Puerto Rico Public Private Partnerships Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Uniform Guidance Report
Fiscal Year Ended June 30, 2019

(With Independent Auditors' Report)

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information
Fiscal Year Ended June 30, 2019

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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of
Puerto Rico Public Private Partnerships Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Puerto Rico Public Private Partnerships 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 Puerto Rico Public Private Partnerships 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.

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Puerto Rico Public Private Partnerships Authority as of June 30, 2019, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Uncertainty

As discussed in Notes 1 and 5 to the basic financial statements, the Puerto Rico Public Private Partnerships Authority is responsible for the identification and development of Partnerships viable for the delivery of public infrastructure or the provision or enhancement of public services. For these services, the Puerto Rico Public Private Partnerships Authority's charges a service fee to other governmental entities. Currently, the Puerto Rico Public Private Partnerships Authority's main source of revenue consists of legislative appropriations approved in the budget from the Commonwealth and certified by the Fiscal Oversight Management Board. In addition, the Fiscal Oversight Management Board approves fiscal plans in Commonwealth Instrumentalities, including funds for future Partnerships and the payment for the Puerto Rico Public Private Partnerships Authority's services. As a result, the Puerto Rico Public Private Partnerships Authority's operations are dependent on the Commonwealth of Puerto Rico's ability to continue providing funding through legislative appropriations and the collection of charges for the execution of a Public Partnership Agreement.

Management's evaluation of the Puerto Rico Public Private Partnerships Authority's going concern has identified the financial condition of the Commonwealth of Puerto Rico as an external matter that may affect the ability of the Puerto Rico Public Private Partnerships Authority to continue as a going concern. The Commonwealth of Puerto Rico and its instrumentalities are in the midst of a profound fiscal crisis and are in the process of restructuring its liabilities under Title III of PROMESA.

The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Change in Reporting Entity

As discussed in Note 4, on March 20, 2018, the Governor of the Commonwealth of Puerto Rico signed Executive Order 2018-11, which transfers the Government Authorized Representative from the Puerto Rico Emergency Management Agency, an agency of the Commonwealth of Puerto Rico, to the Central Recovery and Reconstruction Office of Puerto Rico. The executive order also transferred to the Central Recovery and Reconstruction Office of Puerto Rico all the administrative functions, funds, available budget, financial instruments, state or federal appropriations to be received in the future, documents, equipment, files and records related to the Government Authorized Representative, including the work unit or employees. In addition, the Executive Order appoints to the Central Recovery and Reconstruction Office of Puerto Rico as grantee of all the Federal Emergency Management Agency's grant awards.

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 to 11, 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 Puerto Rico Public Private Partnerships Authority's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S.* Code of Federal Regulations *Part 200*, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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 as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2022 on our consideration of Puerto Rico Public Private 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Puerto Rico Public Private Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Puerto Rico Public Private Partnerships Authority's internal control over financial reporting and compliance.

San Juan, Puerto Rico
January 5, 2022, except for our report on the supplementary information for which the date is March 1, 2023.

RSM Puerto Rico

Stamp No. E522935 was affixed to the original of this report.

This management's discussion and analysis section (MD&A) provides a narrative overview and analysis of the financial activities of Puerto Rico Public Private Partnerships Authority (the Authority) for the fiscal year ended June 30, 2019. The MD&A is intended to serve as an introduction to the Authority's basic financial statements, which have the following components: (1) Government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The MD&A is designed to (a) assist the reader in focusing on significant matters, (b) provide an overview of the Authority's financial activities, and (c) identify changes in the Authority's financial position and identify individual issues or concerns. The following presentation is by necessity highly summarized, and therefore, in order to gain a thorough understanding of the Authority's financial condition, the basic financial statements, notes, and required supplementary information should be reviewed in its entirety.

1. FINANCIAL HIGHLIGHTS

- The Authority's Total Assets government-wide was approximately $162.9 million as of June 30, 2019, an increase of $134.3 million or 470% when compared to prior year.
- The Authority's Total Liabilities government-wide was approximately $166.1 million as of June 30, 2019, an increase of $128.5 million or 342% when compared to prior year.
- The Authority's Total Net Deficit government-wide was approximately $3.1 million as of June 30, 2019, a decrease of $5.5 million or -63% when compared to prior year.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis is required supplementary information to the basic financial statements and is intended to serve as an introduction to the Authority's basic financial statements for the fiscal year ended June 30, 2019. The basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

Government-wide Financial Statements – The government-wide financial statements provide readers a broad view of the Authority's operations in a manner similar to a private-sector business. The statements provide both short and long-term information about the Authority's financial position, which assists in assessing the Authority's economic condition at the end of the fiscal year. These are prepared using the economic resources measurement focus and the full accrual basis of accounting. This means they follow methods that are similar to those used by most private businesses. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid.

The government-wide financial statements include two statements:

- ***Statement of Net Position***– This statement presents all of the government's assets, liabilities, and deferred outflows and inflows of resources. Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Over time, increases or decreases in the Authority's net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

- ***Statement of Activities*** – This statement presents information showing how the Authority's net position changed during the most recent fiscal 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 related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

In the Statement of Net Position and the Statement of Activities, Authority's operations are divided into the following two kinds of activities:

(1) **Governmental Activities -** Governmental Activities generally are financed through intergovernmental and other non-exchange revenues.

(2) **Business-Type Activities -** Business-Type Activities are financed in whole or in part by fees charged for goods or services.

The government-wide financial statements can be found immediately following this MD&A.

Governmental and Proprietary Funds Financial Statements

Financial statements prepared at the fund level provide additional details about the Authority's financial position and activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority uses fund accounting to help ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the Authority operations, reporting the Authority's operations in more detail than the government-wide financial statements. Information presented in the fund financial statements differs from the information presented in the government-wide financial statements because the perspective and basis of accounting used to prepare the fund financial statements differ from the perspective and basis of accounting use to prepare the government-wide financial statements. The Authority's governmental and proprietary fund types use different perspectives and accounting basis. All of the funds of the Authority can be divided into the following categories:

Governmental Fund - Most of the basic services provided by the Authority are financed through a governmental fund. A governmental fund is used to account for essentially the same functions reported as Governmental Activities in the government-wide financial statements. However, unlike the government-wide financial statements that use the full accrual basis of accounting, the governmental funds financial statements use a modified accrual basis of accounting (also known as the current financial resources measurement focus), which focuses on near-term inflows and outflows of expendable resources. This information may be useful in evaluating the government's near-term financing requirements. These statements provide a detailed short-term view of the Authority's finances and assist in determining whether there will be adequate financial resources available to meet the current needs of the Authority. Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for the Governmental Activities in the government-wide financial statements. By comparing the two, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statements.

The Authority has one major governmental fund. That major governmental fund is presented in a separate column in the balance sheet-governmental fund and in the statement of revenues, expenditures, and changes in fund balance-governmental fund. This major fund relates to the activities of the Central Recovery and Reconstruction Office of Puerto Rico (the COR3).

Proprietary Fund- Proprietary funds provide the same type of information as the Business-Type Activities in the government-wide financial statements, but in more detail. As with government-wide financial statements, proprietary funds financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary funds financial statements.

The Authority has a proprietary fund. That proprietary fund is presented in a separate column in the statement of net deficit-proprietary fund and in the statement of revenues, expenses, and changes in net position-proprietary fund. This proprietary fund relates to the activities related to the identification analysis and development of Public Private Partnerships projects for the delivery of public infrastructure or the provision or enhancement of public services.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements and the fund financial statements. The notes to the basic financial statements can be found immediately following the Statement of Cash Flows- Proprietary Fund.

3. GOVERNMENT-WIDE FINANCIAL ANALYSYS

During fiscal year 2017-2018, the Governor of the Commonwealth of Puerto Rico (Governor) created the Central Recovery and Reconstruction Office of Puerto Rico (COR3) through Executive Order 2017-65 (EO-2017-65). COR3 was organized as a division within the Authority, to manage all efforts for the recovery of the Commonwealth of Puerto Rico (Commonwealth) after the passage of Hurricanes Irma and María. Also, through Executive Order 2018-11 (EO 2018-11), the Governor transferred the Governor's Authorized Representative (GAR), which was the entity authorized by the Governor to receive all disaster recovery grants of Federal Emergency Management Agency (FEMA), from Puerto Rico Emergency Management Agency (PREMA) to COR3.

The purpose of COR3 is, among others, to: (i) identify and procure funds, (ii) coordinate efforts and activities, (iii) finance and execute infrastructure works and projects, and (iv) advise the Governor and Commonwealth's instrumentalities over unprecedented amount of state, federal and private resources to be made available to the Commonwealth related to the recovery.

During the fiscal year ended June 30, 2019, the financial operations of COR3 are presented as part of the Authority's basic financial statements.

Since COR3 does not charge for its services, it was necessary to presents Governmental Activities operation within the basic financial statements of the Authority.

Total assets, and total liabilities of the Authority as of June 30, 2019, amounted to approximately $162.9 million, and $166.1 million, respectively, for a net deficit of approximately $3.1 million.

Governmental Activities

The following is an analysis of the financial position and changes in the financial position of the Authority's Governmental Activities for fiscal year 2019.

Statement of Net Position

Governmental entities are required by U.S. Generally Accepted Accounting Principles (U.S. GAAP), as prescribed by the Governmental Accounting Standard Board (GASB), to report on their net position. The statement of net position presents the value of all the Authority's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between them reported as net position.

Net position may serve over time as a useful indicator of a government's financial position. Total assets and total liabilities of the Authority as of June 30, 2019, amounted to approximately $130.4 million and $130.3 million, respectively, for a net position of approximately $74 thousand.

Condensed financial information from the statements of net position as of June 30, 2019, and June 30, 2018, as restated, is as follows (in thousands):

	June 30,		Change	
	2019	**2018 (as restated)**	**Amount**	**Percentage**
Assets	$ 130,346	$ 7,881	$ 122,465	1554%
Liabilities	130,272	9,005	121,267	2188%
Net position	$ 74	$ (1,124)	$ 1,198	(107%)

Total assets increased by approximately $122.5 million when compared to prior year due to the following: (1) an increase in intergovernmental receivable of approximately $130.2 million related to amounts requested to FEMA related to natural disaster expenses incurred by subgrantees, netted with due to interfund for approximately $10.9 million.

Total liabilities increased by approximately $121.3 million when compared to prior year due to the following: (1) an increase in accounts payable amounting to $119 million related to professional service vendors (2) an increase in compensated absences for approximately $244 thousand.

Statements of Activities and Results of Operations

Condensed financial information from the statements of activities for the years ended June 30, 2019, and June 30, 2018, is as follows (in thousands):

	June 30,		Change	
	2019	2018 (as restated)	Amount	Percentage
Expenses	$ (2,857,067)	$ (1,005,171)	$ (1,851,896)	184%
Program revenues:				
Operating grants and contributions	2,858,265	1,004,522	1,853,743	185%
Change in Net Position	1,198	(649)	1,847	-285%
Net Position (Deficit) - Beginning (as restated)	(1,124)	(475)	(649)	137%
Net Position-Ending	$ 74	$ (1,124)	$ 1,198	-107%

The revenues are composed of approximately $2.8 billion of Federal Grants and approximately $35.9 million of Commonwealth's appropriations, an increase of approximately $1.8 billion. Increase is mainly related to the approval and funds received from FEMA related to Hurricane Irma and María expense reimbursement requested by subgrantees.

The expenses of approximately $2.9 billion are composed as follows: grant disbursements to sub-grantees of approximately $2.7 billion related to reimbursement related to Hurricane Irma and María, professional services of approximately $184.5 million, payroll expenses approximately $3.9 million, a benefit of approximately $3.1 million related net pension obligation as a result of the adoption Act 106 approved on fiscal year 2017 and other expenses of approximately $105 thousand.

Increase in expenses amounting to $1.9 billion are mainly related to an increase in reimbursement paid to subgrantees.

Business-Type of Activities

The following is an analysis of the financial position and changes in the financial position of the Authority's Business-Type Activities for fiscal year 2019.

Statement of Net Deficit – Proprietary Fund

Condensed financial information from the statements of net deficit as of June 30, 2019, and June 30, 2018, is as follows (in thousands):

	June 30,		Change	
	2019	2018	Amount	Percentage
Assets	$ 43,561	$ 20,724	$ 22,837	110%
Deferred outflows of resources	-	310	(310)	-100%
Current Liabilities	(16,538)	(14,251)	(2,287)	16%
Non Current Liabilities	(30,284)	(14,104)	(16,180)	115%
Deferred inflows of resources	-	(236)	236	-100%
Net deficit	$ (3,261)	$ (7,557)	$ 4,296	-57%

Total assets amounted to approximately $43.5 million as of June 30, 2019 and total liabilities amounted to approximately $46.8 million for a net deficit of approximately $3.3 million.

Total assets increased by approximately $22.8 million when compared to prior year due to the following: (1) an increase in cash of approximately $9.9 million, (2) an increase in due from other fund (COR3) of approximately $10.9 million for payments made by the Authority on behalf of COR3, (3) an increase in due from Government Development Bank for Puerto Rico (GDB) of approximately $4.9 million related to overpayments made by GDB related to Authority's payroll taxes which were reimbursed by GDB subsequently to year end, (4) an increase in prepaid expenses of approximately $355 thousand, and (5) an increase in capital assets of approximately $14 thousand.

Total liabilities increased by approximately $18.3 million when compared to prior year due to the following: (1) an increase in accounts payable and accrued liabilities of approximately $4 million related to amount owed for services provided related to the development of public private partnerships (2) a decrease in net pension liability of approximately $1.8 million due to the adoption of Act 2016 approved by the Commonwealth during the fiscal year 2018 and (3) and increase in unearned revenues amounting to $16.1 million due to funds mainly related to appropriations received from the Commonwealth of Puerto Rico of approximately $21.3 million from which $8.9 were presented as service charge for services rendered by the Authority for the identification, analysis and development of partnerships projects. Also, during fiscal year ended on June 30, 2019 the Authority received $9.5 million from the Puerto Electric Power Authority for the development partnership projects from which $5.7 million were used and presented as service charge for the fiscal year ended on June 30, 2019.

Statements of Revenues, Expenses, and Changes in Net Position

Condensed financial information from the statements of revenues, expenses and change in net position during the years ended June 30, 2019, and June 30, 2018, is as follows (in thousands):

	June 30,		Change	
	2019	2018	Amount	Percentage
Operating Revenues	$ 16,406	$ 2,325	$ 14,081	606%
Expenses	(18,788)	(4,290)	(14,498)	338%
Non Operating Revenues	6,678	2,118	4,560	302%
Change in Net Position	4,296	153	4,143	2708%
Net Deficit-Beginning	(7,557)	(7,710)	153	-2%
Net Deficit-Ending	$ (3,261)	$ (7,557)	$ 4,296	-57%

Operating revenues

The Authority service charges increased by approximately $14.1 million explained as follows: services fee received in an interagency assistance and collaboration agreement with Puerto Rico Electric Power Authority (PREPA) amounting to $5.7 million; a recovery for a account receivable that was written off amounting to $1.6 million. Also, there are $6.8 million of unearned revenues that were realized during the fiscal year 2019 as for the Authority continue working in the development of public private partnership that were paid by the Commonwealth of Puerto Rico for different governmental entities: University of Puerto Rico Housing Project, Maritime Transportation Authorities Ferries Transportation System, Ports Authority Cruise Terminals, Puerto Rico Aqueduct Sewer Authority Meters Replacement and Department of Public Safety Police Academy.

Operating Expenses

The Authority's most significant operating expenses correspond to professional services, other operating expenses and interest expense amounting to approximately $17.9 million, $2.2 million and $424 thousands, respectively, for the fiscal year ended June 30, 2019.

Operating expenses increase by $14.4 million when compared with fiscal year ended on June 3, 2018 mainly related to an increase in professional services amounting to $14.6 million and other operating expenses amounting to $1.7 million related to the development of Commonwealth governmental entities public private partnerships, such increases were offset by a decrease amounting to $1.8 million of pension expense due to the adoption of Act 106 Pay go reform.

Non-Operating revenues increase by $4.5 million is mainly related to an increase in Commonwealth's appropriations increased by approximately $4.5 million.

The Authority's principal activities are to identify, analyze and develop Public Private Partnerships (Partnerships) projects, for the delivery of needed public infrastructure or the provision or enhancement of public services. To that end, the Authority's enabling act (Act 29 of June 8, 2009, as amended) requires the Authority to commission a desirability and convenience study for which the Authority engages specialized professional services. The objective of the desirability and convenience study is to determine the technical and financial feasibility of a proposed Partnership's project. Upon a determination of a project's feasibility under the Partnership model, the Authority may initiate a procurement process, for the identification and qualification of potential proponents and the negotiation and award of Partnership transactions.

4. CURRENTLY KNOWN FACTS

Cost-share for federal grants-

On August 2020, Cor3 paid the mission assignments by approximately $12 million. The mission's assignments are related to emergency work performed by a federal entity on behalf of a state entity (i.e., US Army Corps of Engineers performing emergency work for PREPA related to damages to the electrical grid after a disaster). Refer to Note 17 for details.

Intergovernmental agreements-

In June 2020, PREPA, Luma Energy and the Authority signed the partnership contract for the electric power transmission and distribution system.

Currently, the Authority is working on other Public Private Partnerships related to PREPA energy generation and storage, Puerto Rico Aqueduct and Sewer Authority optimization of the water consumption measurement system and customer service, Puerto Rico Ports Authority modernization of the San Juan Bay cruise terminals and Puerto Rico Police Department consolidated public safety training center. Those projects are in different stages or phases of the procurement process. Refer to Note 15.

5. REQUESTS FOR INFORMATION

This financial report is designed to provide those interested with a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Puerto Rico Public Private Partnerships Authority at the following address: P.O. Box 42001, San Juan, Puerto Rico, 00940-2001.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION (DEFICIT)
JUNE 30, 2019

	Governmental Activities	Business-type Activities	Total
ASSETS:			
CURRENT ASSETS:			
Cash	$ –	$ 27,338,776	$ 27,338,776
Intergovenmental receivable	130,235,443	9,503	130,244,946
Internal balance	(10,970,351)	10,970,351	–
Due from Government Develoment Bank for Puerto Rico	–	4,870,726	4,870,726
Prepaid expenses	–	356,024	356,024
Total current assets	119,265,092	43,545,380	162,810,472
NON-CURRENT ASSETS:			
Capital assets, net	110,825	15,767	126,592
Total non-current assets	110,825	15,767	126,592
Total assets	119,375,917	43,561,147	162,937,064
LIABILITIES AND NET POSITION (DEFICIT):			
CURRENT LIABILITIES:			
Accounts payable and accrued liabilities	119,057,956	9,498,715	128,556,671
Due to Commonwealth of Puerto Rico	–	603,955	603,955
Due to Government Develoment Bank for Puerto Rico	–	17,588	17,588
Due to Other Governmental Entities	–	224,424	224,424
Compensated absences	176,000	34,060	210,060
Total current liabilities	119,233,956	10,378,742	129,612,698
NON-CURRENT LIABILITIES:			
Compensated absences	67,994	–	67,994
Line of credit with Government Development Bank for Puerto Rico	–	6,159,117	6,159,117
Unearned revenues	–	30,283,861	30,283,861
Total non-current liabilities	67,994	36,442,978	36,510,972
Total liabilities	119,301,950	46,821,720	166,123,670
NET POSITION (DEFICIT):			
Net investment in capital assets	110,825	15,767	126,592
Unrestricted	(36,858)	(3,276,340)	(3,313,198)
Total net position (deficit)	$ 73,967	$ (3,260,573)	$ (3,186,606)

The accompanying notes are an integral part of this basic financial statement.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

		Program Revenues		Net Revenues (Expenses) and Changes in Net Position (Deficit)		
Functions/Programs	**Expenses**	**Charges for Services - Fees, Commissions, and Others**	**Operating Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**
Governmental activities:						
Economic Development	$ 2,857,067,569	$ –	$ 2,858,265,096	$ 1,197,527	$ –	$ 1,197,527
Total governmental activities	2,857,067,569	–	2,858,265,096	1,197,527	–	1,197,527
Business-type activities:						
Puerto Rico Public Private Partnerships	18,788,084	16,406,791	6,596,335	$ –	4,215,042	4,215,042
Total business-type activities	18,788,084	16,406,791	6,596,335	–	4,215,042	4,215,042
Total	$ 2,875,855,653	$ 16,406,791	$ 2,864,861,431	1,197,527	4,215,042	5,412,569
General Revenues:						
Interest income				–	81,742	81,742
Total general revenues				–	81,742	81,742
CHANGES IN NET POSITION				1,197,527	4,296,784	5,494,311
NET DEFICIT — Beginning of year, as restated				(1,123,560)	(7,557,357)	(8,680,917)
NET POSITION (DEFICIT)— End of year				$ 73,967	$ (3,260,573)	$ (3,186,606)

The accompanying notes are an integral part of this basic financial statement.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET- GOVERNMENTAL FUND
JUNE 30, 2019

ASSETS:		
Intergovernmental receivable	$	130,235,443
Total assets	$	130,235,443
LIABILITIES AND FUND BALANCE:		
Accounts payable and accrued liabilities	$	119,057,956
Due to other fund		10,970,351
Total liabilities		130,028,307
Fund balance-unassigned		207,136
Total liabilities and fund balance	$	130,235,443

The accompanying notes are an integral part of this basic financial statement.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION (DEFICIT)
JUNE 30, 2019

FUND BALANCE OF GOVERNMENTAL FUND	$	207,136
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITON (DEFICIT) ARE DIFFERENT THAN THE AMOUNTS REPORTED IN THE GOVERNMENTAL FUND BECAUSE:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund		110,825
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental fund		(243,994)
NET POSITION OF GOVERNMENTAL ACTIVITIES	$	73,967

The accompanying notes are an integral part of this basic financial statement.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE- GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2019

REVENUES:	
Federal Grants	$ 2,822,316,506
Contribution from Commonwealth of Puerto Rico	35,948,590
Total revenues	2,858,265,096
EXPENDITURES:	
Economic Development	2,860,097,735
Total expenditures	2,860,097,735
NET CHANGE IN FUND BALANCE	(1,832,639)
FUND BALANCE- Beginning of year as restated	2,039,775
FUND BALANCE - End of year	$ 207,136

The accompanying notes are an integral part of this basic financial statement.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

NET CHANGE IN FUND BALANCE- GOVERNMENTAL FUND		$ (1,832,639)
AMOUNT REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:		
Adoption of GASB 73 reported in the statement of activities are not reported in the governmental fund		3,069,292
Some expenses in the statement of activities do not require the use of current financial resources and, therefore , are not reported as expenditures in governmental fund		(149,951)
Governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital outlays	$ 119,297	
Less depreciation expense	(8,472)	
Subtotal		110,825
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 1,197,527

The accompanying notes are an integral part of this basic financial statement.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET DEFICIT-PROPRIETARY FUND
JUNE 30, 2019

ASSETS	
CURRENT ASSETS:	
Cash	$ 27,338,776
Due from other fund	10,970,351
Accounts receivable, net	9,503
Due from Government Develoment Bank for Puerto Rico	4,870,726
Prepaid expenses	356,024
Total current assets	43,545,380
NON-CURRENT ASSETS:	
Capital assets, net	15,767
Total non-current assets	15,767
Total assets	43,561,147
LIABILITIES AND NET POSITION (DEFICIT)	
CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	9,498,715
Due to Commonwealth of Puerto Rico	603,955
Due to Government Develoment Bank for Puerto Rico	17,588
Due to Other Governmental Entities	224,424
Compensated absences	34,060
Total current liabilities	10,378,742
NON-CURRENT LIABILITIES:	
Line of credit with Government Development Bank for Puerto Rico	6,159,117
Unearned Revenues	30,283,861
Total non-current liabilities	36,442,978
Total liabilities	46,821,720
NET POSITION (DEFICIT)	
Net investment in capital assets	15,767
Unrestricted	(3,276,340)
Total net deficit	$ (3,260,573)

The accompanying notes are an integral part of this basic financial statement.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION- PROPRIETARY FUND
YEAR ENDED JUNE 30, 2019

OPERATING REVENUES:	
Services charges	$ 14,571,961
Recovery of an account receivable written off	1,691,572
Custodial credit loss recovery	143,258
Total operating revenues	16,406,791
OPERATING EXPENSES:	
Professional services	17,922,644
Other operating expenses	2,247,396
Adoption of Act 106 Pay go reform	(1,808,834)
Interest expense	424,121
Depreciation expense	2,757
Total operating expenses	18,788,084
OPERATING LOSS	(2,381,293)
NON-OPERATING REVENUES:	
Contribution from Commonwealth of Puerto Rico	6,593,000
Other contribution	3,335
Interest income	81,742
Total non-operating revenues	6,678,077
CHANGE IN NET POSITION	4,296,784
NET DEFICIT- Beginning of year	(7,557,357)
NET DEFICIT - End of year	$ (3,260,573)

The accompanying notes are an integral part of this basic financial statement.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS- PROPRIETARY FUND
YEAR ENDED JUNE 30, 2019

CASH FLOWS FROM OPERATING ACTIVITES:	
Services charges received	$ 32,586,330
Cash paid for operating activities	(29,178,083)
Net cash provided by operating activities	3,408,247
CASH FLOWS FROM CAPITAL AND NONCAPITAL FINANCING ACTIVITIES:	
Cash received from Commonwealth of Puerto Rico	6,593,000
Other contribution	3,335
Payment of line of credit	(143,258)
Capital expenditures	(16,883)
Net cash provided by capital and noncapital financing activities	6,436,194
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	81,754
NET CHANGE IN CASH	9,926,195
Cash - beginning of year	17,412,581
Cash - end of year	$ 27,338,776
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating loss	(2,381,293)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	2,757
Changes in assets and liabilities:	
(Increase) in:	
Due from other fund	(7,665,449)
Accounts receivable, net	(5,000)
Due from Government Development Bank for Puerto Rico	(4,870,726)
Prepaid expenses	(355,355)
Increase (Decrease) in:	
Accounts payable and accrued liabilities	4,080,857
Deferred inflows of resources	16,179,539
Net pension obligation	(1,808,834)
Due to Government Development Bank for Puerto Rico	24
Due to Other Governmental Entities	224,424
Compensated absences	7,303
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,408,247

The accompanying notes are an integral part of this basic financial statement.

1. REPORTING ENTITY

Puerto Rico Public Private Partnerships Authority (the Authority) is a Component Unit of the Commonwealth of Puerto Rico (the Commonwealth) and an affiliate of Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), another component unit of the Commonwealth. The Authority was created by Act No. 29 of June 8, 2009, as amended (Act 29). Pursuant to Act 29, the Authority is the sole Commonwealth's governmental entity authorized and responsible for implementing the public policy on public private partnerships (the Partnerships) and for determining the functions, services or facilities for which such Partnerships will be established.

The Authority's principal activities are the identification, analysis and development of Partnerships projects, for the delivery of needed public infrastructure or the provision or enhancement of public services. To that end, the Authority enabling act requires the Authority to prepare or commission the preparation of the desirability and convenience study for which the Authority engages specialized professional services. The objective of the desirability and convenience study is to determine the technical and financial feasibility of a proposed Partnership project. Upon determination of a project's feasibility under the Partnerships model, the Authority may initiate a procurement process for the identification, evaluation, qualification and selection of potential proponents and the negotiation and award of a Partnership agreement.

Central Recovery and Reconstruction Office of Puerto Rico

During fiscal year 2017-2018, the Governor of the Commonwealth of Puerto Rico (the Governor) created the Central Recovery and Reconstruction Office of Puerto Rico (COR3) through Executive Order 2017-65 (EO-2017-65). COR3 was organized as a division within the Authority, to manage all efforts for the recovery of the Commonwealth of Puerto Rico (Commonwealth) after the passage of Hurricanes Irma and María. Also, through Executive Order 2018-11 (EO 2018-11), the Governor transferred the Governor's Authorized Representative (GAR), which was the entity authorized by the Governor to receive all disaster recovery grants of FEMA, from Puerto Rico Emergency Management Agency (PREMA) to COR3.

The purpose of COR3 is, among others, to: (i) identify and procure funds, (ii) coordinate efforts and activities, (iii) finance and execute infrastructure works and projects, and (iv) advise the Governor and Commonwealth's instrumentalities over unprecedented amount of state, federal and private resources to be made available to the Commonwealth related to the recovery.

There are federal funding sources related to disaster recovery that are not administered by COR3 (i.e., HUD's CDBG-DR program, which is managed by the PR Department of Housing). COR3 is only the Recipient of FEMA Public Assistance (PA) and Hazard Mitigation Grant Program (HMGP). There are other FEMA programs where COR3 is not a recipient and only provides limited support but does not manage any federal funds or grants. Also note that for PA and HMGP grant funds other than COR3's own management costs, COR3 acts as a passthrough entity whereby it draws funds from FEMA's SmartLink system and deposits such funds in a subrecipient bank account. Any cost share related to grant awards managed by COR3 should be appropriated by the Commonwealth of Puerto Rico and paid to COR3.

As for Mission Assignments and associated expenses, they relate to emergency work performed by a federal entity on behalf of a state entity (i.e., US Army Corps of Engineers performing emergency work for PREPA related to damages to the electrical grid after a disaster). In these cases, FEMA pays the federal agency directly, and thereafter invoices the Commonwealth of Puerto Rico, through the COR3/GAR, for any outstanding non-federal cost share balance, if applicable. As such, COR3 does not manage any federal moneys related to Mission Assignments but serves as a pass-through entity in relation to any associated non-federal cost share requirements. The GAR is also responsible for executing related paperwork.

During the fiscal year ended June 30, 2019, the financial operations of COR3 are presented as part of the Authority's basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Authority are presented in conformity with U.S. Generally Accepted Accounting Principles (U.S. GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying basic financial statements present the financial position of the Authority and its various funds, the results of operations and its various funds, and the cash flows of the proprietary funds.

Following is a description of the Authority's most significant accounting policies:

Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information of all the activities of the Authority. The effect of interfund balances has been removed from the government-wide statement of net position (deficit).

Internal balances are not included in the total column of the government-wide statement of net position (deficit). Interfund charges for services among functions of the government-wide statement of activities have not been eliminated. The Authority's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed mainly through intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged for goods or services. The following is a description of the Authority's government-wide financial statements.

The statement of net position (deficit) presents the Authority's assets, liabilities, and deferred inflows of resources, with the residual measure reported as net position (deficit). Net position (deficit) is reported in three categories:

- *Net Investment in Capital Assets* – This component of net position (deficit) consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are directly attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position (deficit).

- *Restricted Net Position (Deficit)* – This component of net position (deficit) consists of restricted assets and deferred outflows of resources reduced by related liabilities and deferred inflows of resources. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restricted assets result when constraints placed on those assets' use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Position (Deficit)* – This component of net position (deficit) is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position (deficit).

When both restricted and unrestricted resources are available for use, it is generally the Authority's policy to use restricted resources first, then the unrestricted resources as they are needed.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable within a specific function or segment. The Authority does not allocate general government (indirect) expenses to other functions. Program revenues include contributions received from the Federal government and from the Commonwealth, charges for services made to other governmental entities, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenue that is not classified as program revenue is presented as general revenue. Resources that are dedicated internally are reported as general revenue rather than as program revenue.

Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements

Fund accounting is designed to demonstrate to aid management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The activities of the Authority that are reported in the accompanying basic financial statements have been classified into governmental and proprietary funds.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* the classification of fund balance is based on the extent to which the Authority is bound to observe constraints imposed upon the use of resources in the governmental funds. The classifications are as follows:

- *Nonspendable* – Amounts that are not in a spendable form or are legally or contractually required to be maintained intact.
- *Restricted* – Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for a specific purpose.
- *Committed* – Amounts that are constrained for specific purposes that are internally imposed by the government's formal action at the highest level of decision-making authority.
- *Assigned* – includes fund balance amounts that are constrained by the Authority and are intended to be used for specific purposes that are neither considered restricted nor committed.
- *Unassigned* – it is the residual classification for the General Fund. In a governmental fund other than the General Fund, a negative amount indicates that the expenditures incurred for a specific purpose exceeded the amounts in the fund that are restricted, committed, and assigned to that purpose.

The Authority has only an unassigned fund balance.

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

The following governmental activities of the Authority are classified as major governmental fund:

COR 3 Program – General fund accounts for funds received from FEMA and the Commonwealth of Puerto Rico related to reimbursement of expenses related to natural disasters.

Proprietary Funds

These funds account for those activities, which are financed and operated in a manner similar to private business enterprises. Management intends to recover, primarily through user charges, the cost of providing goods or services to the general public.

Proprietary funds provide the same type of information as the Business-Type Activities in the government-wide financial statements, but in more detail. As with government-wide financial statements, proprietary funds financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary funds financial statements.

The Authority reports the following major proprietary fund:

Public Private Partnership Fund which account for all the operations related to the development of a Public Private Partnership.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows takes place. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available, and net of estimated overpayments (as applicable) and amounts considered not collectible. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. Other revenues are considered to be measurable and available only when cash is received.

Expenditures are generally recorded when a liability is incurred, as under accrual basis of accounting. However, compensated absences are recorded as expenditures when matured. General capital assets acquisitions are reported as expenditures in governmental funds.

A summary reconciliation of the difference between total fund balance as reflected in the governmental funds balance sheet and net position of Governmental Activities as shown on the government-wide statement of net position (deficit) is presented in an accompanying reconciliation of the balance sheet of governmental funds to the statement of net position (deficit).

A summary reconciliation of the difference between net change in fund balance as reflected in the governmental funds statement of revenues, expenditures, and change in fund balance and change in net position in the statement of activities of the government-wide financial statements is presented in the accompanying reconciliation of statement of revenues, expenditures, and change in fund balance of governmental funds to the statement of activities.

The Authority has one major governmental fund. That major governmental fund is presented in a separate column in the balance sheet-governmental fund and in the statement of revenues, expenditures, and changes in fund balance-governmental fund. This major fund relates to the activities of the COR3.

Proprietary Funds Financial Statements- The basic financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above. The Authority recognizes revenue when earned under the terms of each agreement and when the collection of the fee is reasonably assured. Expenses are recorded when incurred, regardless of the timing of related cash flows. Operating expenses are those related to the administration of the Authority and costs incurred related to the creation of a Partnership. All revenues and expenses not meeting these criteria are reported as non-operating revenues and expenses.

The Authority’s operating revenues are primarily derived from program revenues, services charges, and service fee explained as follows:

- Program revenues – are composed of funds received from Governmental entities to perform feasibility studies for possible Public Private Partnerships.

- Service charges – are costs or expenses incurred by the governmental entity for the services rendered by the Authority resulting from the process for the analysis and development of a Partnership and lower investment partnership projects. Those service charges are recognized as revenues when expenses are incurred.

- Service fees – are included as part of the intergovernmental contracts signed between the Authority and the participating governmental entity(ies) for the analysis and development of a project as a Partnership. In these agreements, the Authority charges service expenses, but in addition a service fee that is normally established as a percentage of the costs or expenses incurred by the Authority in contracting the specialized services necessary for the analysis and development of a Partnership. Also, the Authority charges a cancellation fee, if the corporation or agency withdraws from the project. In this type of contract, service expenses are recognized as revenues when incurred, however the service fee is recognized as revenues when the contract with a third party is signed.

The Authority’s non-operating revenues are derived, among others, from Commonwealth appropriations and interest income.

- Commonwealth appropriations are composed of Commonwealth appropriations made for a specific purpose or with a restriction. Funds received through program revenues for a specific purpose are recognized as deferred inflows of resources at the moment that appropriated funds are received and recognized as revenues at the moment the funds are used for the purpose that were assigned to the Authority. Appropriations received from the Commonwealth without restrictions are recognized as revenues when received.

- Interest income – is composed of interest earn on deposits.

Accounts Receivable

Accounts receivable are stated net of estimated allowance for uncollectible accounts. The allowance is based on the evaluation of the risk characteristics of the receivable, including past collection experience and current economic conditions. Write-offs are recorded against the allowance when management believes that collectability is unlikely. Recoveries of amounts previously charged off are credited to the allowance. Because of uncertainties inherent in the estimation process, management's estimate may change in the future.

Intergovernmental Receivable

Intergovernmental receivable is stated net of estimated allowance for uncollectible accounts, which is determined, based upon past collection experience and current economic conditions. Intergovernmental receivable primarily represent amount requested to the Federal Emergency Management Agency (FEMA) related to natural disaster expenses incurred by subgrantees. This intergovernmental receivable is recognized as revenue in the governmental funds when it becomes measurable and available. In applying the susceptible to accrual concept to federal grants, revenue is recognized when all applicable eligibility requirements are met (typically, when related expenditures are incurred) and the resources are available. Resources received before eligibility requirements are met, other than timing, are considered unearned revenue. Resources received before timing requirements are met are considered deferred inflows of resources.

Prepaid Expenses

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

Capital Assets

Capital assets are stated at cost less accumulated depreciation. Capital assets are defined by the Authority as assets that have a cost of $500 or more at the date of acquisition and have an expected useful life of three or more years. Contributed assets are recorded at estimated fair value at the time received. Depreciation is charged to operations and included within expenses and is computed on the straight-line basis over the estimated useful lives of the depreciable assets. In governmental funds financial statements, capital assets are recorded as expenditures, and no depreciation is recognized. Costs of maintenance and repairs which do not improve or extend the lives of the respective assets are charged to expense as incurred. Estimated useful lives are as follows:

Capital Assets	Years
Information systems	3-5 years
Furniture and equipment	5 years

The Authority follows the provisions of GASB Statement No. 42, Accounting *and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, an amendment to GASB Statement No.34. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. In accordance with these provisions, 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. The Authority evaluated its capital assets as required by GASB Statement No. 42 and no impairment was identified during the fiscal year ended June 30, 2019.

Compensated Absences

The vacation policy of the Authority generally provides for the accumulation of 1.25 days per month up to an annual amount of 15 days. Vacation time accumulated is fully vested by the employees from the first day of work up to a maximum of 60 days. Employees generally accumulate sick leave at a rate of 1.5 days per month up to an annual maximum of 18 days and a maximum accumulation of 90 days. Act 26-2017 was enacted to modify the existent legal and judiciary framework to be able to comply with the Fiscal Plan approved by the Oversight Board. In addition to accrual modifications, Act 26-2017 also altered the liquidation terms. After the enactment of Act 26-2017, only compensation of accrued vacation leaves, up to 60 days, is paid upon employment termination. In order to be eligible to receive compensation, an employee must have been employed for at least three months. Accumulated unpaid sickness days are no longer liquidated upon employment termination. The liability for compensated absences reported in the government-wide and proprietary fund financial statements has been calculated using the vesting method, in which leave amount for an employee who currently is eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included. The liability has been calculated based on the employees' current salary level and includes payroll related costs (e.g., social security and Medicare tax).

Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position (Deficit) reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

Unearned Revenues

During the year ended June 30 2019 the Authority received Commonwealth appropriations for the development of a public private partnership from which $26.4 million are presented as part of unearned revenues. Also, during the year ended June 30, 2019 the Authority received funds from the Puerto Rico Electric Power Authority for the development of Public Private Partnerships related to generation of energy, from which, approximately $3.8 million are presented as unearned revenues in the statement net position.

Unearned revenues are presented as service charge revenues when expenses are incurred in relation for the creation of a public private partnership.

Interfund Activity

The Authority had the following interfund activity:

Interfund Transfer- 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 government-wide 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.

Use of Estimates

The preparation of the basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Accounting Pronouncements Issued but Not Yet Effective

The following new accounting pronouncements have been issued but are not yet effective:

- **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. The requirements of this Statement are effective for reporting periods beginning after June 15, 2019, as amended by GASB Statement No. 95.

- **GASB Statement No. 84, *Fiduciary Activities*.** The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, as amended by GASB Statement No. 95.

- **GASB Statement No. 87, *Leases*.** The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021, as amended by GASB Statement No. 95.

- **GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*.** The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2019, as amended by GASB Statement No. 95.

- **GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*.** This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, as amended by GASB Statement No. 95.

- **GASB Statement No. 90, *Majority Equity Interests*.** The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain components units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, as amended by GASB Statement No. 95.

- **GASB Statement No. 91, *Conduit Debt Obligations*.** The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (i) commitments extended by issuers, (ii) arrangements associated with conduit debt obligations, and (iii) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements - often characterized as leases - that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021, as amended by GASB Statement No. 95.

- **GASB Statement No. 92**, ***Omnibus 2020***. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: The effective date of *Statement No. 87, Leases, and Implementation Guide No. 2019-3*, Leases, for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of *Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and Statement *No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits; the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as amended by GASB Statement No. 95.

- **GASB Statement No. 93**, ***Replacement of Interbank Offered Rates (IBOR)***. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

  This statement achieves its objective by:

  - Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.
  - Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
  - Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.

  - Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
  - Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
  - Clarifying the definition of reference rate, as it is used in GASB Statement No. 53, as amended.
  - Providing an exception to the lease modifications guidance in GASB Statement No. 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

  The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as amended by GASB No. 95. The exceptions to the existing provisions for hedge accounting termination and lease modifications in this Statement will reduce the cost of the accounting and financial reporting ramifications of replacing IBORs with other reference rates. The reliability and relevance of reported information will be maintained by requiring that agreements that effectively maintain an existing hedging arrangement continue to be accounted for in the same manner as before the replacement of a reference rate. As a result, this Statement will preserve the consistency and comparability of reporting hedging derivative instruments and leases after governments amend or replace agreements to replace an IBOR.

- ***GASB Statement No. 94, Public Private and Public-Public Partnership and Availability Payment Arrangement.*** The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which is defined as: (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

  The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- **GASB Statement No. 95**, ***Postponement of the Effective Dates of Certain Authoritative Guidance***. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, Certain Asset Retirement Obligations
- Statement No. 84, Fiduciary Activities
- Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period
- Statement No. 90, Majority Equity Interests
- Statement No. 91, Conduit Debt Obligations
- Statement No. 92, Omnibus 2020
- Statement No. 93, Replacement of Interbank Offered Rates
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)
- Implementation Guide No. 2018-1, Implementation Guidance Update—2018
- Implementation Guide No. 2019-1, Implementation Guidance Update—2019
- Implementation Guide No. 2019-2, Fiduciary Activities.

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

- Statement No. 87, Leases
- Implementation Guide No. 2019-3, Leases.

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

The requirements of this Statement are effective immediately.

- **GASB Statement No. 96**, ***Subscription-Based Information Technology Arrangements***. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset-an intangible asset-and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases,* as amended.

  The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

- **GASB Statement No. 97, *Certain Component Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*.** The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other than postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

  The following requirements of this Statement are effective immediately: (1) exemption of primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limitation on the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively.

  The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performed the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

  The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

- **GASB Statement No. 98, The Annual Comprehensive Financial Report**- This Statement establishes the term *annual comprehensive financial report* and its acronym ACFR. That new term and acronym replace instances of *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments.

  This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur.

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

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

3. RECLASSIFICATIONS

Certain reclassifications were made to prior year basic financials statement in order to conform to this year presentation.

4. CHANGE IN REPORTING ENTITY

On March 20, 2018, the Governor of the Commonwealth of Puerto Rico signed Executive Order 2018-11, which transfers the Government Authorized Representative from the Puerto Rico Emergency Management Agency, an Agency of the Commonwealth of Puerto Rico, to the Central Recovery and Reconstruction Office of Puerto Rico.

A change in reporting entity occurs when two or more previously separate entities are combined into one entity for reporting purposes, or when there is a change in the mix of entities being reported. The definition of reporting entity is based primarily on the idea that the reporting entity should encompass all units for which the elected officials are financially accountable, as well as those organizations that do not meet the financial accountability test, but that management feels it would be misleading to exclude (GASB Statement No.61 “The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34”). Since the operations of the COR3 were being managed under the GAR and the GAR is not a component unit of the Commonwealth but a division of PREMA, the Authority is managing the balances related to the COR3 as a change in reporting entity. Any balances that had been recorded in COR3 financial records are being recognized against beginning fund balance in the Authority’s financial statements.

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The following tables summarizes the changes to net position at the beginning of the year as previously reported for the Governmental activities in the government-wide and fund financial statements (in thousands):

Government-Wide Financial Statements	Governmental Activities
Net position – July 1, 2018, as previously reported	$ -
Change in reporting entity - COR 3	(1,123,560)
Net deficit – July 1, 2018, as restated	$ (1,123,560)

Fund Financial Statements

	General Fund
Fund Balance – July 1, 2018, as previously reported	$ -
Change in reporting entity - COR 3	2,039,775
Fund Balance – July 1, 2018, as restated	$ 2,039,775

5. **UNCERTAINTY**

The Authority is responsible for the identification and development of Partnerships viable for the delivery of public infrastructure or the provision or enhancement of public services. To that end, Act 29 of 2009, as amended, requires the Authority to prepare or commission the preparation of the desirability and convenience studies to determine the convenience and technical and financial viability for delivery of the project through the Partnership model. Thereafter, upon the study's conclusion that is desirable and convenient for the project to be delivered as a Partnership, then the Authority is charged with the responsibility of initiating the procurement process for the identification, qualification and selection of potential proponents and the evaluation, negotiation and award of the Partnerships contract. For these services the Authority charges a service fee to other governmental entities for the execution of a Partnership. Currently, the Authority's main source of revenue consists of legislative appropriations approved in the budget from the Commonwealth and certified by the Fiscal Oversight Management Board ("FOMB") which are divided as follows: payment in advance for initiating the procurement process for the identification, qualification and selection of potential proponents and the evaluation, negotiation and award of the Partnerships contract for any governmental entity, public corporation or the Commonwealth itself and for operational purposes. Also, the FOMB approved fiscal plans in Commonwealth Instrumentalities including funds for future Partnerships and the payment of Authority services. As a result, the Authority's operations are dependent on the Commonwealth's ability to continue providing funding to the Authority through legislative appropriations and the collection of charges for the execution of a Public Partnership Agreement.

Management's evaluation of the Authority's going concern has identified the financial condition of the Commonwealth as an external matter that may affect the ability of the Authority to continue as a going concern. The Commonwealth and its instrumentalities are in the midst of a profound fiscal crisis and are in the process of restructuring its liabilities under Title III of PROMESA.

6. CASH AND DEPOSITS

Business-Type Activities

Custodial credit risk is the risk that, in the event of a financial institution's failure, the Authority's deposits may not be returned to it. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance.

The table presented below discloses the level of custodial credit risk assumed by the Authority as of June 30, 2019. As of June 30, 2019, none of the depository Authority balance is uninsured and uncollateralized as follows (in thousands):

	Carrying amount	Bank balance	Amount uninsured and uncollaterized
Cash	$ 27,339	$ 27,339	$ -

On August 10, 2018, Government Development Bank (GDB) commenced an action to restructure certain of its indebtedness pursuant to a Qualifying Modification (the Qualifying Modification) under Title VI of the Puerto Rico Oversight Management and Economic Stability Act ("PROMESA"). The United States District Court for the District of Puerto Rico approved GDB's proposed restructuring on November 6, 2018, and the Qualifying Modification became effective on November 29, 2018.

Pursuant to Act No. 109-2017, also known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act) and the terms of the Qualifying Modification, claims on account of deposits held by a governmental entity in GDB were set off against loans made by GDB to the same governmental entity. As a result, funds deposited by the Authority in GDB amounting to $143 thousand were used to pay the line of credit with GDB.

7. INTERGOVERNMENTAL RECEIVABLE

Governmental Activities

As of June 30, 2019, intergovernmental receivable is composed of $130.2 million requested to the Federal Emergency Management Agency (FEMA) related to natural disasters expenses incurred by COR3.

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8. ACCOUNTS RECEIVABLE, NET

Business-Type Activities

As of June 30, 2019, the Authority's accounts receivable, net of allowance, is composed of the following (in thousands):

Description		Amount
Puerto Rico Electric Power Authority (PREPA)	$	345
Municipality of Caguas, Department of Transportation and Public Works and the Puerto Rico Highway and Transportation Authority		6,577
Puerto Rico Maritime Transport Authority and Puerto Rico Integrated Transportation Authority		780
Others		10
Total accounts receivable		7,712
Less: allowance for uncollectible accounts		(7,702)
Net receivables	$	10

The accounts receivable as of June 30, 2019, are described as follows:

- Puerto Rico Electric Power Authority (PREPA) is related to the *Liquid Natural Gas Supply and Development of Related Infrastructure* project for PREPA.
- Municipality of Caguas, Department of Transportation and Public Works and the Puerto Rico Highway and Transportation Authority is related to Caguas — San Juan Mass Transportation Commuter Project.
- Puerto Rico Maritime Transport Authority and Puerto Rico Integrated Transportation Authority relates to the maritime transport project.

The above receivables are outstanding principally since June 30, 2015, without any repayment. Based on this and management's evaluation and after conversations with the respective agencies, the Authority understand that such receivables are not going to be collected as a result an allowance for doubtful account was provided in fiscal year ended June 30, 2017.

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9. CAPITAL ASSETS

Governmental Activities

Capital assets activity as of June 30, 2019, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending balance
Capital assets:				
Information systems	$ -	$ 119	$ -	$ 119
Total capital assets	-	119	-	119
Less accumulated depreciation for:				
Information systems	-	(8)	-	(8)
Total accumulated depreciation	-	(8)	-	(8)
Total capital assets - net	$ -	$ 111	$ -	$ 111

Business-Type Activities

Capital assets activity as of June 30, 2019, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending balance
Capital assets:				
Furniture and equipment	$ 11	$ 16	$ -	$ 27
Information systems	-	1	-	1
Total capital assets	11	17	-	28
Less accumulated depreciation for:				
Furniture and equipment	(9)	(2)	-	(11)
Information systems	-	(1)	-	(1)
Total accumulated depreciation	(9)	(3)	-	(12)
Total capital assets - net	$ 2	$ 14	$ -	$ 16

10. COMPENSATED ABSENCES

The activity for compensated absences as of June 30, 2019, is as follows (in thousands):

Governmental Activities

Description	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Accrued vacations	$ 94	$ 231	$ (81)	$ 244	$ 176
	$ 94	$ 231	$ (81)	$ 244	$ 176

Business-Type Activities

Description	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Accrued vacations	$ 27	$ 45	$ (38)	$ 34	$ 34
	$ 27	$ 45	$ (38)	$ 34	$ 34

11. LINE OF CREDIT

On March 17, 2010, the Authority entered a $20 million revolving line of credit facility with GDB to provide financing for the Authority's operations. The credit facility expired on January 31, 2016, and bears interest at 7% (150 basis points over the prime rate at June 30, 2019) or 7%, whichever is higher. The source of repayment of this line of credit is the fees charged by the Authority for services provided as part of the process to establish the Partnerships.

On November 29, 2018, Government Development Bank (GDB) completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA. Under the Qualifying Modification, holders of certain bond and deposit claims against GDB exchanged their claims for bonds (at an upfront exchange ratio of 55%) issued by a newly created public instrumentality—the GDB Debt Recovery Authority (the DRA) created under Act No. 109 of August 24, 2017, known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act)—and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio , its real estate owned assets and its unencumbered cash. This GDB Restructuring Act required certain offsets between financial instruments assets and liabilities held by GDB; therefore, the deposits held by the Authority amounting to $143 thousand at GDB were applied to notes payable owed by the Authority to GDB. Note that line of credit owed by the Authority to GDB was not transferred to the DRA as a result line of credit was retained by GDB after the execution of the RSA.

Pursuant to the GDB Restructuring Act, "all transactions effected pursuant [thereto] (including, without limitation, pursuant to determinations made by Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA) or GDB under [the GDB Restructuring Act]) shall be valid and binding with respect to all Government Entities […] and no Government Entity shall have any further rights or claims against GDB […] the Public Entity Trust, and any officers, directors, employees, agents and other representatives thereof […]".

As of June 30, 2019, the line of credit balance owed to GDB was approximately $6.2 million and accrued interest payable was approximately $1.4 million. Interest expense for the year ended June 30, 2019, amounted to $424 thousand.

12. TRANSACTIONS WITH RELATED ENTITIES

During the year ended June 30, 2019, the Authority entered into an agreement with the FAFAA to receive certain management support and administrative services and established a fee to cover those services. The total fee paid to FAFAA for the year ended June 30, 2019, amounted to approximately $21 thousand. FAFAA, as part of the administrative services provided, may incur on payments on behalf of the Authority to cover certain of its operating expenses, which are paid by the Authority to FAFAA on a later date.

The Authority moved to FAFAA facilities; in which the Authority entered into an agreement with FAFAA for the rental of office space. This agreement calls for lease payments of approximately $2,300. The lease agreement expired on June 30, 2019, and can be renewed for additional terms as necessity demands so long both parties agree.

13. INTER-GOVERNMENTAL AGREEMENTS

The Authority has entered into inter-governmental agreements (the "Agreements") as part of implementing the public policy on Partnerships as established by Act No. 29 of 2009.

At present, the Authority is carrying out the following projects (the "Projects"):

***Water Consumption Measurement System Optimization Project*-** The advanced water measurement project (PRASA Project) provides for the potential concession of the replacement of the outdated meters of the Puerto Rico Aqueduct and Sewer Authority by advanced and intelligent meters, to reduce non-revenue water. This will increase operational efficiency and operating income by incorporating advanced technologies and innovation and optimization of practices and services. On March 27, 2018, the Authority's Board of Directors (the Board) approved the Desirability and Convenience Study. On June 18, 2018, the Authority published the Request for Qualifications and on September 28, 2018, the Partnership Committee notified the selection of the qualified proponents.

After selecting the qualified proponents, the Partnership Committee evaluated the proposals submitted and notified the selection of the Preferred Proponent. On November 30, 2021 the board of directors of the Authority decided to cancel this project.

Social Infrastructure Project- The social infrastructure project (the Student Life Project), is an initiative in collaboration with the University of Puerto Rico, Mayagüez Campus (Campus), to transform and renovate the facilities of the Campus through the development, operation, construction and maintenance of housing facilities, parking lots and other service facilities that they attend to the needs of the students and of life in the Campus. The goal of transformation of the Campus facilities is to enrich the student experience by offering an attractive housing alternative within the Campus with more social and recreational alternatives, modern study and collaboration spaces, and innovative solutions to improve the quality of life of the students and the community of the Campus. This in turn will enhance academic performance and it will increase student retention.

On October 16, 2017, the Authority published a Draft Request for Qualifications to know the market input around the Student Life Project. The results of the market survey were considered in the evaluation of the project, particularly for the purpose of specifying and delimit the scope of the Desirability and Convenience Study. On March 1, 2018, the Study was completed successfully and approved by the Board. On July 13, 2018, the Partnership Committee notified the selection of the qualified proponents.

After selecting the qualified proponents, the Partnership Committee evaluated the proposals submitted and notified the selection of the Preferred Proponent. At present, the Authority is in the negotiation process with the preferred proponent including other discussions related to the development of the Project. This process has faced delays due to the impact of COVID-19, among other reasons.

Partnership Project for the San Juan Bay Cruise Terminals- In 2017, Global Ports Holdings PLC., through the mechanism of an Unsolicited Proposal, presents the Partnership Project for the San Juan Bay Cruise Terminals. The unsolicited proposal proposes a long-term concession for world-class modernization, expansion, and operation of the passenger seaports, specifically in Piers 1, 3, 4, 11 to 14, and Pan Americans 1 and 2 of San Juan Bay. It also including repairs and a long-term maintenance program of maritime facilities. On June 14, 2018, the Board approved the Desirability and Convenience Study. On September 5, 2018, the Partnership Committee continued with the processes for the formalization of the Partnership by publishing the Request for Qualifications. On November 16, 2018, the Partnership Committee notified the selection of the qualified proponents.

After selecting the qualified proponents, the Partnership Committee evaluated the proposals submitted and notified the selection of the Preferred Proponent. At present, the Authority is in the negotiation process with the preferred proponent including other discussions related to the development of the Project. This process has faced delays due to the impact of COVID-19, among other reasons.

Public Safety Training Center Project- Ana G. Méndez University System submitted an unsolicited proposal as an initiative that seeks to strengthen specialized education for public security forces through the offering of specialized curriculum, training courses for new members and courses for the certification and recertification of continuing education for the six bureaus of Public Safety Department (the DPS) and the Corrections and Rehabilitation Department (the DCR). On October 23, 2018, the Board approved the Desirability and Convenience Study. On February 20, 2019, the Authority published the Request for Qualifications and on April 11, 2019, the Partnership Committee notified the selection of the qualified proponents.

Currently, the Authority is waiting for both the DPS and the DCR to submit information necessary to complete the preparation of the Request for Proposals and proceed to the eventual publication of it.

Palo Seco Generation Plant Project- The metropolitan area in northern Puerto Rico has the highest demand for electric cargo, but most of the energy generated comes from plants in the south, an imbalance that leads to a high level of loss of power in the lines. Palo Seco and Central San Juan units do not meet the real demand of energy of the north of Puerto Rico. Units 1 and 2 of Palo Seco, with a capacity of 85 MW each, have been in service for almost sixty years, are not in operation and they will retire soon. For their part, Palo Seco Units 3 and 4 have been in service for over fifty years. Although the Palo Seco Unit 3 and 4 have a capacity of 216 MW, currently Unit 4 is being repaired and Unit 3 is limited to 160 MW.

Through this project, a private operator will be responsible for carrying out the design, permission, financing, construction, management, operation, and maintenance of a new facility of dual fuel combined cycle generation with a capacity of approximately 300 MW, which will be interconnected to the currently existing 115 kV substation corresponding to the Palo Seco power plant. This facility will be in the Palo Seco Power Plant land or land adjacent to it. The private operator will sell, and the Electric Power Authority ("PREPA") will buy the net electricity production of the installation generation, in accordance with the contract. During the term of the contract, the private operator will provide operation and maintenance services for said facility. The project pursues improve the reliability of the electrical system, particularly to support energy demand from the north of Puerto Rico.

On July 12, 2019, the Authority published the Request for Qualifications and on June 10, 2020, the Partnership Committee notified the selection of the qualified proponents. Considering the recent situation in the energy sector of Puerto Rico, the Authority is evaluating components of public policy to determine the steps to follow around this project.

Hydroelectric Plants Revitalization Project- The revitalization of hydroelectric plants project consists of the following facilities: Caonillas 1 and 2 in the Utuado Municipality; Garzas 1 and 2 in the Peñuelas Municipality; Patillas; Río Blanco in the Naguabo Municipality; Yauco 1 and 2; and Dos Bocas in the Arecibo Municipality. As part of this project, the Authority and PREPA are interested in forming a Partnership with one or more proponents, including Municipalities, Municipal Consortiums and companies of the private sector or consortiums, for the operation and maintenance of said hydroelectric system, or a part of it, in addition to the investment of capital improvements for its rehabilitation.

The system that will comprise the hydroelectric generation facilities will consist of 11 facilities with a combined generation capacity of approximately 100 MW. Currently, the available capacity of these facilities is 27 MW. Through the present Partnership, it is pursued increase the generation capacity of these hydroelectric facilities to at least of approximately 70 MW.

This project contemplates the conclusion of a long-term contract with one or more entities. The Partnership contract structure could be one of the following: (1) a long-term lease of the facilities and a Power Purchase and Operation Agreement (PPOA) with PREPA; or (2) Operation agreement and long-term maintenance. During the term of the contract, the Government will retain the property and ownership of each hydroelectric facility of the project, and the entity will manage and will operate the hydroelectric facility. In addition, the selected entity will assist with the acquisition, administration and use of federal funds for the restoration of the hydroelectric system in case they are available.

On April 16, 2019, the Authority issued the Request of Qualifications where interested entities were requested to submit their qualifications no later than July 22, 2019. On November 25, 2019, the Partnership Committee notified the selection of the qualified proponents. Considering the recent situation in the energy sector of Puerto Rico, the Authority is evaluating components of public policy to determine the steps to follow around this project.

Energy Storage Project- Through this Project, the hiring of a private entity is contemplated to be responsible to carry out the development of a large-scale energy storage system in certain critical facilities to provide greater stability to Puerto Rico's energy system while provides resilience and responsiveness to power system fluctuations or blackouts. The project also seeks to reduce network costs by increasing operational efficiency of this, to meet the renewable energy objectives established by Act No. 17-2019, known as the Puerto Rico Energy Public Policy Law and offer operational flexibility that allows the modernization of the network in an expeditious time, among other objectives and benefits of the project.

Specifically, the project contemplates an energy storage system in the substations of Sabana Llana and Bayamón, with an optional third facility in Humacao/Yabucoa.

On May 12, 2018, the Authority published the Desirability and Convenience Study. On June 22, 2018, the Authority published the Request for Qualifications by virtue of which, the Partnership Committee notified the selection of the qualified proponents.

On October 12, 2018, the Authority issued the Request for Proposals. On or before January 11, 2019, they were received. Due to delays in the process of acquiring federal funds, the preferred proponent selection process remains delayed.

Flexible Power Distribution Units Project- The project pursues for a private entity to be the owner and operator of a fleet of 15 units flexible mobile or fixed power distribution systems (or a combination) with an individual capacity between 10-30 MW, for a total of approximately 450 MW. This project contemplates the granting of a "Power Purchase and Operation Agreement" with PREPA for a period of 25 years. These new dual fuel units (natural gas and diesel) will replace the fleet of gas turbines of PREPA and will use the existing interconnection framework. The private entity will be in charge of the design, permission, financing and installation of the units. The PREPA anticipates that these units may eventually be relocated where necessary to stabilize the electrical network to meet the capacity requirements for the mini networks that are planned to eventually be established.

As previously mentioned, this project could generate up to a maximum of 450 MW through the location of the referred units in the following PREPA facilities: (1) Hidrogas Costa Sur; (2) Aguirre Station; (3) Jobos Station (Guayama); (4) Yabucoa Station; (5) Vega Baja Station; (6) Palo Viejo Complex; and (7) Daguao Station (Ceiba).

On July 12, 2019, the Authority published the Request for Qualifications. On July 7, 2020, the Authority issued to the interested proponents a notification informing that the Request for Qualifications would be extended. In said notification, the Authority also informed that the selection of the Qualified Proponent would be postponed subject to final approval of the Integrated Resource Plan that had been submitted by PREPA to the Puerto Rico Energy Bureau. Considering the recent situation in the Puerto Rico energy sector, the Authority is evaluating components of public policy to determine the steps to follow around this project.

Legacy Generation Assets Project- Even before the impact of Hurricanes Irma and María and the 2019-2020 earthquakes, Puerto Rico it already had a poor energy infrastructure. Although some of the Legacy Generation Assets of PREPA have been modernized to natural gas, many of the assets operate based on diesel, which is inefficient, expensive, and is the main reason for the high cost in the electric rate of Puerto Rico. PREPA together with the Authority are working on several initiatives to modernize the Puerto Rico's energy system, which seek to reduce dependence on the use of diesel, increase the use of natural gas and renewable energy, increase the efficiency and resilience of the system, invest in repairs to facilities, and withdraw, replace, or modernize Inefficient Generation Assets.

This project contemplates entering a contract with one or more private operators with tied terms directly to the remaining useful life of the Legacy Generation Assets for the management, operation, maintenance and seizure, as applicable, of these assets. In this way, the project pursues improve the efficiency and resilience of the electricity system using the experience of the private sector to the operation, maintenance and seizure of the Generation Assets as established in the Plan Integrated Resource.

On August 10, 2020, the Authority published the Request for Qualifications. On October 22, 2020, the Partnership Committee notified the selection of the qualified proponents. Subsequently, the Authority issued the Request for Proposals.

Currently, qualified proponents are in the due diligence process in preparation for the presentation of the respective proposals for the consideration of the Partnership Committee.

Others- The Authority is evaluating other projects such as the Modernization of the Services and Collections of the Department of the Treasury of Puerto Rico, Regional Airports of the Puerto Rico Ports Authority and the Modernization of the Authority's Digital Infrastructure of Roads and Transportation of the Puerto Rico Highway and Transportation Agency.

14. RETIREMENT BENEFITS SYSTEMS

PayGo Pension Reform

The Defined Benefit Pension Plan (the Plan) for Participants of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System or ERS) was created pursuant to Act No. 447 on May 15, 1951, as amended (Act No. 447), to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities. Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017), the Plan was administered by the System. Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a "pay-as-you-go" (PayGo) system for the payment of pensions. Also pursuant to Act No. 106-2017, the System was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits.

As a result of the implementation of the PayGo system, the Plan does not meet the criteria in paragraph 4 of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Under the guidance of GASB Statement No. 73, the Commonwealth and its component units are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan.

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 to convey to the central government agencies, public corporations and municipalities new implementation procedures for adopting, effective July 1, 2017, the new PayGo system. With the start of fiscal year 2018, employers' contributions, contributions ordered by special laws, and the Additional Uniform Contribution were all eliminated.

The PayGo system was one component of Act No. 106 of 2017. The Act created the legal framework so that the Commonwealth can guarantee benefit payments to current pensioners through the PayGo system. Approximately $2 billion was allocated for these purposes in each of the budgets for fiscal year 2018 and fiscal year 2019. Act No. 106-2017 also created a Defined Contributions Plan, similar to a 401(k) plan, which is managed by a private entity. Future benefits will not be paid by the Retirement Systems.

Act No. 106-2017, among other things, amended Act No. 12 with respect to ERS's governance, funding and benefits for active members of the actual program and new hired members. Under Act No. 106-2017, ERS's board of trustees was eliminated, and a new Retirement Board was created. The Retirement Board is currently responsible for governing ERS, the Judiciary Retirement System (JRS), and Teachers Retirement System (TRS).

Act No. 106-2017 terminated the previously existing pension programs for ERS participants as of June 30, 2017. The members of the prior programs and new System members hired on and after July 1, 2017 have been enrolled in a new defined contributions program selected by the Retirement Board. The accumulated balance on the accounts of the prior program were transferred to the member accounts in the new defined contributions program, effective as of June 22, 2020. ERS' active members of the defined contributions program retained their benefits as stated under Act No. 91 of March 29, 2003.

Act No. 106-2017 also ordered a suspension of ERS's loan programs and ordered a merger of the administrative structures of the Retirement Systems. At the Retirement Board's discretion, the administration of ERS benefits may be externalized. The employees of ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8 of February 8, 2017. In addition, Act No. 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating an incentive, opportunities and retraining program for public workers.

As a result of the adoption of the Act 106 the Authority recognized a benefit amounting to $3.1 million and $1.8 million in governmental and business type activities, respectively.

15. COMMITMENT AND CONTINGENCIES

Litigation

The Authority is a party in a legal claim arising in the ordinary course of operations. Management and their legal counsels are of the opinion that the ultimate disposition of this matter will not have a material adverse effect on its financial position and the results of its operations.

Federal Awards

COR3 participates in federal financial assistance programs funded by the federal government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantors. If expenditures are disallowed due to noncompliance with grant program regulations, the Bureau may be required to reimburse the grantors. Nevertheless, the program compliance audits of certain programs for or including the fiscal year ended June 30, 2019, have not yet been concluded. Accordingly, the compliance with applicable grant requirements will be established at some future date.

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Grant Awards and Mission Assignments

The COR3 is a grantee in various Federal Assistance Programs funded by the Federal Government. Entitlement to the resources is generally based on compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. These grants are described as follows:

- **PA CFDA No. 97.036 Disaster Grants -Public Assistance (Presidentially Declared Disasters) -** To assist state, tribal, territorial, and local governments and eligible private non-profits in responding to and recovering from the devastating effects of disasters by providing assistance for debris removal, emergency protective measures, and the repair, restoration, reconstruction or replacement of public and eligible private non-profit facilities or infrastructure damaged or destroyed as the result of federally declared disasters or emergencies. During fiscal year 2019 the drawdowns from this program amounted to $2.7 billion. Subsequently there have been additional drawdowns and funds approved related to the earthquakes that occurred in January 2020 and for the pandemic.

- **HMGP CFDA No. 97.039 Hazard Mitigation Program-** The objective of the program is to provide funding support to states, Indian tribal governments, territories, communities, and other eligible applicants to reduce the risk of future damage, loss of life and property in any area affected by a major disaster. This program promotes implementation of activities designed to reduce injuries, loss of life, hardship, suffering, and damage and destruction to property from natural hazards which is consistent with DHS QHSR Goal 5.1, "Mitigate Hazards" and links to Presidential Policy Directive (PPD-8) - National Preparedness, Security, Resilience, Prevention, Mitigation, Response, Protection, and Recovery. During fiscal year 2019 there were no drawdowns although the grant was approved and current.

- **PDM CFDA No. 97.047 Pre-disaster Mitigation-** The Building Resilient Infrastructure and Communities (BRIC) program makes federal funds available to states, U.S territories, Indian tribal governments (federally recognized), and local communities to apply for, implement, and monitor mitigation activities; create and support partnerships; encourage and enable innovative mitigation strategies and project implementation; enhance risk-informed planning and prioritization of mitigation needs; establish building codes and standards to protect the health, safety and general public welfare; and conduct other mitigation activities with a focus on critical services and facilities and large-scale infrastructure. Ultimately, activities funded by BRIC are designed to reduce the long-term risk to individuals and property from natural hazards and build mitigation capacity and capability, while also reducing reliance on federal funding from future disasters. The BRIC program strengthens national preparedness and resilience and supports the mitigation mission area through Strategic Goal #1 Building a Culture of Preparedness, Objectives 1.1, 1.2, 1.3, and 1.4 of the 2018 – 2022 FEMA Strategic Plan. During fiscal year 2019 the drawdowns from this program amounted to $1.2 million.

- **PDM 93.982** Mental Health Disaster Assistance and Emergency Mental Health -To provide supplemental emergency mental health counseling to individuals affected by major disasters, including the training of workers to provide such counseling. During fiscal year 2019 the drawdowns from this program amounted to $4.6 million.

Mission assignment — they relate to emergency work performed by a federal entity on behalf of a state entity (i.e., US Army Corps of Engineers performing emergency work for PREPA related to damages to the electrical grid after a disaster). In these cases, FEMA pays the federal agency directly, and thereafter invoices the Government of Puerto Rico, through the COR3/GAR, for any outstanding non-federal cost share balance, if applicable. As such, COR3 does not manage any federal moneys related to Mission Assignments but serves as a pass-through entity in relation to any associated non-federal cost share requirements. The GAR is also responsible for executing related paperwork.

- It for Hurricane María, FEMA estimates the Government of Puerto Rico will receive approximately $2.9B in disaster funds which will require a match of approximately $1.1B for a total approximately of $4B in mitigation grant funding.

The Government continues to coordinate relief and funding efforts to address the natural disasters that have affected Puerto Rico in recent years, under FEMA's Public Assistance (PA) Program. This is FEMA's largest grant program providing funds to assist communities responding to and recovering from major disasters or emergencies declared by the President. The program provides funding for emergency assistance to save lives and protect property, and assists with funding for permanently restoring community infrastructure affected by a federally declared incident. including the continued recovery following Hurricanes Irma and María. As of June 30, 2019, approximately $5.8 billion has been appropriated by the United States Congress to Puerto Rico for disaster relief and recovery efforts. Of this amount, approximately $5.7 billion has been committed by federal agencies for distribution and $3.5 billion has been disbursed. The cost share for the COR3 is approximately $20.5 million.

16. SUBSEQUENT EVENTS

Earthquake

On January 7, 2020, Puerto Rico was struck by a 6.4 magnitude earthquake causing devastating damages to infrastructure, an island-wide power outage, water shortages and threatening the lives of its people. In order to safeguard the health and public safety of its citizens, the Governor issued executive orders EO 2020-01 and EO 2020-02 declaring a state of emergency to activate the emergency purchasing protocol allowing emergency management agencies to acquire the necessary supplies and essential services to provide a timely and effective response and activating the National Guard to provide support during the emergency management.

In addition, the Oversight Board authorized the utilization of Emergency Reserve funds from fiscal years 2019 and 2020 as needed by the Commonwealth without prior approval of reapportionments through January 31, 2020.

President Trump also approved an emergency declaration allowing direct federal assistance for emergency measures to protect lives, property and public health after the series of earthquakes.

On January 11, 2020, the Governor issued executive order EO 2020-07 authorizing the appropriation of $12 million from the Emergency Fund to be distributed equally between the municipalities of Gúanica, Guayanilla, Peñuelas, Ponce, Utuado and Yauco to be used exclusively for damages and mitigation related to the emergency.

A preliminary assessment of the damages caused by the earthquake and subsequent aftershocks (excluding the May 2, 2020 earthquake discussed below), calculated by the United States Geological Survey, estimated total economic damages ascending to $836 million.

Puerto Rico continues to experience aftershocks that are not expected to stop any time soon. According to a January 29, 2020 report published by the United States Geological Survey, Puerto Rico is at risk of many potentially catastrophic earthquakes in the near term. In fact, on May 2, 2020, an earthquake with a 5.4 magnitude struck Puerto Rico's southern coast. The seismic event, which briefly knocked out power in some areas, hit near the city of Ponce where hundreds of structures, including homes and houses of worship, remain damaged or destroyed from the devastating earthquakes earlier in 2020. These continued earthquakes are a powerful reminder that although the global COVID-19 pandemic is currently controlling the public spotlight, the physical and psychological threat of natural catastrophes has not subsided for Puerto Rico and its residents.

COR3 is working and processing all request received for reimbursement filed by municipalities, agencies, public corporation and instrumentalities of the Commonwealth and non-for profits entities. Total amount approved amounts to $630 million from which $244 million are already disbursed to subrecipient. COR3 received $1.9 million for administrative expenses.

COVID-19 Pandemic

Executive Orders

On March 11, 2020, the World Health Organization declared the Coronavirus disease caused by a novel coronavirus (COVID-19) as a global pandemic. As a result of the health threat and to contain the virus spread across the island, GovernorVáquez-Garced issued executive order EO 2020-020, on March 12,2020, declaring a state of emergency in Puerto Rico to concentrate all efforts and implement necessary measures to safeguard the health, well-being and public safety of the citizens of Puerto Rico. The executive order authorizes the Secretary of the Department of Treasury and the Executive Director of the Puerto Rico Office of Managament and Budget to set up a special budget, from any available funds, including the Emergency Fund, to cover all necessary costs for the containment of the virus throughout the island and sharing information with the municipalities.

On March 15, 2020, the Governor issued executive order EO 2020-023 ordering a curfew for all citizens requiring them to stay at home from 9 p.m. to 5 a.m., allowing them to use the public roads, within this time frame, under specific circumstances such as: (1) purchasing food, pharmaceutical and basic necessity products; (2) keeping medical appointments or visiting a hospital, laboratory, or healthcare facility; (3) commuting, for public and private employees who provide essential services; (4) returning to place of residence from an allowed activity; (5) providing assistance, care, transportation of senior citizens, children, dependents, people with disabilities or requiring medical or professional attention; and (6) visiting financial institutions, provided that all necessary precautions are taken to prevent the risk of spreading the disease. Also, the executive order mandated that any person with reasonable suspicion of being exposed to the COVID-19 remain quarantined for fourteen (14) days, as of the issuance of the order, to prevent them from posing a risk to public health and transmission to non-infected persons. In addition, it ordered the closure of all governmental operations, except for those related to essential services, and the closure of all businesses in Puerto Rico from March 15, 2020, at 6 p.m., until March 30, 2020, unless otherwise provided. Furthermore, the order established criminal penalties and fines for any person who failed to comply with the evacuation orders issued by the Commonwealth's Public Safety Department or its Bureaus.

COR3 is working and processing all request for reimbursement filed by municipalities, agencies, public corporation and instrumentalities of the Commonwealth and non-for profits entities. Total amount approved by FEMA amounts to $169 million from which $49.8 million already disburse to subrecipient. COR3 received $1.3 million for administrative purposes.

On March 2020 the Authority transfer $10 million to the Commonwealth of Puerto Rico which were related appropriation received during the year ended on June 30, 2019 for the development of public private partnerships.

Subsequent events were evaluated by management through January 5, 2022, the date the financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the financial statements. Management has determined that other than those already disclosed above, there are no material events or transactions that would affect the Authority’s financial statements through such date.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Expenditures of Federal Awards
For the year ended June 30, 2019

Federal Grantor/Pass through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Provided to Subrecipients	Federal Expenditures
U.S. Department of Homeland Security:				
Federal Emergency Management Agency (FEMA) -				
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	-	$ 2,629,600,927	$ 2,694,085,365
Pre Disaster Mitigation Grant	97.047	-	1,094,202	1,094,202
U.S. Department of Health and Human Services:				
Substance Abuse and Mental Health Services Administration -				
Individual Assistance Program - Crisis Counseling Assistance & Training Program	93.982	-	4,673,549	4,673,549
Total Expenditures of Federal Awards			$ 2,635,368,678	$ 2,699,853,116

The accompanying notes are an integral part of this Schedule of Expenditures of Federal Awards.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to the Schedule of Expenditures of Federal Awards
For the year ended June 30, 2019

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the Central Office for Recovery, Reconstruction and Resiliency of Puerto Rico (COR3 or Program), a division of the Puerto Rico Public Private Partnership Authority (Authority) under programs of the federal government for the year ended June 30, 2019. The information in this SEFA 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 SEFA 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

The SEFA was prepared using the cash basis of accounting. Such expenses are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement.

Pass-through entity identifying numbers are presented where available.

(3) Indirect Cost Rate

The Authority has elected not to use the 10% the Minimum indirect cost rate allowed under the Uniform Guidance.

(4) Subrecipients

For the fiscal year 2018-2019, the Authority assigned $2,635,368,678 federal awards to the subrecipients through COR3.

(5) Federal CFDA Number

The Catalog of Federal Domestic Assistance (CFDA) Numbers is a program identification number. The first two digits identify the federal department or agency that administers the program, and the last three numbers are assigned by numerical sequence.

(6) Program Costs

The amounts shown as current year federal expenses represent only the federal grant portion of the program costs.

(7) Reconciliation of SEFA to the basic financial statements

The reconciliation of expenses in the governmental fund of the basic financial statements to the SEFA is as follows:

Description	Amount
Expenses per the financial statements	$ 2,860,097,735
Less:	
Non-federal expenses	(224,610,459)
Depreciation expense	(8,473)
Capital outlays, net	(110,125)
Plus:	
Professional services related to federal programs and paid with federal funds	64,484,438
Expenses per SEFA	$ 2,699,853,116

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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*

INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of
Puerto Rico Public Private Partnerships Authority

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 governmental activities, the business-type activities and each major fund of Puerto Rico Public Private Partnerships 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 Puerto Rico Public Private Partnership Authority's basic financial statements, and have issued our report thereon dated January 5, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Puerto Rico Public Private Partnership Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Puerto Rico Public Private Partnership Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Puerto Rico Public Private Partnership 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-01 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Puerto Rico Public Private Partnership 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 basic financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *schedule of findings and questioned costs* as items 2019-02 to 2019-07.

Puerto Rico Public Private Partnership Authority's Response to Findings

The Puerto Rico Public Private Partnership Authority's response to the findings identified in our audit is described in the accompanying *schedule of findings and questioned costs*. The Puerto Rico Public Private Partnership Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

San Juan, Puerto Rico
March 1, 2023.

RSM Puerto Rico

Stamp No. E522936 was affixed to
the original of this report.

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

INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of
Puerto Rico Public Private Partnerships Authority

Report on Compliance for Each Major Federal Program

We have audited Puerto Rico Public Private Partnership Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Puerto Rico Public Private Partnership Authority's major federal program for the year ended June 30, 2019. Puerto Rico Public Private Partnership 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Puerto Rico Public Private Partnership Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* 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 Puerto Rico Public Private Partnership 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 the major federal program. However, our audit does not provide a legal determination of Puerto Rico Public Private Partnership Authority's compliance.

Basis for Qualified Opinion on CFDA No. 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program

As described in the accompanying schedule of findings and questioned costs, the Puerto Rico Public Private Partnership Authority did not comply with requirements regarding CFDA No. 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters) as described in the findings number 2019-02 for Activities Allowed or Unallowed/Allowable Costs/Cost Principles and 2019-04 for Allowable Costs/Cost Principles/Time and Effort. Compliance with such requirements is necessary, in our opinion, for the Puerto Rico Public Private Partnership Authority to comply with the requirements applicable to that program.

Qualified Opinion on CFDA No. 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters) Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Puerto Rico Public Private Partnership Authority's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed 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 items 2019-01, 2019-03 and 2019-05 to 2019-07. Our opinion on each major federal program is not modified with respect to these matters.

Puerto Rico Public Private Partnership Authority's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Puerto Rico Public Private Partnership 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 Puerto Rico Public Private Partnership 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 Puerto Rico Public Private Partnership Authority's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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 Puerto Rico Public Private Partnership 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2019-01 to 2019-07 that we consider to be significant deficiencies.

Puerto Rico Public Private Partnership 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. Puerto Rico Public Private Partnership 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.

San Juan, Puerto Rico
March 1, 2023.

Stamp No. E522937was affixed to
the original of this report.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs
For the year ended June 30, 2019

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements were prepared in accordance with GAAP:	**Unmodified**	
Internal control over financial reporting:		
• Material weakness (es) identified?	___ yes	_X_ no
• Significant deficiency (ies) identified?	_X_ yes	___ none reported
Noncompliance material to financial statements noted?	___ yes	_X_ no

Federal Awards

Internal control over major federal programs:		
• Material weakness (es) identified	___ yes	_X_ no
• Significant deficiency (ies) identified?	_X_ yes	___ none reported
Type of auditors' report issued on Compliance for major federal programs	**Qualified**	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)?	_X_ yes	____ no

Identification of federal program

Name of Federal Program or Cluster	CFDA Number
Disaster Grants – Public Assistance (Presidentially declared Disasters)	97.036

Dollar threshold used to distinguish between type A and type B programs:	$8,099,559	
Auditee qualified as low-risk auditee?	____ yes	_X_ no

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Findings and Questioned Costs
For the year ended June 30, 2019

SECTION II –FINANCIAL STATEMENTS FINDINGS

Finding Number: 2019-01

Topic:

Lack of an integrated financial accounting system.

Category:

Internal Control

Criteria:

§200.302 Financial management, in paragraphs (1) and (4) establishes that, the financial management system of each non-Federal entity must provide for the following: (i) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received; and (ii) Effective control over, and accountability for, all funds, property, and other assets.

Condition:

The Authority does not have in place an integrated financial accounting system that considers all funds administered, including state and federal awards. The transactions are recorded in an "Excel" program spreadsheets for both state and federal awards.

Cause:

Federal programs received by the Authority are managed through the Central Recovery and Reconstruction Office of Puerto Rico (the Program or COR3).

During the year ended June 30, 2019, the Programs' activity became part of Authority's operations; however, the integration was partially completed and the Authority did not execute an effective strategy of integration of financial records of the Program to the accounting system of the Authority.

Effect:

Lack of an integrated financial accounting system may lead to differences among the analyses of the Authority and the Programs, for balances related to expenses, accounts payable to vendors and interfund balances, which may result in multiple reconciling items and post-closing journal entries.

Questioned Costs:

None

Recommendation:

We recommend management to schedule meetings among the employees working with the federal programs and those of the Authority's regular accounting personnel to develop and communicate a strategic plan in order to start the booking of all transactions of the Program in an accounting system appropriate for the complexities and the requirements of the Program's financial information.

Management's response:

Finding accepted.

The Authority has established policies and procedures to manage each of the federal funds awarded to the Government of Puerto Rico, including the implementation of the Disaster Recovery System (DRS) which provides centralized tracking of all data related to federal funds disbursed to subrecipients. The DRS was successfully implemented during the month of April 2019 and has proved an effective tool in monitoring and tracking integrated subrecipient and project data throughout all phases of the obligation and disbursement processes. The Authority is currently evaluating the different options and alternatives for a centralized accounting system that will integrate with the grants management software, DRS. The Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF, for its Spanish Acronym), the Authority and the Program's finance personnel are doing the assessment on how to proceed with this accounting integration of the Program accounting transactions. Once this assessment is completed, the Authority and COR3 are committed to run the integration by July 2023.

SECTION III- FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding Number: 2019-02

Federal Program:

CFDA No. 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Category:

Internal Control/Compliance

Compliance Requirement:

Activities Allowed or Unallowed/Allowable Costs/Cost Principles

Criteria:

§200.302 (a) Financial management, establishes that, "Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award".

§200.334 Retention requirements for records establish that "Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient".

Per *Agreement between the Government of Puerto Rico (GPR) and the Federal Emergency Management Agency (FEMA)*; for each request for reimbursement, the Program will perform 100% validate of the completeness (the funding request is supported by detailed documentations supporting the dollar amount request) and compliance (adherence to all relevant statutory regulatory and programmatic requirements), specifically as follows: for subrecipients designed as High Risk the GPR will performed 100% validation (completeness and compliance) of funding request prior to drawdown by the recipients or disbursement to the Sub-recipients.

Condition:

On April 18, 2019, the Program made a disbursement to a subrecipient without having validated the 100% of the compliance report. Subsequently, the Program performed the compliance report and requested the support evidence to the subrecipient. On November of 2019, the subrecipient, returned the funds received for several project worksheet (PW), which included the referred disbursement. As informed in the return letter by the subrecipient, funds were returned since they did not have all the required support for this transaction. The transaction is the following:

Transaction Reference	Vendor's Name	PW Reference	Date	Amount	Risk Assessment
RFR0002071	Departamento de Educación	PW 00618	4/18/2019	412,485.26	High High

Cause:

The Program did not follow the internal developed policies and procedures applicable to the review and reimbursement of FEMA recovery funds, a responsibility that the Program assumed on April 1, 2019, when the Program entered into an agreement to assume the responsibility to review and reimbursement approval of FEMA recovery funds. Such policies and procedures require that all disbursement issued to subrecipients that are categorized as High-High risk be accomplished with a 100% of completeness and compliance procedures. This disbursement was performed during the period in which the Program had the responsibility to review and approve the disbursements.

Effects:

Condition may result in noncompliance with the activities allowed or unallowed/allowable costs/cost principles requirements.

Questioned Costs:

$412,485.26

Recommendation:

We recommend the Authority to ascertain it obtain all required supporting documents before the disbursement the funds to subrecipients occurs.

Management's response:

Finding accepted.

During the months after the Presidential Declaration 4339DRPR (Hurricane María), FEMA implemented a manual drawdown 270 process. The aforementioned process, which was in effect until March 31, 2019, made FEMA the responsible entity in the review and approval process of all requests for reimbursements submitted by applicants and subsequently instructed COR3 to make the approved disbursements. On April 1, 2019, FEMA and COR3 entered into an agreement in which COR3 began to act as the responsible party in the review and approval of the requests for reimbursements based on FEMA determination that "the Government of Puerto Rico has taken numerous steps to develop a robust grants management process". Additionally, FEMA ascertained that "with the intent to assume the reimbursement process, COR3, with the assistance of its consultants, developed the required policies and procedures using the highest standards and internal controls".

The Disaster Recovery System (DRS) was implemented during the month of April 2019 along with the Chapter 7 Payment and Cash Management policies and procedures, which replaced the FEMA manual drawdown 270 process. These new procedures had been in place for only 18 days prior to the disbursement in question, while COR3 personnel were in the midst of a transition process and being trained on the newly established system and procedures. COR3's policies and procedures, high standards and internal controls allowed personnel to identify and correct the situation in a timely manner instructing the subrecipient to submit documentation related to the payment. As notified by subrecipient in their response, funds were returned as they did not have all the required support for this transaction. In conclusion, once the situation was identified, the amount disbursed was fully recovered and returned to FEMA in the following months.

Finding Number: 2019-03

Federal Programs:

CFDA No. 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Category:

Internal Control/Compliance

Compliance Requirement:

Record retention

Criteria:

§200.334 Retention requirements for records establish that "Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award, must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient".

§200.337 Access to records establish that "(a) *Records of non-Federal entities.* The Federal awarding agency, Inspectors General, the Comptroller General of the United States, and the pass-through entity, or any of their authorized representatives, must have the right of access to any documents, papers, or other records of the non-Federal entity which are pertinent to the Federal award, in order to make audits, examinations, excerpts, and transcripts. The right also includes timely and reasonable access to the non-Federal entity's personnel for the purpose of interview and discussion related to such documents".

Per Chapter 8 Record Retention and Access, "Many of the record retention requirements will be handled by Program grant management system, Puerto Rico Disaster Recovery Solution (PR DRS). Records will be retained in an electronic form in PR DRS and transferred to the Federal awarding agency as requested. The records will be available for review or audit by authorized parties and accessible to public except where prohibited by law".

Condition:

The Program could not made accessible the supporting documents for seven (7) transactions, out of a sample of sixty (60) items. These transactions were the following:

RFR number	Subrecipients	PW number	Date
RFR0000554	Ryder Memorial Hospital, Inc.	PW 00735	11/15/2018
RFR0000728	Municipio de Ceiba	PW 00059	10/10/2018
RFR0000864	Municipio de Naguabo	PW 00153	10/17/2018
RFR0002502, 2762, 2763	PR State Emergency Management Agency	PW 00261	2/15/2019
RFR0000533	Corporación de Servicios de Salud y Medica	PW 00781	11/19/2018
RFR0000144	The Baldwin School of Puerto Rico	PW 00391	11/8/2018
RFR0000463	Autoridad de Acueductos y Alcantarillados de Puerto Rico	PW 00916	12/14/2018

Cause:

During several months of the first year, evaluation of supporting documents for requested funds of subrecipients were directly managed and handled by FEMA on the EMMIE system, therefore, the Authority should have transferred the documents to PR DRS to provide assurance of compliance with record retention requirements. Also, the Program operated using the technological resources of other governmental agency, Puerto Rico Management and Emergency Agency (PREMA); however, at the transfer of Program's operations to the AAAP, it was unable to access certain information of transactions recorded using PREMA's technological resources.

Effects:

Condition may result in noncompliance with the requirements of record retention.

Questioned Costs:

None

Recommendation:

We recommend the Authority to contact FEMA or the subrecipients in order to obtain the required support for the transactions.

Management's response:

Finding accepted.

All disbursements before April 1, 2019, were authorized by FEMA and their evaluation process consisted of a different procedure than what was implemented with the release of the 270-form process. FEMA is the sole proprietor of documentation and COR3 does not have access to the documentation from FEMA. After April 1, 2019 (lifting of the Cover Manual Sheet Process or 270-form process) COR3 became the reviewer entity, and since then, the Request for Reimbursements (RFR's) are being recorded, reviewed, and tracked in the Disaster Recovery System (DRS). The COR3 internal process of review concludes with the closeout process. During the closeout process, all information, documentation and all and any requirements – including those that may have been processed by FEMA prior to April 1, 2019 – are consolidated under the respective PW. Therefore, the documentation identified will be readily available in DRS once the closeout process in concluded.

Finding Number: 2019-04

Federal Programs:

CFDA No. 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Category:

Compliance

Compliance Requirement:

Allowable Costs/Cost Principles
Time and Effort

Criteria:

CH7 Payments and Cash Management, Appendix 7-A: Policy and Procedures Specific Terms and Acronyms establishes that "an allocation of time spent on supporting federal award work would be available to confirm calculation of a portion of salary allocable to federal award. Certified Labor Summary should be signed (electronically or manually) by an authorized representative. Such time records should coincide with one or multiple pay periods".

As per §200.430 Compensation - personal services, (i) *Standards for Documentation of Personnel Expenses,* (1), Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
(ii) Be incorporated into the official records of the non-Federal entity;
(iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS);
(iv) Encompass federally-assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy.

Condition:

- The Program did not implement effective procedures to keep a segregated tracking of actual time used in each federal program.
- On examined documents for payment of payroll, from a sample of ten (10) employees, five (5) of them did not comply with requirement to prepare the Weekly State Management Cost Report.

Cause:

Lack of supervision to ascertain compliance with all requirements to record administrative costs.

Effects:

Condition may result in noncompliance with the allowable costs/cost principles and time and effort requirements.

Questioned Costs:

$439,658

Recommendation:

We recommend management to implement a procedure for the obtention and validation of all required supporting documentation for salaries charged to the federal award.

Management's response:

Finding accepted.

Although the condition was present for the period covered by the audit, currently the Program has implemented Kronos, a program which monitors employee time and attendance, labor tracking and data collection. With Kronos all employees can register their daily attendance. With control procedures put in place by COR3, all employees must record their daily attendance, and on a weekly basis employees and supervisors must revise and approve each attendance sheet or timecard. Through the Kronos attendance system, employees must make their leave requests which need to be approved by the immediate supervisor. Additionally, if any registration or license has not been approved or is missing, the corrections are incorporated in a timely manner.

In addition, employees fill a Weekly State Management Cost Tracker ("SMC Tracker"), which must be signed by the employee and the supervisor. The supervisor must send the signed form to the Human Resources office via email. Also, the SMC Tracker requires each employee provide a detailed breakdown of the tasks performed daily - identified by disaster, subrecipient, and PW number - which in turn allows COR3 to properly track the hours worked towards each disaster, with itemized descriptions of the tasks performed by each employee.

In August 2022, COR3 completed the integration of a digitally automated SMC Tracker form with the existing Disaster Recovery System (DRS). The data in the automated SMC Tracker will be contained in COR3's main platform where it cannot be lost, the entry of information is facilitated, the probability of error is minimized, the user is reminded of its compliance, and the sending of reports to supervisors for approval is automated.

Finding Number: 2019-05

Federal Programs:

CFDA No. 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Category:

Compliance Requirement
Reporting

Criteria:

- 2 CFR §200.512 (a) (1) establishes that the audit must be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.

- FEMA State Agreement, Section V. Reporting, A(1) establishes that "The State shall submit complete and accurate Federal Financial Reports (Standard Form 425) to the FEMA Regional Office 30 days after the end of the first federal quarter following the federal award date for each program".

- Federal Acquisition Regulation clause 52.204-10 stablishes that prime contractor awarded a federal contract or order are required to file a FFATA sub-award report by the end of the month following the month in which the prime contractor awards any sub-contract greater than $30,000.

- 2CFR Chapter 1, Part 170 Reporting sub-award and executive compensation, prime awardees awarded a federal grant are required to file a FFATA sub-award report by the end of the month following the month in which the prime awardee awards any sub-grant equal to or greater than $30,000.

Condition:

- The Program did not submit the required data collection form and reporting package within the required period.

- The Program did not submit the required financial report (SF425) of June and September 2018 within the required period.

- The Program did not submit the required Federal Funding Accountability Transparency Act (FFATA) reports of July and August 2018 within the required period.

Cause:

Lack of procedures requiring the review of deadlines established for the submission of required annual reporting.

Effects:

The reports were not submitted on time in order to comply with requirements.

Questioned Costs:

None.

Identification as a repeat finding:

Finding related to the submission of reporting package is a repeat of a finding in the immediately prior year and was identified as finding number 2018-06.

Recommendation:

We recommend to the Authority to establish calendars to review submission of required reporting in order to ascertain that all team members be aware of due dates.

Management's response:

Finding accepted.

The SF 425 reports are quarterly reports that are due 30 days after the quarter has ended. The SF 425 report for the quarter ending on June 30, 2018, was due on July 30, 2019, but was submitted one day late, on July 31, 2018. Likewise, the SF 425 report for the quarter ending on September 30, 2018, was due on October 30, 2018, but was submitted one day late, on October 31, 2018. Affirmative actions have been taken and all SF 425 reports since have been submitted on time. Our commitment is to submit all reports on time.

For the fiscal year audited, the Program was in the process of designing and implementing policies and procedures for the management of federal funds in compliance with Title 2 of the Code of Federal Regulations. The Program has provided all available evidence of the monthly submissions of the FFATA reports for the audited period. It is important to note that FFATA reports do not have a monthly filing requirement, except during those months where agreements between the Program and subrecipients are entered into. Evidence of FFATA filings for the months of August 2018 EM-3384 and June 2019 DR-4339, of the audited period, were not provided as there is no FFATA Report available. If the Program failed to timely file required FFATA Reports for the months of August 2018 and June 2019 the information would have been included in the following month's report. As of this date, the Program has documented procedures in place to ensure the timely completion and filing of the FFATA reports.

Finding Number: 2019-06

Federal Programs:

CFDA No. 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Category:

Internal Control/Compliance

Compliance Requirement:

Reporting

Criteria:

- FEMA State Agreement, Section V. Reporting, (B) establishes that “the State shall submit performance progress reports in compliance with each program identified in the Agreement to the FEMA Regional Office 30 days after the end of the first quarter following the federal award date. Reports are due on January 30, April 30, July 30 and October 30.

- Federal Acquisition Regulation clause 52.204-10 stablishes that prime contractor awarded a federal contract or order are required to file a FFATA sub-award report by the end of the month following the month in which the prime contractor awards any sub-contract greater than $30,000.

- 2CFR Chapter 1, Part 170 Reporting sub-award and executive compensation, prime awardees awarded a federal grant are required to file a FFATA sub-award report by the end of the month following the month in which the prime awardee awards any sub-grant equal to or greater than $30,000.

Condition:

- COR3, a division of the Authority, was unable to provide evidence of submission of performance reports.
- COR3, a division of the Authority, was unable to provide evidence of submission of monthly FFATA reports for all months of the year.

Cause:

Lack of procedures referring a review as deadlines established for the submission of required annual reporting. In addition, the lack of an integrated financial accounting system that considers all funds administered, including state and federal awards. The accounting is maintained for funds received and disbursed, which are recorded in "Excel" program spreadsheets for both state and federal awards. In addition, the Program maintains separate accounting records, for transactions related to the Grants using the same "Excel" program spreadsheets system. This creates delays in the performance of the single audit procedures and the timely delivery of the single audit reporting package.

Effects:

The reports were not submitted on time in order to comply with requirements of reporting.

Questioned Costs:

None

Recommendation:

We recommend to the Program to establish calendars to review submission of required reporting in order to ascertain that all team members be aware of due dates.

Management's response:

Finding accepted.

Related to the submission of performance reports, affirmative actions have been taken and all performance reports since those periods have been submitted on time. Our commitment is to submit all reports on time.

For the fiscal year audited, the Program was in the process of designing and implementing policies and procedures for the management of federal funds in compliance with Title 2 of the Code of Federal Regulations. The Program has provided all available evidence of the monthly submissions of the FFATA reports for the audited period. It is important to note that FFATA reports do not have a monthly filing requirement, except during those months where agreements between the Program and subrecipients are entered into. The Program was not able to produce evidence of submission of monthly FFATA reports for all months of the audited period; however, if the Program failed to timely file required FFATA Reports for any month during the audited period, the information would have been included in the following month's report. It is also important to note that the Federal Funding Accountability and Transparency Act Subaward Reporting System does not issue any document evidencing the timely or late filing of any FFATA report. As of this date, the Program has documented procedures in place to ensure the timely completion and filing of the FFATA reports.

Finding Number: 2019-07

Federal Programs:

CFDA No. 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Category:

Internal Control/Compliance

Compliance Requirement:

Subrecipients Monitoring

Criteria:

§200.303 Internal controls establishes that "The non-Federal entity must (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, (b) Comply with the U.S. Constitution, Federal statutes, regulations, and the terms and conditions of the Federal awards, (c) Evaluate and monitor the non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards., (d) Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings".

2 CFR §200.332 Requirements for pass-through entities establishes that "All pass-through entities must: Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

Pass-through entity monitoring of the subrecipient must include (1) Reviewing financial and performance reports required by the pass-through entity; (2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and written confirmation from the subrecipient, highlighting the status of actions planned or taken to address Single Audit findings related to the particular subaward; (3) Issuing a management decision for applicable audit findings pertaining only to the Federal award provided to the subrecipient from the pass-through entity as required by § 200.521; and (4) The pass-through entity is responsible for resolving audit findings specifically related to the subaward and not responsible for resolving crosscutting findings".

Condition:

The Chapter 11 Subrecipients Management and Monitoring Manual, subrecipients with risk assessment profile classified as High-High Risk (HH), require an annual site visit. However, during the year ended June 30, 2019, from twelve (12) subrecipients classified as HH, only two were visited during the period and other four were visited during the subsequent period.

The following subrecipients were not visited:

Sub-recipient	Subaward number
Puerto Rico Department of Education	000-ULGE2-00
Metropolitan Bus Authority	000-UNMTL-00
Puerto Rico Department of Transportation	000-UK2GJ-00
Puerto Rico Medical Services Administration	000-U4EUO-00
Puerto Rico Aqueduct and Sewer Authority (PRASA)	000-UK5O0-00
Vocational Rehabilitation Administration	000-U78SB-00

Cause:

Missing work plan includes monitoring process for at least major subrecipients before year conclude in order to avoid noncompliance on subrecipients procedures.

Effects:

Noncompliance may be performed by subrecipients without timely evaluation to remediate possible questioned costs, which may result in delay receipt of funds through remediation be implemented.

Questioned Costs:

None.

Identification as a repeat finding:

Finding is a repeat of a finding in the immediately prior year and was identified as finding number 2018-05.

Recommendation:

We recommend to management to implement a work plan for monitoring subrecipients to ascertain that major subrecipients be monitored during the year, or at reaching to determine threshold on used federal funds used in order to timely react to and avoid possible non-compliances.

Management's response:

Finding accepted.

For the audited fiscal year, COR3 was in the process of designing and implementing policies and procedures for the management of federal funds in compliance with Title 2 of the Code of Federal Regulations. Upon the implementation of the Disaster Recovery Federal Funds Management Guide in 2019, COR3 started the process of preparing the annual risk assessment as specified in Chapter 11 "Subrecipient Management and Monitoring", which results are used to determine which subrecipients shall be selected for a site visit. Based on the risk assessment results, a sample of subrecipients are selected to ensure they have policies and procedures in place to comply with the administrative requirements, cost principles, and audit requirements for the grants administered by COR3. For those subrecipients with a risk classification of "High-High", our policy states that the site visit frequency shall be annually. Accordingly, during the course of 2019 and throughout 2020, site visits were performed for the subrecipients selected through the sampling of the risk assessment results.

Lastly, our policy provides the mechanism for the compliance division to employ the risk assessment results as a work plan for performing the site visits and monitoring of subrecipients on an annual basis. COR3 will continue to follow its policy for the management and monitoring of its subrecipients to ensure their compliance in managing federal funds.

Summary Schedule of Prior Year Audit Findings and Questioned Costs
For the year ended June 30, 2019

Findings Number: 2018-01

Federal Programs:

CFDA No. 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
CFDA No. 97.042 Emergency Management Performance Grant

Topic:

Financial Accounting System Maintained by the Bureau

Category:

Internal Control/Compliance/Material Weakness

Condition:

The Bureau does not have in use an integrated financial accounting system that considers all funds administered, including state and federal awards. Basically, accounting is maintained for funds received and disbursed, which are recorded in "Excel" program spreadsheets for both state and federal awards. In addition, the administrative unit of the GAR, which was transferred and became part of the Bureau, maintains separate accounting records, for transactions related to the Public Assistance and Hazard Mitigation Grants, using the same "Excel" program spreadsheets system. Also, the Bureau is required to follow accounting recordkeeping requirements imposed by the Puerto Rico Treasury Department system called "PRIFAS" (Puerto Rico Integrated Financial Accounting System) for Centralized Governmental Agencies and Departments and also following the requirements of Law Number 230 of July 23, 1974, as amended, known as "Accounting Law of the Government of Puerto Rico".

Current status

Condition is no longer applicable, since the operations of the Program were transferred to the Authority during the current year and the Authority is not required to comply with Law 230 of July 23, 1974.

Finding Number: 2018-02

Federal Programs:

CFDA No. 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
CFDA No. 97.042 Emergency Management Performance Grant

Category:

Internal Control/Compliance/Material Weakness

Compliance Requirement:

Employee Files

Condition:

The Bureau requires that certain documents be included on files for employees hired. An internal control document named "Instructions for Hiring" list the documents that should be kept on file, for each employee. We selected a sample of twenty-five (25) employee files for examination, to evaluate completeness of required personnel documents on employee files, as required by this internal control document. During the verification, we noted that the following documents were missing as follows:

1. Certificate for Income Tax Withholding Exemption - Three (3) cases, or 12% of the sample selected
2. Employment Application - Two (2) cases, or 8% of the sample selected
3. Birth Certificate - Three (3) cases, or 12% of the sample selected
4. Medical Examination Records - Fifteen (15) cases, or 60% of the sample selected
5. Verification for Employment Eligibility (I-9 Form) - Five (5) cases, or 20% of the sample selected
6. Diploma or Equivalent Certification - Two (2) cases, or 8% of the sample selected
7. Credits Transcriptions - Three (3) cases, or 12% of the sample selected
8. 2X2 Photo - Eight (8) cases, or 32% of the sample selected
9. Copy of Social Security card - Two (2) cases, or 8% of the sample tested
10. License - One (1) case, or 4% of the sample selected
11. Income Tax Returns Filing Certification - One (1) case, or 4% of the sample selected
12. Administration for Child Support (ASUME) No Debt Certification - One (1) case, or 4% of the sample selected
13. Center for Municipal Collections (CRIM) No Debt Certification - One (1) case, or 4% of the sample selected
14. PR Treasury Department No Debt Certification - One (1) case, or 4% of the sample selected.

The only documents available for 100% of the sample tested were: Conduct Certificate.

Current status

On prior year, the Program's operations were under PREMA. On current year, the operations were transferred to the Authority, therefore, from fiscal year 2019, the Program uses the manuals of policies adopted by AAFAF.

Finding Number: 2018-03

Federal Programs:

CFDA No. 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
CFDA No. 97.042 Emergency Management Performance Grant

Category:

Internal Control/Compliance/Material Weakness

Compliance Requirement:

Reporting

Condition:

The Bureau's payroll department is preparing and filing its Puerto Rico Unemployment and Disability Quarterly Tax Returns using the amounts that employees should receive as salary, as agreed when hired and in subsequent salary evaluations, and detailed in an employee roster maintained, and not using actual wages and compensation paid during the quarter. This creates differences in wages and compensation included in the quarterly returns and the actual amounts paid and registered in accounting system.

Current status

Condition was not observed during the current year.

Finding Number: 2018-04

Federal Programs:

CFDA No. 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
CFDA No. 97.042 Emergency Management Performance Grant

Topic:

Backup and Recovery Policy

Category:

Internal Control/Material Weakness

Compliance Requirement:

Compliance with Act No. 230 named “Accounting Law of the Government of Puerto Rico”

Condition:

During audit procedures as of June 30, 2017, accounting data maintained in the Bureau's server, regarding state funds, was lost due to the critical condition of the power grid in Puerto Rico, from the impact of Hurricanes Irma and Maria. Hurricane Irma passed close to the Puerto Rico area on September 7, 2017, and hurricane Maria passed over Puerto Rico area on September 20, 2017, resulting in widespread damage, flooding and power outages, and affecting governmental and private companies’ operations directly and indirectly. Data related to state funds for the year ended June 30, 2017 was reconstructed since the server was damaged without repair, and data cannot be retrieved. During the year ended June 30, 2018, no data was lost, but no backup and recovery procedures were in place.

Current status

Condition was not observed during the current year.

Summary Schedule of Prior Year Audit Findings and Questioned Costs
For the year ended June 30, 2019

Finding Number: 2016-004, 2016-005, 2017-05, 2018-05

Federal Programs:

CFDA No. 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Topic:

Subrecipient Monitoring

Category:

Internal Control/Material Weakness/Instance of Noncompliance

Compliance Requirement:

Subrecipient Monitoring

Condition:

During our compliance audit procedures related to subrecipient monitoring, we identified that the GAR administrative Unit, which passed-through funds to municipalities and other entities during the fiscal year ended June 30, 2018, does not have a formal written subrecipient monitoring policy. In addition, there is no evidence available of any monitoring procedures performed to subrecipients to ensure that the federal funds passed-through were properly used by subrecipients, in accordance to requirements of the Uniform Guidance, and for the purpose the funds were provided.

Current status

Condition still prevails. See current fiscal year finding 2019-07.

Finding Number: 2016-002, 2018-06

Federal Programs:

CFDA No. 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
CFDA No. 97.042 Emergency Management Performance Grant

Topic:

Late Submission of Single Audit Reporting Package

Category:

Compliance/Material Weakness

Compliance Requirement:

Reporting

Condition:

The Bureau did not submit the single audit and reporting package, for the year ended June 30, 2018, to the Federal Audit Clearinghouse (FAC) during the required submission deadline period.

Current status

Condition still prevails. See current fiscal year finding 2019-05

GOVERNMENT OF PUERTO RICO
CENTRAL RECOVERY RECONSTRUCTION
AND RESILIENCE OFFICE

EXHIBIT A

Corrective Action Plan
Single Audit 2019

<u>Finding No. 2019-01</u>

Management Response:

The Authority has established policies and procedures to manage each of the federal funds awarded to the Government of Puerto Rico, including the implementation of the Disaster Recovery System (DRS) which provides centralized tracking of all data related to federal funds disbursed to subrecipients. The DRS was successfully implemented during the month of April 2019 and has proved an effective tool in monitoring and tracking integrated subrecipient and project data throughout all phases of the obligation and disbursement processes. The Authority is currently evaluating the different options and alternatives for a centralized accounting system that will integrate with the grants management software, DRS. The Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF, for its Spanish Acronym), the Authority and the Program's finance personnel are doing the assessment on how to proceed with this accounting integration of the Program accounting transactions. Once this assessment is completed, the Authority and COR3 are committed to run the integration by July 2023.

<u>Corrective Action Plan</u>:

Evaluate the different options and alternatives to subsequently implement a centralized accounting system that will integrate with COR3's existing grants management software, DRS.

Contact Person: <u>Vicente Rivera Cintrón</u>

Anticipated Completion Date: <u>Not later than July 30, 2023</u>

<u>Finding No. 2019-02</u>

Management Response:

During the months after the Presidential Declaration 4339DRPR (Hurricane María), FEMA implemented a manual drawdown 270 process. The aforementioned process, which was in effect until March 31, 2019, made FEMA the responsible entity in the review and approval process of all requests for reimbursements submitted by applicants and subsequently instructed COR3 to make the approved disbursements. On April 1, 2019, FEMA and COR3 entered into an agreement in which COR3 began to act as the responsible party in the review and approval of the requests for reimbursements based on FEMA determination that "the Government of Puerto Rico has taken numerous steps to develop a robust grants management process." Additionally, FEMA ascertained that "with the intent to assume the reimbursement process, COR3, with the assistance of its consultants, developed the required policies and procedures using the highest standards and internal controls."

The Disaster Recovery System (DRS) was implemented during the month of April 2019 along with the Chapter 7 Payment and Cash Management policies and procedures, which replaced the FEMA drawdown 270 process. These new procedures had been in place for only 18 days prior to the disbursement in question, while COR3 personnel were in the midst of a transition process and being trained on the newly established system and procedures. COR3's policies and procedures, high standards and internal controls allowed personnel to identify and correct the situation in a timely manner instructing the subrecipient to submit documentation related to the payment. As notified by subrecipient in their response, funds were returned as they did not have all the required support for this transaction. In conclusion, once the situation was identified, the amount disbursed was fully recovered and returned to FEMA in the following months.

Corrective Action Plan:

On April 1, 2019, FEMA and COR3 entered into an agreement in which COR3 became responsible for the review and approval process of all requests for reimbursements. Policies and Procedures for these reimbursements were put in place during the month of March 2019 and have since been continuously updated. Training on the applicable policies and procedures is continuously provided to COR3 employee's and subrecipients.

Contact Person: Zulma Rovira Pérez

Anticipated Completion Date: Completed. Policies and Procedures were revised and are in place.

Finding No. 2019-03

Management Response:

All disbursements before April 1, 2019, were authorized by FEMA and their evaluation process consisted of a different procedure than what was implemented with the release of the 270-form process. FEMA is the sole proprietor of documentation and COR3 does not have access to the documentation from FEMA. After April 1, 2019 (lifting of the Cover Manual Sheet Process or 270-form process) COR3 became the reviewer entity, and since then, the Request for Reimbursements (RFR's) are being recorded, reviewed, and tracked in the Disaster Recovery System (DRS). The COR3 internal process of review concludes with the closeout process. During the closeout process, all information, documentation and all and any requirements – including those that may have been processed by FEMA prior to April 1, 2019 – are consolidated under the respective PW. Therefore, the documentation identified will be readily available in DRS once the closeout process in concluded.

Corrective Action Plan:

As part of our Standard Operating Procedures, any document missing in DRS from previous disasters will be uploaded into DRS when the closeout process is completed.

Contact Person: Zulma Rovira Pérez and Sebastián Batista Bustelo

Anticipated Completion Date: June 30, 2023

Finding No. 2019-04

Management Response:

Although the condition was present for the period covered by the audit, currently the Program has implemented Kronos, a program which monitors employee time and attendance, labor tracking and data collection. With Kronos all employees can register their daily attendance. With control procedures put in place by COR3, all employees must record their daily attendance, and on a weekly basis employees and supervisors must revise and approve each attendance sheet or timecard. Through the Kronos attendance system, employees must make their leave requests which need to be approved by the immediate supervisor. Additionally, if any registration or license has not been approved or is missing, the corrections are incorporated in a timely manner.

In addition, employees fill a Weekly State Management Cost Tracker ("SMC Tracker"), which must be signed by the employee and the supervisor. The supervisor must send the signed form to the Human Resources office via email. Also, the SMC Tracker requires each employee provide a detailed breakdown of the tasks performed daily - identified by disaster, subrecipient, and PW number - which in turn allows COR3 to properly track the hours worked towards each disaster, with itemized descriptions of the tasks performed by each employee.

On August 2022, COR3 completed the integration of a digitally automated SMC Tracker form with the existing Disaster Recovery System (DRS). The data in the automated SMC Tracker will be contained in COR3's main platform where it cannot be lost, the entry of information is facilitated, the probability of error is minimized, the user is reminded of its compliance, and the sending of reports to supervisors for approval is automated.

Corrective Action Plan:

Implementation of automated tracker system (SMC Tracker).

Contact Person: Maria V. Ruiz Pacheco

Anticipated Completion Date: Completed. SMC Tracker is currently integrated with the DRS.

Finding No. 2019-05

Management Response:

The SF 425 reports are quarterly reports that are due 30 days after the quarter has ended. The SF 425 report for the quarter ending on June 30, 2018, was due on July 30, 2019, but was submitted one day late, on July 31, 2018. Likewise, the SF 425 report for the quarter ending on September 30, 2018, was due on October 30, 2018, but was submitted one day late, on October 31, 2018. Affirmative actions have been taken and all SF 425 reports since have been submitted on time. Our commitment is to submit all reports on time.

For the fiscal year audited, the Program was in the process of designing and implementing policies and procedures for the management of federal funds in compliance with Title 2 of the Code of Federal Regulations. The Program has provided all available evidence of the monthly submissions of the FFATA reports for the audited period. It is important to note that FFATA reports do not have a monthly filing requirement, except during those months where agreements between the Program and subrecipients are entered into. Evidence of FFATA filings for the months of August 2018 EM-3384 and June 2019 DR-4339, of the audited period, were not provided as there is no FFATA Report available. If the Program failed to timely file required FFATA Reports for the months of August 2018 and June 2019 the information would have been included in the following month's report. As of this date, the Program has documented procedures in place to ensure the timely completion and filing of the FFATA reports.

Corrective Action Plan:

The Program designed and implemented policies and procedures to assure the submission of all SF 425 and FFATA reports on time.

Contact Person: Melissa Marchany Carrasquillo

Anticipated Completion Date: Completed

Finding No. 2019-06

Management Response:

Related to the submission of performance reports, affirmative actions have been taken and all performance reports since those periods have been submitted on time. Our commitment is to submit all reports on time.

For the fiscal year audited, the Program was in the process of designing and implementing policies and procedures for the management of federal funds in compliance with Title 2 of the Code of Federal Regulations. The Program has provided all available evidence of the monthly submissions of the FFATA reports for the audited period. It is important to note that FFATA reports do not have a monthly filing requirement, except during those months where agreements between the Program and subrecipients are entered into. The Program was not able to produce evidence of submission of monthly FFATA reports for all months of the audited period; however, if the Program failed to timely file required FFATA Reports for any month during the audited period, the information would have been included in the following month's report. It is also important to note that the Federal Funding Accountability and Transparency Act Subaward Reporting System does not issue any document evidencing the timely or late filing of any FFATA report. As of this date, the Program has documented procedures in place to ensure the timely completion and filing of the FFATA reports.

Corrective Action Plan:

The Program designed and implemented policies and procedures to assure the submission of all performance and FFATA reports on time.

Contact Person: Melissa Marchany Carrasquillo

Anticipated Completion Date: Completed

Finding No. 2019-07

Management Response:

For the audited fiscal year, COR3 was in the process of designing and implementing policies and procedures for the management of federal funds in compliance with Title 2 of the Code of Federal Regulations. Upon the implementation of the Disaster Recovery Federal Funds Management Guide in 2019, COR3 commenced the process of preparing the annual risk assessment as specified in Chapter 11 "Subrecipient Management and Monitoring", which results are used to determine which subrecipients shall be selected for a site visit. Based on the risk assessment results, a sample of subrecipients are selected to ensure they have policies and procedures in place to comply with the administrative requirements, cost principles, and audit requirements for the grants administered by COR3. For those subrecipients with a risk classification of "High-High", our policy states that the site visit frequency shall be annually. Accordingly, during 2019 and throughout 2020, site visits were performed for the subrecipients selected through the sampling of the risk assessment results.

Lastly, our policy provides the mechanism for the compliance division to employ the risk assessment results as a work plan for performing the site visits and monitoring of subrecipients on an annual basis, not necessarily limited to a fiscal year basis. COR3 will continue to follow its policy for the management and monitoring of its subrecipients to ensure their compliance in managing federal funds.

Corrective Action Plan:

The Program has designed and implemented policies and procedures that enable the compliance division to use the risk assessment results as a work plan for performing the site visits and monitoring of subrecipients on an annual basis. COR3 will continue to follow its policy for the management and monitoring of its subrecipients to ensure their compliance in managing federal funds.

Contact Person: Melissa Marchany Carrasquillo

Anticipated Completion Date: Completed