members designated by the Mayor of the Municipality of Ceiba; a member designated by the Mayor of the Municipality of Naguabo; a member designated by the President of the Senate; a member designated by the Speaker of the House of Representatives; three members designated by the Governor; a member designated by the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting

The Authority's operations are accounted on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with operations are included on the statement of net position; and revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Revenues are recorded when rent and utility services are provided to customers. All customers are billed on a monthly basis. Revenues are presented net of estimated allowances for uncollectible accounts.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from charges to tenants for the lease or license of property and providing goods and services in connection with the Authority's principal ongoing operations in connection with the implementation of the *2014 Development Zones Master Plan for the former Naval Station of Roosevelt Roads* and charges to customers for water and sewer related services. Revenue and expenses not meeting the operating definition are reported as non-operating revenue and expenses.

In addition, the Authority receives a legislative appropriation from the Commonwealth and federal grants from the United States Department of Defense (DoD) through the OEA and from the US Department of Agriculture (the USDA) for the improvement of the infrastructure of the water and sewer system, which are considered nonoperating revenues.

Net position is classified in the following three components in the accompanying statement of net position:

Net investment in capital assets — This component of net position consists of capital assets, net of accumulated depreciation and amortization, reduced by outstanding balances of bonds, notes, and other debt that is attributed to the acquisition, construction, or improvement of those assets.

Restricted net position — This component results when constraints placed on the net position use are either externally imposed by creditors, grantors, contributors, and the like or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position (deficit) — This consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often is designated to indicate that Management does not consider them to be available for general operations; therefore, it often has constraints on resources that are imposed by Management but can be removed or modified. When both restricted and unrestricted resources are available for use, generally, it is the Authority's policy to use restricted resources first, then the unrestricted resources as they are needed.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and related disclosures at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of cash flows, the Authority considers all highly liquid investments (including restricted assets, if any) with a maturity of three months or less to be cash equivalents. If such instruments are included in restricted assets, they are considered cash equivalents for purposes of the statement of cash flows.

The Authority receives grants, which may require separate bank accounts to register grant revenues and disbursements. As of June 30, 2019, cash in bank related to federal funds amounted to $251,853.

Accounts Receivable and Allowance for Doubtful Accounts

The accounts receivable from nongovernmental customers of the Authority are net of estimated uncollectible amounts, which are determined based upon past collection experience and current economic conditions among other factors. These receivables arise primarily from rent and water and sewer services charges to users.

The allowance for doubtful accounts is an amount that Management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectability of accounts receivable and prior credit loss experience. Because of uncertainties inherent in the estimation process, Management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future. The activity of the allowance for doubtful accounts, for the year ended June 30, 2019, follows:

Balance, beginning of year	$ 200,575
Add provision for doubtful accounts	261,669
Less receivables written off, net	-
Balance, end of year	$ 462,244

Restricted Assets

Funds set aside for the payment of salaries, fringe benefits, and contractual services are classified as restricted assets since their use is limited for this purpose by applicable agreements or required by law.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets include land, buildings, equipment, vehicles, and infrastructure assets. Capital assets purchased or constructed by the Authority are stated at cost or acquisition value/entry price when donated. Acquisition value or entry price is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. Capital assets acquired from the US Department of the Navy (the Navy) under an Economic Development Conveyance Memorandum Agreement (the EDC) are stated at the exchange value, per the agreement.

The Authority maintains a capitalization threshold of $1,000. Routine maintenance and repairs are charged to expense. Expenses, which materially increase values, change capacities, or extend useful lives are capitalized. The provision for depreciation has been computed by the use of the straight-line method at rates intended to amortize the cost of the related assets over the following estimated useful lives:

Assets	Years
Land improvements	20-30
Building and building improvements	20-30
Piers	20-30
Infrastructure	25-30
Equipment, furniture, fixtures, and vehicles	2-5

Impairment of Capital Assets

The Authority periodically evaluates long-term assets for impairment in accordance GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB Statement No. 42). A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage among others.

Impaired capital assets that will no longer be used by the Authority should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the Authority should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Capital Assets (Continued)

Impairment of capital assets that are affected by enactment or approval of laws or regulations or other changes in environmental factors or are subject to technological changes or obsolescence generally should be measured using a service units approach, an approach that compares the service units provided by the capital asset before and after the impairment event or change in circumstance. Impairment of capital assets that are subject to a change in manner or duration of use generally should be measured using a service units approach, as described above, or using deflated depreciated replacement cost, an approach that quantifies the cost of the service currently being provided by the capital asset and converts that cost to historical cost.

The Authority evaluated its capital assets as required by GASB Statement No. 42 and no impairment was identified during the year ended June 30, 2019.

Compensated Absences

Employees accumulate vacation and sick leave at the rate of 1.25 days and 1.5 days per month, respectively. The Authority pays employees that resign up to a maximum of 60 days of accumulated vacation leave. Maximum permissible accumulation for sick leave is 90 days for all employees. The Authority records as a liability and as an expense the vested accumulated vacation and sick leave as benefits accrue for employees.

The cost of vacation and sick leave expected to be paid in the next twelve months is classified as current accrued liabilities while amounts expected to be paid after twelve months are classified as noncurrent liabilities.

Revenue Recognition

Revenue from water and sewer services and operating leases are recognized as revenue using the accrual basis of accounting as services are provided. Operating leases are measured based on a straight-line basis over the term of the lease agreements. Most of the leases in effect are cancelable, subject to a penalty in case of early termination. Revenue from non-exchange transactions consist of legislative appropriations from the Commonwealth and federal grants from the DoD and the USDA.

Tenant Inflicted Property Damage

The Authority recognizes a provision for tenant inflicted property damages when incurred. The Authority recognizes any recovery from the tenant when the amount is reasonably determinable, and collectability is probable.

Pension Benefits

The Authority adopted a defined contribution savings and retirement plan (“the Plan”). All employees are eligible to participate in the Plan since commencement date. All employees' benefits become vested, once they have entered into the Plan, in accordance with the eligibility requirements. The Plan provides for contributions by the Authority of 50 cents per each dollar contributed by the participant, which cannot exceed 5% of the aggregate annual salary of the participant. Total contributions made by the Authority to the Plan during the year ended June 30, 2019 amounted to $13,330.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cancellation of Debt Gain

The Authority recognizes debt cancellation gain when it is no longer obliged to settle the obligation through the surrendering of cash or another asset. During the year ended June 30, 2019, the Authority recognized a debt cancellation gain of $652,441.

Interfund Activities

Legally required transfers are reported when incurred as transfer-in by the recipient fund and as transfer-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these advances, transfers, and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the proprietary fund's financial statements. Interfund receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience and current economic conditions.

Risk Management

The Authority carries commercial insurance to cover casualty, theft, claims, and other losses. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage during the past three years. The Authority also pays premiums for workers' compensation insurance to another component unit of the Commonwealth.

Subsequent Events

For purposes of these financial statements, subsequent events have been evaluated through September 28, 2020, the date the financial statements were available to be issued. Management has determined there are no subsequent events that required disclosure or modification of the accompanying financial statements, except for those disclosed in **Note 13**.

Recently Adopted Accounting Guidance

As of June 30, 2019, the Authority adopted the following new statement of financial accounting standards issued by the GASB:

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 reasonable 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. 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 a 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 assets 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. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonable estimable, the government is required to disclose that fact and the reasons, therefore. This Statement requires similar disclosures for a government's minority shares of AROs.

As of June 30, 2019, the Authority has not identified any asset retirement obligation that would require accrual.

Newly Issued Accounting Standards Not Yet Implemented

GASB Statement No. 87, Leases - The objective of this Statement is to better meet the information needs of financial statements 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 (fiscal year ended June 30, 2021). Earlier application is encouraged. Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets.

3. CUSTODIAL CREDIT RISK ON DEPOSITS

The Authority is authorized to deposit only in depository institutions approved by the Puerto Rico Treasury Department (PRTD), and such deposits should be kept in separate accounts in the name of the Authority. The Puerto Rico Commissioner of Financial Institutions requires that Puerto Rico's private financial institutions deposit collateral securities to secure the deposits of the Commonwealth and all other governmental entities in each of these institutions in excess of the $250,000 coverage provided by the Federal Deposit Insurance Corporation (FDIC). The amount of collateral securities to be pledged for the security of public deposits shall be established by the rules and regulations promulgated by the Commissioner of Financial Institutions. Custodial credit risk for deposits is the risk that in the event for bank failure, the Authority’s deposits might not be recovered.

3. CUSTODIAL CREDIT RISK ON DEPOSITS (CONTINUED)

The carrying amount of deposits at June 30, 2019 as shown in the statement of net position follows:

	Carrying Amount			Depository
	Unrestricted	Restricted	Total	Bank Balance
Commercial bank	$ 1,437,289	$ 251,853	$ 1,689,142	$ 1,874,137

4. CAPITAL ASSETS

The following schedule summarizes the capital assets held by the Authority as of June 30, 2019:

Capital Assets	Beginning Balance	Increase	Decrease	Ending Balance
Non-depreciable assets:				
Land and property for future development	$ 12,098,307	$ -	$ -	$ 12,098,307
Construction in-progress	333,216	169,837	-	503,053
	12,431,523	169,837	-	12,601,360
Depreciable assets:				
Buildings, piers and infrastructure	4,441,693	-	-	4,441,693
Furniture and equipment	16,495	-	-	16,495
	4,458,188	-	-	4,458,188
Less accumulated depreciation				
Buildings, piers and infrastructure	(471,568)	(148,056)	-	(619,624)
Furniture and equipment	(16,495)	-	-	(16,495)
	(488,063)	(148,056)	-	(636,119)
Net depreciable assets	3,970,125	(148,056)	-	3,822,069
Capital assets, net	$ 16,401,648	$ 21,781	$ -	$ 16,423,429

The Authority acquired its land and property for future development from the Navy under the EDC. However, original cost information for the former Navy facilities was not available precluding the Authority from distributing its cost to the different components. However, during the year ended June 30, 2016, the Authority obtained independent appraisals for all the land and properties for future development. The estimated market value of the property was over $100 million, substantially higher than the cost of acquisition pursuant to the EDC.

4. CAPITAL ASSETS (CONTINUED)

However, based on the independent appraisal values and the use of its best professional judgment on the estimated value on a per square foot basis, the Authority could distribute the acquisition cost to the different components of the acquired property, principally land, buildings, pier and infrastructure. As a result, the Authority allocated approximately $4.4 million to depreciable assets as buildings, piers and infrastructure as of June 30, 2016.

During the year ended June 30, 2019, the Authority recognized depreciation on depreciable buildings, piers and infrastructure that are currently being used as operating capital assets in the amount of $148,056.

Additionally, independent appraisal reports state that the subject properties, the parcels, are encumbered with structures scattered throughout. Despite the structures comprising a miniscule component of the subject property, when compared to the parcels' size they pose an appraisal problem and that the vast majority of the buildings that encumber it are deteriorated and hold no contributory value.

5. COMPENSATED ABSENCES

The following schedules summarizes the activity for compensated absences during the year ended June 30, 2019:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Vacations and licenses	$ 61,476	$ 47,668	$(33,069)	$ 76,075	$ 76,075
Sick leave benefits	39,375	76,043	(30,685)	84,733	84,733
Total compensated absences	$ 100,851	$ 123,711	$(63,754)	$ 160,808	$ 160,808

6. LEASE AGREEMENTS AS LESSOR

The following is a summary of the major existing leases at the NSRR.

MidAtlantic Shipyard, LLC (Limited Liability Company)

On December 4, 2015, the Authority and MidAtlantic Shipyards, LLC signed a 30-year ground lease agreement for the operation of a shipyard and dry dock facilities on 14.92 “cuerdas” located at the Authority’s NSRR (one "cuerda" equals 0.97 of an acre). The lessee’s obligations hereunder may be conditioned upon the Authority receiving fee title to the portion of land described as the USA Transferred Property, under the terms and conditions set forth in the Exchange Agreement between the Authority and the United States Army Reserve (USAR). See **Note 13** for the status of the transfer of the property to the Authority.

The lessee agrees to pay annual rent equal to $10,000 per “cuerda” of land leased. The lease agreement provides that, on each adjustment date, the annual minimum rent shall be increased by 3.5% for five-year consecutive periods, until the 15th year. Thereafter, the rate shall increase for each five-year period from 5% to 9%, until the 41st year, when the final 10% increase becomes effective.

MidAtlantic Shipyard, LLC paid the Authority a security deposit of $100,000 in connection with this lease agreement.

6. LEASE AGREEMENTS AS LESSOR (CONTINUED)

United Real Estate

On July 28, 2018, the Authority signed with United Real Estate a 40-year lease agreement commencing two years after the execution of the lease agreement. The leased premises will be used exclusively for a resort-style community which includes rentals for a day, a week, and up to 40-year sub-leases and residential options on an approximate area of 20.5 “cuerdas” of land. Upon the commencement of the lease term, the lease agreement provides for employment level compliance requirements to improve the economy of various municipalities in the eastern area of Puerto Rico.

The lessee agrees to pay monthly rent equal to $7,896 beginning the second year with an annual increment of 3%.

Upon the execution of the lease agreement, the lessee delivers and maintains with the Authority a security deposit amounting to three months' rent payments totaling $41,575.

LinkActiv

On September 4, 2018, the Authority signed with LinkActiv a 5-year lease agreement with three five-year renewal periods each. The lease premises, which include three lots totaling 2.90 “cuerdas”, to be used for a business process outsourcing center (BPO) that will operate twenty-four hours a day and seven days a week on 2.9 “cuerdas” of land. The lease agreement provides for employment level compliance requirements in order to improve the economy of various municipalities in the eastern area of Puerto Rico.

The lessee agrees to pay annual rent for the first two lots of $4,144 for the first year with annual increments up to $86,521.

The lessee agrees to pay a monthly installment equal to $890 for the second and third year with an incremental rate of 3% annually for the third lot.

LinkActiv paid the Authority a security deposit of $6,316 in connection with this lease agreement.

Premier Healthcare Management

On April 20, 2018, the Authority and Premier Healthcare Management signed a 50-year lease agreement. The leased premises will be used exclusively for a senior health lifestyle community that will include independent living facilities, assisted living facilities, skilled nurse services, hospice services, a health and wellness center on 6.79 acres of land. The lease agreement provides for employment level compliance requirements to improve the economy of various municipalities in the eastern area of Puerto Rico.

The lessee agrees to pay monthly installments equal to $10,000 for the first fifteen years, and then incorporating an incremental rate of 3% every ten years.

Upon the issuance of all permits and financial approvals, the lessee delivers and maintains with the Authority a security deposit amounting to three months' rent payments totaling $30,000.

6. LEASE AGREEMENTS AS LESSOR (CONTINUED)

MER Group Puerto Rico (Tenant in Default and Terminated)

During the fiscal year 2015-2016, the Authority and MER Group Puerto Rico, LLC (“MER”) signed various lease agreements. Leased premises were to be used exclusively for recycling, environmental remediation, demolitions, storage, ship docking vessel operations and related activities associated to ships. However, as of December 31, 2018, these lease agreements had expired, and the tenant subsequently filed for bankruptcy, as more fully disclosed in **Note 10**.

MER paid the Authority a security deposit of $31,246 in connection with this lease agreements.

Future minimum rental income from lease agreements duly executed and signed as of June 30, 2019 and subsequently, follows:

Year Ending June 30,	Amount
2020	$ 1,360,059
2021	1,282,059
2022	1,277,259
2023	1,271,212
2024	1,263,277
2025-2029	6,204,112
2030-2034	5,913,733
2035-2039	5,839,565
2040-2044	5,812,558
2045-2049	5,762,028
Thereafter	15,505,802
Total	$ 51,491,664

As of June 30, 2019, the Authority maintained lease security deposits as follows:

MidAtlantic Shipyards, LLC	$ 100,000
MER Group Puerto Rico, LLC (**Note 10**)	31,246
DAMCO USA, Inc.	36,000
LinkActiv, Inc	6,316
Other tenants' deposits below $3,000 individually	182,347
Total	$ 355,909

7. LONG-TERM DEBT

U.S. Department of the Navy ("Navy")

On January 25, 2012, the Authority entered into an agreement with the Navy for the conveyance of 1,370 acres of land and improvements referenced to as Parcel III at NSRR with a total guaranteed payment of $8,040,000 less a down payment of $200,000 made by the Authority at closing, which is due in fifteen annual equal principal installments plus interest beginning three years after the initial closing, subject to completion of environmental remediation of SWMU 3 and 70 by the Navy. Interest shall be calculated at 150 basis points over the US Treasury 10-Year Composite Note using the established rate on the first day of the month preceding the first installment due date. The first annual principal installment has not been made as of June 30, 2019. Annual interest to be accrued by the Authority begins once the later of the following events occur: 1) an issuance of a new due date for the first annual principal installment or 2) thirty days following the conveyance of both SWMU 3 and SWMU 70 to the Authority.

On May 6, 2013, the Authority amended the Original EDC with the Navy for the acquisition of 2,039 acres of land and improvements referenced to as Parcel I and II at NSRR, with a total guaranteed payment of $8,500,000, due in fifteen annual equal principal installments plus interest commencing one year after the Authority's current payment obligations for Parcel III are settled. Interest on the guaranteed consideration will begin accruing seven years after the Parcels I and II closing and shall be calculated at 150 basis points over the U.S. Treasury 10-year Composite Note as of the date of the Parcels I and II closing.

The Parcel was financed directly with the Navy and subject to additional and special considerations as stipulated in the agreement. The Authority shall pay the Navy "Additional Consideration" in the amount of forty percent of all monies received by the Authority from the lease, sale, assignment or license of any portion of real property in Parcel I, II or III, excluding any monies received by the Authority (i) from a public entity that is providing funding to reimburse the Authority for costs and operating expenses (i.e. utilities, maintenance, etc.), and (ii) in connection with the provision, sale or transfer of utilities or utilities services, in excess of eighty million dollars received by the Authority through September 30, 2035. When due, such payments shall be paid annually on/or before September 30 of each year for the time period between June 30 of the previous year and June 30 of the current year.

On December 14, 2015, the Authority received a letter from the Navy conditioning the extension of the initial consideration and installment payments due from the EDC as a result of certain environmental remediation not completed by the Navy, as planned, for parcels SWMU 3 and SWMU 70. Originally, the Navy projected SWMU's 3 and 70 to be cleaned and conveyed to the Authority during fall of year 2017, at which time the Authority would start paying annual installments on the loan, as stipulated in the EDC. However, on September 20, 2017, Hurricane María hit Puerto Rico delaying the conveyance of the SWMU 3 and SWMU 70 to the Authority. The Navy is currently performing environmental remediation on the parcels, and anticipate that SWMU 3 will be conveyed to the Authority in late 2020 and SWMU 70 sometime thereafter. Once the clean title of both properties is transferred to the Authority, the Authority will have to meet the payment obligations under the EDC.

If SWMU 3 and SWMU 70 had been conveyed during fall of year 2020, the interest rate determined would have been 2.12% (0.62% as the 10-year Treasury Rate for July 20, 2010 plus 150 basis points) payable in fifteen equal installments of $522,667.

7. LONG-TERM DEBT (CONTINUED)

U.S. Department of the Navy ("Navy") (Continued)

In addition, and as a special consideration, if at any time within the five-year period beginning on the date of the Initial Closing, the Authority sells, leases, assigns, or licenses any portion of Parcel I, II or III for a purpose not reasonably contemplated in the *Addendum* to the *2004 Roosevelt Roads Reuse Plan* dated April 30, 2010 ("Reuse Plan Addendum") ("Outside Scope Parcel"), the Authority agrees to pay to the Navy seventy five percent of the net proceeds received by the Authority for such Outside Scope Parcel in excess of the amount of the Initial Consideration then outstanding ("Outside Scope Payment"). Any Outside Scope Payment required to be paid to the Navy under this section shall be in lieu of an Additional Consideration payment for such parcel.

U.S.D.A Rural Development - Rural Utilities Service

On August 12, 2016, the Authority was granted a loan and grant program by the Rural Utilities Service (RUS) administered by the USDA Rural Development. Funds were to be used to rehabilitate/improve the potable water infrastructure at NSRR. Under the agreement, the Authority will receive a $4,936,000 loan, a grant of $666,200 and a second grant of $1,615,980. On December 23, 2016, the Authority closed the loan with a repayment schedule over a period of forty years, including interest of 2.375%, only during the first three years. The loan is evidenced with a promissory note and secured with real estate owned by the Authority. The Authority is required to establish a debt service reserve fund that has to be funded by monthly payments of $1,684 until $201,982 has been accrued. As of June 30, 2019, the Authority received and expended $169,838 from the loan.

Puerto Rico Land Administration

On January 24, 2014, the Authority signed a real property option for a purchase agreement with the Puerto Rico Land Administration (“Land Administration”). Under the purchase agreement, the Authority intended to sell the Land Administration a parcel of land that comprehends 43.63 acres for the amount of $2,500,000 and paid the Authority an option deposit of $600,000.

During 2016, the Land Administration determined not to exercise the land purchase option and requested the Authority to return the deposit payment of $600,000 in accordance with the terms of the purchase option. As a result, the Authority agreed with the Land Administration and subscribed a non-interest-bearing payment plan on October 18th, 2016.

Under the original terms of the payment plan, the Authority was to pay to the Land Administration monthly installments of $12,500 commencing on November 2016 through November 2020. Accordingly, this payment plan has been presented as long-term debt in the Statement of Net Position as of June 30, 2019, net of any current portion. As of June 30, 2018, no payments have been made in relation to the original terms. The Authority reached a new payment plan to begin in August 2019.

On October 23, 2018, a new payment plan was settled with the Land Administration to liquidate the outstanding balance of $537,500 as of June 30, 2018. The Authority will pay installments of $2,000 for twelve months, commencing August 2019. Then, the payments will increase to $3,000 monthly until the debt is paid in full. Also, the agreement provides to liquidate the debt at any time, through a lumpsum payment.

7. LONG-TERM DEBT (CONTINUED)

The following is a roll-forward of long-term debt maintained by the Authority for the year ended June 30, 2019.

	Beginning Balance	Increase	Decrease	Ending Balance
US Department of Navy - Parcel III	$ 7,840,000	$ -	$ -	$ 7,840,000
US Department of Navy - Parcel I and II	8,500,000	-	-	8,500,000
Land Administration payment plan	537,500	-	-	537,500
Loan advances - RUS	333,216	169,838	-	503,054
Total long-term debts	$ 17,210,716	$ 169,838	$ -	$ 17,380,554

***Summary of Loan Obligations* (1)**

The outstanding Land Administration, Navy, and Loan advances - RUS payment plans balance as of June 30, 2019 requires future minimum principal payments as follows:

Year Ending June 30,	Principal	Interest	Total
2020	$ 544,667	$ -	$ 544,667
2021	552,167	268,546	820,713
2022	558,167	249,364	807,531
2023	558,667	230,182	788,849
2024	558,667	491,501	1,050,168
Thereafter	14,608,219	6,918,575	21,526,794
Total	$ 17,380,554	$ 8,158,168	$ 25,538,722

(1) Assumes that the Navy - Parcel III will commence to amortize during the fiscal year 2019-20. Also, assumes interest calculation using the US Treasury 10-Year Composite Note rate. The interest rate could change at the conveyance of SWMU 3 and SWMU 70 to the Authority and this change could be significant.

8. FEDERAL GRANTS AND LOAN

The Authority has determined to undertake a project for the rehabilitation and improvement of the potable water infrastructure of the water and sewer system to serve the area under its jurisdiction at an estimated cost of $7,218,180. On December 23, 2016, under a combined grant and loan agreement awarded by the RUS, the Authority was able to finance up to $4,936,000 of the development costs through revenues, charges, taxes or assessments, or funds otherwise available to the Authority resulting in a reasonable user charge. During the year ended June 30, 2019, the Authority received and expensed $169,838 from said loan (refer to **Note 7** for loan agreement terms).

In addition, the RUS agreed to grant a sum not to exceed $666,200 or 9.23% of the project development costs, whichever is the lesser, subject to the terms and conditions established by the RUS.

As a condition of this grant agreement, the Authority assures and certifies that it is in compliance with and will comply in the course of the agreement with all applicable laws, regulations, Executive Orders and other generally applicable requirements, including those set out in 7 CFR 3015.205(b), which hereby are incorporated in the agreement by reference, and such other statutory provisions as are specifically set forth in the agreement.

Since its organization, the Authority has received significant grants from the OEA, an office of the DoD, to partially offset the costs of operating and administering the NSRR. During the year ended June 30, 2019, the Authority earned $921,939 from these grants. The actual grant's period of performance ends on August 31, 2020 because two non-additional cost time extension were granted by the OEA to the Authority. Refer to **Note 12** for more detail.

9. ENVIRONMENTAL COMMITMENTS AND CONTINGENCIES

The Authority accounts for pollution remediation obligations in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post closure care cost. Once any of five specified obligating events occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

- The government is compelled to take pollution remediation action because of an imminent endangerment.
- The government violates a pollution prevention - related permit or license.
- The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs.

9. ENVIRONMENTAL COMMITMENTS AND CONTINGENCIES (CONTINUED)

- The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.

- The government commences or legally obligates itself to commence pollution remediation.

The Authority leases property to one tenant (not including one critical tenant which has not commenced operations yet), whose businesses are subject to significant environmental risks. One of the tenants is engaged in the ship dismantling and recycling operations, and the other is engaged in the shipyard repairs and maintenance operations.

The Authority has evaluated their environmental exposure and has determined that a significant pollution remediation obligation does not exist as of June 30, 2019 nor as of the date of these financial statements were issued. However, as more fully explained **in Note 10** there is a tenant involved in the ship dismantling and recycling operations currently under Bankruptcy protection.

10. COMMITMENTS AND CONTINGENT LIABILITIES

Lease with a Related Party

The Authority maintains an office space with the Puerto Rico Industrial Development Company. The rental expense for the year ended June 30, 2019, was $34,276.

Litigation and Claims

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

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

Leased Property Contingent Liabilities

SWMU 70

The Authority cost to address the repairing of two monitoring wells within the SWMU 70, a restricted area subject to the Lease in Furtherance of Conveyance (LFC) is $64,000. The two monitoring wells were damaged by a contractor of the Puerto Rico Electric Power Authority (PREPA) while restoring the electrical infrastructure.

10. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Leased Property Contingent Liabilities (Continued)

The Authority issued a letter to the lessee for the reimbursement of the costs to be incurred by the Authority.

Tenant in default

On December 31, 2018, the Authority terminated the lease agreements with MER, the only high environmental risk tenant currently operating within the facilities, and on May 1, 2019, MER filed for bankruptcy under Chapter 11, Reorganization, in the State of New Jersey. However, although MER has discontinued its operations, MER occupied the facilities until January 21, 2020.

As of the date these financial statements were issued, MER still maintains various scrap vessels moored to Pier 3, and scrap metal and salvage parts on the Authority's facilities. The estimated costs accrued for the remediation and disposition of said assets amount to $294,000.

Tenant in Violation - SWMUs 23, 55, and 74

As part of the Puerto Rico Maritime Transport Authority's (MTA) relocation of ferry services to the Authority's facilities, the MTA incurred in various violations to the lease agreement and the EDC. The MTA removed soil from SWMUs (SWMU 23, 55, and 74), a restricted area subject to the LFC. Prior to any addition or alteration of soil, the lessee was to follow the protocol included in the LFC. Besides, during soil removal, various monitoring wells were damaged. The MTA assumed the responsibility and is waiting for the EPA and NAVY approval of the corrective action plan presented. At the date these financial statements were issued, the Authority's position was that there was no significant exposure, although that estimate could change with time. The estimated costs accrued as of June 30, 2019, amount to $249,000.

Hurricanes Irma and María

In 2017, the Authority prepared an economic assessment of the damages caused by hurricanes Irma and Maria. The estimate for the damages amounts to $188,000,000, $100,000,000 relates to the dock facilities, and $88,000,000 to the rest of the properties. The Authority requested financial support to the Federal Emergency Management Agency (FEMA); however, the extent of support to receive cannot be determined at present. The Authority has resolute that the cost value of the property has not been significantly impaired since the purchase price of the property is considerably below the estimated market value. However, the Authority has not identified any other source of financing to repair the damage, in the event FEMA does not supply full financial support. Furthermore, the Authority has not determined the impact these damages may have on the development of the premises. During the year ended June 30, 2019, FEMA granted the Authority $112,490 and continue providing support.

Federal Assistance Programs

The Authority participates in federal financial assistance programs. These programs are subject to audits in accordance with the provisions of *OMB 2 CFR Part 200 Compliance Supplement*, or to compliance audits by grantor agencies. Compliance with requirements of each program is subject to audit by various governmental agencies, which may impose sanctions in the event of noncompliance. The Authority believes that there are no significant events of noncompliance pending resolution as of the date of issuance of these financial statements. See **Note 13**, Subsequent Events for other disclosures on commitments and subsequent events.

11. REORGANIZATION OF THE COMMONWEALTH OF PUERTO RICO GOVERNMENT

Puerto Rico Oversight, Management, and Economic Stability Act

The Commonwealth and several of its component units face significant risks and uncertainties, including liquidity risk.

The Commonwealth has incurred recurring deficits, has a negative financial condition, has experienced further deterioration of its economic condition, has not been able to access the credit markets, and has stated that substantial doubt exists about the Commonwealth's ability to continue as a going concern. Additionally, the Commonwealth is currently restructuring its obligations in an orderly fashion under Title III of Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which was signed by the U.S. President on June 30, 2016.

The Commonwealth is in the midst of a profound fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity is the vulnerability of revenue streams during times of major economic downturns and large health care, pension and debt service costs. As the Commonwealth's tax base has shorten and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the Commonwealth's General Fund budget, which has resulted in reduced funding available for other essential services, including appropriation to the Authority. The Commonwealth's high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to debt service and pension obligations have contributed to significant budget deficits during the past several years, which the Commonwealth has financed, further increasing the amount of its debt.

These matters and the Commonwealth's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all.

The Commonwealth's Primary Government reflects a net position deficit/fund balance deficit of approximately $69 billion as of June 30, 2016 (the most recent audited financial information). The Commonwealth's General Fund showed a fund balance (deficit) of approximately $1.2 billion as of June 30, 2016.

Fiscal Plan Compliance Act

At the present time, it is impracticable to determine the long-term impact PROMESA may have on the amounts to be awarded by the Commonwealth in future years.

12. SUBSTANTIAL DOUBT ABOUT THE AUTHORITY'S ABILITY TO CONTINUE AS A GOING CONCERN

The discussion in the following paragraphs regarding the Authority's financial and liquidity risks provides the necessary background and support for management's evaluation as to whether there is substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the date of these basic financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter.

The Authority is still in the early stages of fully developing the property assets. Only a small portion of the property has been leased. Accordingly, to offset recurring losses from operations, the Authority has relied significantly on legislative appropriations and federal awards and will continue to rely on those appropriations and awards in the foreseeable future. Furthermore, the Authority faces significant financial challenges including among other: 1) the bankruptcy of the Commonwealth, as further discussed in **Note 11**, 2) federal awards are for limited terms, and although negotiations are ongoing, further federal grants have been approved, as more fully disclosed in **Note 13**, 3) the possibility that the Authority may be required to pay the first installment of the Navy loan, as more fully disclosed in **Note 7**, and 4) as more fully explained in **Note 13**, the Authority's property suffered significant damages by Hurricane María, and it is impracticable to determine, at present, the long-term impact this damage will have on the future development of the property. These facts indicate that the Authority may lack sufficient financial resources to meet obligations as they become due. Therefore, these matters raise substantial doubt about the Authority's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. However, the Authority is actively involved in a remediation plan to mitigate these factors, to the extent of its financial capabilities.

Remediation Plan

Based on existing lease agreements, rent commitments from existing tenants (disclosed in **Note 6**), will not provide independent sustainability in the foreseeable future. Accordingly, the proposed Commonwealth budget for 2019-2020 and approved by PROMESA allocated from the Commonwealth’s General Fund $953,000. This amount represented an increase of 30% compared to the prior year. This increase includes funds for the Authority to make its first installment on loan more fully disclosed in **Note 7**, even when the Navy has not established the actual date this will occur, and also, to partially offset the need for additional funds given that additional federal funding will not be available for 2019-2020. At the date these financial statements were issued, PROMESA approved the Commonwealth 2020-2021 budget by allocating $13,354,000 to the Authority.

For the fiscal year ending June 30, 2021, the Authority will operate under a budget totaling $16,428,959. The budget includes $13,354,000 from the Commonwealth's General Fund, of which $12,600,000 are for capital improvement, $1,600,000 from operating revenues, and $1,474,959 from a federal grant, the latter under a program period from July 1, 2020 to June 30, 2021.

As part of the remediation plan, the Authority is in the process of developing the Plan to transition from state and federal funded support to a self-sufficient operation. The Authority aims to maintain a light footprint operation that will facilitate attaining its community development objectives while being profitable as well as flexible enough to adapt to changing external and internal conditions.

12. SUBSTANTIAL DOUBT ABOUT THE AUTHORITY'S ABILITY TO CONTINUE AS A GOING CONCERN (CONTINUED)

Finally, the Authority is requesting a renegotiation of the consideration structure of the EDC. The Authority proposes to amend the EDC to eliminate the Fixed Consideration Payable (refer to **Note 7**) to the Navy while retaining the Percentage Consideration Payable. By allowing the Authority to redirect back into the NSRR Development Project what limited income it does now receive from the NSRR Property, the Authority believes it is much more likely that redevelopment efforts at NSRR will be successful, thereby enabling the Authority to reuse the NSRR Property as intended, generate the onsite employment contemplated by the NSRR Reuse Plan, and allow the Authority to pay to the Navy a greater amount of Percentage Consideration than originally contemplated. However, an amount equal to the first annual installment payment of $522,667 was requested in the proposed budget for the fiscal year 2021 Joint Resolution funds in the event the Authority is unable to negotiate a deal with the Navy.

13. SUBSEQUENT EVENTS

New Developments

MTA ferry terminal is currently in its second phase related to its relocation within the NSRR, the conceptual design stage of the new terminal. MTA's investment would be around $25 million. The Authority is expected to publish the request for proposals before the end of July 2020.

The Department of Economic Administration granted $4.8 million for the rehabilitation of the port control building, food truck park, and other improvements. The project is underway with a request for proposals.

The Authority expects to complete a transfer of land from the United States Army Reserve (USAR), by September of this year. This transfer is required to culminate the lease with Mid Atlantic Shipyards, as more fully disclosed in
Note 6.

Infrastructure Improvements

In July 2020, the Financial Oversight and Management Board for Puerto Rico (the Oversight Board) approved $12,600,000 to be distributed during the fiscal year ending June 30, 2021, to undertake the rehabilitation and improvement of the potable water infrastructure of the water and sewer system in conjunction with the combined grant and loan agreement awarded RUS, as more fully disclosed in **Note 8** and **Note 12**.

COVID-19

After year end, instances of the Coronavirus Disease 2019 (COVID-19) began emerging around the world. In March 2020, the World Health Organization officially declared the COVID-19 outbreak a global pandemic. Then, an emergency declaration was issued to coordinate the Commonwealth's response and protective actions to address COVID-19 public health emergency and to provide for the health, safety, and welfare for residents and visitors located in Puerto Rico. In response to the state of emergency and to slow the spread, the Governor of the Commonwealth imposed a nationwide curfew and ordered certain businesses to close for a 30 day period, which was extended, and still in process. The long-term impact of the COVID-19 outbreak is uncertain at this time and will depend on future developments.

13. SUBSEQUENT EVENTS (CONTINUED)

Moratoriums due to COVID-19

The Board of Directors of the Authority evaluated various tenants' moratorium proposals and determined to grant two months after the expiration of the closing order issued by the Governor of the Commonwealth on May 21, 2020 through Executive Order OE-2020-041. OE-2020-041 extended the lockdown by continuing the phase of reopening of various economic sectors, and other purposes related to the measures adopted to control the risk of COVID-19 in Puerto Rico which kept operations closed until June 15, 2020. After two months, tenants will start paying current rent. However, if the tenants do not receive any federal or state aid to cover the rent payments for the blackout period, tenants will be granted a period of 24 months to pay the months left unpaid due to the closing of operations.

LOCAL REDEVELOPMENT AUTHORITY OF THE LANDS AND FACILITIES OF NAVAL STATION ROOSEVELT ROADS
(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2019

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Expenditures
U.S. Department of Defense			
Direct Program:			
Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	12.607		$ 1,132,183
U.S. Department of Agriculture Rural Development			
Direct Program:			
Water and Waste Disposal Loans and Grants (Section 306C)	10.770		169,838
U.S. Department of Homeland Security			
Passthrough the Central Recovery and Reconstruction Office of Puerto Rico (COR3):			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	PA-02-PR-4339	112,490
Total Expenditures of Federal Awards			$ 1,414,511

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2019

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads (the Authority) for the year ended June 30, 2019. 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 Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported using the accrual basis of accounting. 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, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBER

The CFDA numbers included in the Schedule are determined based on the program name, review of grant contract information, and the Office of Management and Budget's (OMB) Catalog of Federal Domestic Assistance. CFDA numbers are presented for those programs for which such numbers were available.

4. GENERAL OBJECTIVES

The Authority received grants from the U.S. Department of Defense through the Office of Economic Adjustment (OEA) to plan and undertake community economic development, base redevelopment, and partner with the Military Departments in response to the proposed or actual expansion, establishment, realignment or closure of a military installation by the U.S. Department of Defense. In addition, received funds from the US Department of Agriculture Rural Development to rehabilitate and improve the potable water infrastructure at Naval Station Roosevelt Roads (NRSS), as more fully disclosed in **Note 7** of the Schedule.

5. INDIRECT COSTS

The Authority receives funding from federal government agencies for the redevelopment of the Roosevelt Roads naval station of the Roosevelt Roads under various grants and contracts. These grants and contracts provide for reimbursement of indirect costs based on rates to be negotiated with the OEA, the Authority's cognizant federal agency. The Authority has not negotiated fixed rates for indirect costs through June 30, 2019, fiscal year, and has not elected to use the 10 percent de minimis cost rates as covered in §200.414 "Indirect (F&A) costs" of Uniform Guidance.

6. RELATION TO FEDERAL FINANCIAL REPORTS

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the Schedule, which is prepared using the accrual basis of accounting as explained in **Note 2** of the Schedule.

6. RELATION TO FEDERAL FINANCIAL REPORTS (CONTINUED)

The Uniform Guidance requires that federal financial reports for claims for advances and reimbursements contain information that is supported by the books and records from which the basic financial statements have been prepared. The Authority prepares the federal financial reports and claims for reimbursements primarily based on information from the internal accounting records of the Authority.

7. WATER AND WASTE DISPOSAL LOAN AND GRANTS

On December 25, 2016, the Authority was granted a loan and grant program by Rural Utilities Service (RUS) administered by the US Department of Agriculture Rural Development. Funds will be used to rehabilitate and improve the potable water infrastructure at NSRR. Under the agreement, the Authority will receive a $4,936,000 loan, a grant of $666,200 and a second grant of $1,615,980. Repayment of the loan is scheduled over a period of forty years, including interest only during the first three years. Interest will be the lowest of the rate in effect at the time the loan is approved or closed. The loan will be evidenced with a promissory note and secured with real estate owned by the Authority. The Authority is required to establish a debt service reserve fund to be funded by $1,684 monthly installments until a total of $201,982 is accumulated. As of June 30, 2019, the service reserve fund is $50,520. During 2019, the Authority has received and expended $503,053 under this agreement.

Balances and transactions relating to this program are included in the Authority's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule.

8. SUBSEQUENT EVENTS

Matching or Cost Sharing Compliance Requirement

As of June 30, 2019, the Authority accrued the matching or cost-sharing amount of $165,825 related to the OEA grants. On October 16, 2019, due to limitations within the accounting department, the funds were transferred from the institutional bank account to the federal bank account.

Covid-19

After year end, instances of the Coronavirus Disease 2019 (COVID-19) began emerging around the world. In March 2020, the World Health Organization officially declared the COVID-19 outbreak a global pandemic. Then, an emergency declaration was issued to coordinate the Commonwealth’s response and protective actions to address COVID-19 public health emergency and to provide for the health, safety, and welfare for residents and visitors located in Puerto Rico. In response to the state of emergency and to slow the spread, the Governor of the Commonwealth imposed a nationwide curfew and ordered certain businesses to close for a 30 day period, which was extended, and still in process. The long term impact of the COVID-19 outbreak is uncertain at this time and will depend on future developments, including, among others.

9. SINGLE AUDIT REPORT SUBMISSION TIME EXTENSION

Due to the effects of the events mentioned in **Note 8** of the Schedule, the Authority requested an extension from the OEA to file its Single Audit Report at a later date. The extension was granted until September 30, 2020.

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INDEPENDENT AUDITOR'S 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 and Management of the
Local Redevelopment Authority of the Lands and
Facilities of Naval Station Roosevelt Roads
San Juan, 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 **Authority for the Redevelopment of the Land and the Facilities of the Roosevelt Roads Naval Station** (the Authority), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise ’s basic financial statements and have issued our report thereon dated September 28, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Auhtority’s internal control over financial reporting (internal control) to determine 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 Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority’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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Crowe PR PSC

September 28, 2020

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

To the Board of Directors and Management of the
Local Redevelopment Authority of the Lands and
Facilities of Naval Station Roosevelt Roads
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited **Authority for the Redevelopment of the Land and the Facilities of the Roosevelt Roads Naval Station's** (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2019. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority'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 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). 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 Authority'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 Authority's compliance.

Opinion on the Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the *Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation Progra*m for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item **2019-001**. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

Management of the Authority 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 Authority'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 the 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 Authority'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 a 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 identity certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item **2019-001**, that we consider to be a material weakness.

Report on Internal Control over Compliance (Compliance)

The Authority's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority'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.

September 28, 2020

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LOCAL REDEVELOPMENT AUTHORITY OF THE LANDS AND FACILITIES OF NAVAL STATION ROOSEVELT ROADS
(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2019

PART 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unmodified
Internal Control Over Financial Reporting:	
1. Material weakness(es) identified?	No
2. Significant deficiency(ies) identified that are not considered to be material weakness?	No
Non-compliance material to financial statements noted?	No

Federal Awards

Internal Control Over Major Programs:	
1. Material weakness(es) identified?	No
2. Significant deficiency(ies) identified that are not considered to be material weaknesses?	Yes
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)?	Yes

Identification of Major Programs:

Name of Federal Program or Cluster	CFDA Number
Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	12.607

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as a low-risk auditee?	No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

Part II - Findings Relating to the Financial Statements that are Required to be Reported in Accordance with *Government Auditing Standards*

No findings were identified.

Part III - Findings and Questioned Costs Relating to Federal Awards

Finding 2019-001	**Cash Management**
Federal Program:	**Community Economy Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation**
CFDA No:	**12.607**
Federal Agency:	**U.S. Department of Defense (Office of Economic Adjustment)**
Category:	**Significant Deficiency over Compliance and Internal Controls**

Criteria

Non-Federal entities must minimize the time elapsing between the transfer of funds from the Federal entity and disbursement by the non-Federal entity for direct program or project costs and the proportionate share of allowable indirect costs, whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means (2 CFR section 200.305(b)).

Payment Methods – Advance and/or Reimbursement

Under the advance payment method, Federal awarding agency or pass-through entity payment is made to the non-Federal entity before the non-Federal entity disburses the funds for program purposes (2 CFR section 200.3). A non-Federal entity must be paid in advance provided that it maintains, or demonstrates the willingness to maintain, both written procedures that minimize the time elapsing between the transfer of funds and disbursement by the non-Federal entity, as well as a financial management system that meets the specified standards for fund control and accountability (2 CFR section 200.305(b)(1)). Advance payments to a non-Federal entity must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the non-Federal entity in carrying out the purpose of the approved program or project. The timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the non-Federal entity for direct program or project costs and the proportionate share of any allowable indirect costs (upt to 30 days for anticipated expenses).

The reimbursement payment method is the preferred payment method if (a) the non-Federal entity cannot meet the requirements in 2 CFR section 200.305(b)(1) for advance payment, (b) the Federal awarding agency sets a specific condition for the use of the reimbursement or (3) if requested by the non-Federal entity (2 CFR sections 200.305(b)(3) and 200.207)). The reimbursement payment method also may be used on a Federal award for construction or for other construction activity as specified in 2 CFR section 200.305(b)(3), program costs must be paid by non-Federal entity funds before submitting a payment request (2 CFR section 200.305(b)(3)), i.e., the non-Federal entity must disburse funds for program purposes before requesting payment from the Federal awarding agency or pass-through entity.

Condition

From a sample of twenty-one disbursements, we found ten that did not follow a reasonable time elapsing between transfer and disbursement. The Authority requested most of its funds under the advance method on a quarterly basis, including funds for contracted services. The Authority time elapsing between the transfer and payment of those ten transactions ranged between 90 days and 152 days.

Cause

The Authority lacks control over cash management related to federal funds.

Part III - Findings and Questioned Costs Relating to Federal Awards (Continued)

Finding 2019-001	**Cash Management (Continued)**
Federal Program:	**Community Economy Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation**
CFDA No:	**12.607**
Federal Agency:	**U.S. Department of Defense (Office of Economic Adjustment)**
Category:	**Significant Deficiency over Compliance and Internal Controls**

Effect

The OEA could force the Authority to draw funds based on the reimbursement method, instead of the advance option.

Questioned Costs

None

Recommendation

We recommend the Authority to design and implement controls over the cash management of OEA funds to ascertain disbursements are made promptly after the drawdown.

Views of Responsible Officials and Planned Corrective Actions

Unaudited Corrective Action Attached.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2019

Finding 2018-001 **Significant Deficiency in Internal Controls over Financial Reporting and Noncompliance - Environmental Liability Insurance Policy and Governmental Regulations and Environmental Protection**

Condition

As of June 30, 2018, the only high environmental risk tenant operating within the facilities of the Authority, has not provided evidence to support their compliance with the environmental insurance coverage and with governmental regulations and environmental protection. Based on a letter dated May 21, 2018, issued by the Authority's environmental consultant, in addition to not providing an environmental insurance policy, tenant could not provide evidence of the following permits.

1. **US Environmental Protection Agency (EPA) Permits**

- NPDES GP-2015 Permit
- NPDES VGP-2013 (78 FR 213938) Permit
- Spill Prevention, Control, and Countermeasure Plan (40CFR112)
- Hazardous Waste Generator Number
- A/C Refrigerant Technician Certification
- A/C Refrigerant Recovery Unit Certification

2. **Puerto Rico Environmental Quality Board (EQB) Permits**

- DS-2 (Non-hazardous Solid Waste Management Facility) Permit
- DS-1 (Non-hazardous Solid Waste Transportation) Permit
- Used Oil Generator Number
- Used Oil Collection Center Permit (CRAU)
- Permit for UST's in use.
- Air Emission Permit (PFE)
- Asbestos Removal Permit
- Lead Base Paint Removal Permit

On December 31, 2018, the Authority terminated the lease agreements with the tenant and issued an order to evict the facilities. On May 1, 2019, the tenant filed for bankruptcy under Chapter 11, Reorganization, and the equipment remains at the leased facilities.

In addition, there are local hazardous and non-hazardous materials located at the Authority's facilities.

A similar finding was reported for the year ended June 30, 2017, **2017-001.**

Recommendation

We recommend the Authority to supervise the facilities currently occupied by the former tenant in order to ascertain the existence of controls to prevent any type of contamination due to the local hazardous and non-hazardous material.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2019

Finding 2018-001 Significant Deficiency in Internal Controls over Financial Reporting and Noncompliance - Environmental Liability Insurance Policy and Governmental Regulations and Environmental Protection (Continued)

Status

Resolved. Since May 1, 2019, the US Federal Bankruptcy Court oversees all transactions and events of this high environmental risk tenant. In January 2020, the tenant surrendered the premises and removed part of the local hazardous and non-hazardous materials located at the Authority’s facilities. There still a barge and scrap equipment pending to be removed.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2019

Finding 2017-001 **Significant Deficiency in Internal Controls over Financial Reporting and Noncompliance - Environmental Liability Insurance Policy**
Refer to Finding 2019-001and 2018-001

Condition

As of June 30, 2017, the only high environmental risk tenant operating within the facilities of the Authority, has not provided evidence to support their compliance with the environmental insurance coverage. Failure of the Tenant to keep said coverage will be sufficient cause to terminate without liability release.

Recommendation

We recommend the immediate design and implementation of control over compliance with contracts to ascertain non-compliance by the counterparties are promptly detected to prevent potential expenses to the Authority. Furthermore, on December 30, 2016, an environmental consultant made a recommendation that for those tenants and potential tenants that represent a significant or severe environmental liability, the Authority should require a pollution liability insurance of no less than $5,000,000 and that said policy shall be endorsed in favor of and held harmless the Authority. Due to the environmental risks involved, the Authority shall increase the coverage limit to not less than $5,000,000 per event or occurrences for high risk tenants.

Status

Resolved. Refer to Finding **2018-001**.

Corrective Action Plan - Unaudited

Single Audit Package

For Fiscal Year Ended June 30, 2019

Finding Number: 2019-001

Finding Description: Cash Management

Condition:

From a Sample of twenty-two disbursements, we found ten that did not follow a reasonable time elapsing between transfer and disbursement. The Authority requested most of its funds under the advance method on a quarterly basis, including funds for contracted services. Authority time elapsing between the transfer and payments of those ten transactions ranged between 90 days and 152 days.

Management's Response:

The Authority made payments request in advance to the Office of Economic Adjustment on a quarterly basis, because considerable time elapsed between each payment request and the deposit of funds into the Authority's federal bank account. This situation makes difficult keep the operations without disruption in the operations or services received. The OEA's payment request process is manual and start filing SF-270 form and submitting it to the OEA via email. The Authority's payment requests are based on estimates of the projected payrolls and professional services amounts to be expended within the quarter. It is also important to mention, that the actual payments in a quarter are subject to events that not necessarily are under the Authority's control. Also, some contractors fail to submit their invoices in a timely manner. In 2019, the OEA adopted and implement the HHS PMS system for Grants after 6/1/2019, to process payment request, expediting the payment request process. With this adoption, the gap between the time of a request and the funds deposits decrease substantially, eliminating the need to make petitions in advance. Moreover, in order to minimize or avoid the occurrence of large cash on hand balances and delay in federal funds disbursements, the Authority prepared and will be implementing the Federal Cash Disbursement Procedure, included here as Exhibit I.

Person in Charge: Finance and Administration Director

Accountant

Implementation Date: FY 2020-2021

Exhibit I – Federal Cash Disbursement Procedure

The following steps must be executed to make cash disbursement from federal programs to pay for service rendered in order to comply with the cash on hand requirements and avoid the occurrence of excess cash balances in the federal bank accounts:

1. Any petition of funds in advance must be based in specific certain amounts to be incurred and can not be based in expenses estimates.
2. As much as possible, the petition of funds shall be processed as reimbursements for services rendered and based in incurred costs evidence by the corresponding invoices.
3. The invoices related to services rendered by consultants shall be delivered to the LRA's Administrative Assistant.
4. Once received, the Administrative Assistant will proceed to register in the correspondence log and forward a copy to the person that received the goods or services for its verification and certification. The employee will certify that the services were rendered, or the goods were received according to the contract and/or the purchase order. A copy will also be delivered to the Finance and Administration Director for information and follow up.
5. The employee who certify the invoice will then send back the invoice to the Administrative Assistant for the preintervention process. When the preintervention process in completed, the invoice is forward to Accountant for the formal registration in the MIP Accounting System.
6. The Accountant verify if they are enough funds to proceed with the payment or if it is necessary to prepare a drawdown voucher to request the funds. Any excess cash balance in the Federal Account must be used prior to submit any federal funds request.
7. If a fund request is necessary, the Director of Finance and Administration will proceed to prepare a funding request voucher and sent it to the Executive Director for approval. Then the petition is file to the OEA. For Grants before 6/1/2019, form OEA-SF-270 must be filing. For Grants after that date the LRA shall submit OEA-SF-270 before the OEA and a Payment Request using HHS PMS system. The SF-270 form must be submitted to oea.nrc.oea.mbx.oea-pms@mail.mil.
8. The Director of Finance and Administration shall be responsible to certify and notify when the funds are available in the bank account.
9. When the funds are available, the accountant shall prepare the disbursement order and the checks.
10. The disbursement order and check are delivered to the Director of Finance and Administration and the Executive Director for the corresponding authorization for payment.
11. The payment must be performed within the 72hours time frame from the deposits of funds into the Authority's Federal Program Bank Account.