Crowe PR PSC
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August 16, 2022

Mr. Oscar X. Ocasio González
Finance Affairs Director
Roosevelt Roads Local Redevelopment Authority
355 F.D. Roosevelt Ave.
Office 106
Hato Rey, PR 00918

Dear Mr. González:

Enclosed is one copy of the financial statements of the **Authority for the Redevelopment of the Land and the facilities of the Roosevelt Roads Naval Station** for the fiscal year ended June 30, 2020.

Kindly acknowledge receipt of the enclosures by signing and returning to us the enclosed copy of this letter.

Cordially,

CROWE PR PSC

José Penabaz, CPA
Vice-President

JP/npo

Enclosures

xc: Samuel García Pérez

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

FINANCIAL STATEMENTS AND
AUDITOR'S REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the **Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads** (hereinafter "the Authority")**,** a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

1. We were unable to ascertain the completeness of the Office of Economic Adjustment (OEA) expenditures for the year ended June 30, 2020.

2. We were unable to obtain information from the Authority's environmental and legal consultants to ensure the pollution remediation obligation, if any, is properly accrued in the financial statements.

Qualified Opinion

In our opinion, except for the effects of the matters described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the **Authority**, as of June 30, 2020, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 **3-8** 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.

August 15, 2022

Stamp number E493424 was
affixed to the original of this report

Crowe PR PSC

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Our discussion and analysis of the **Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads'** (the Authority) financial performance provides a narrative overview of the Authority's financial activities for the fiscal year ended June 30, 2020 and is intended to serve as an introduction to the basic financial statements. This Management Discussion and Analysis (the MD&A) is designed to assist the reader in focusing on significant financial matters and provide an overview of the Authority's financial activities. We encourage readers to review this information together with the Authority's financial statements that follow.

FINANCIAL HIGHLIGHTS

- The Authority's net position as of June 30, 2020, is $423,876, an increase of $12,478 from a net position of $411,398 as of June 30, 2019.
- Rental income, including common areas, and others decreased by $238,386 or 18% when compared to the prior year.
- Utilities assessments decreased by $71,246 or 28% when compared to the prior year.
- Operating expenses increased by $107,010 or 4% when compared to the prior year.

MAJOR FINANCIAL ELEMENTS

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

Non-operating Revenues – Revenues are recorded from the following sources: (1) legislative appropriations from the Commonwealth of Puerto Rico (the Commonwealth) and (2) federal grants from the US Department of Defense (DoD) through the Office of Economic Adjustment (OEA), which are provided for operating expenses, and from the Federal Emergency Management Agency (FEMA).

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

OVERVIEW OF THE FINANCIAL STATEMENTS FOR BUSINESS-TYPE ACTIVITIES

Proprietary Fund Financial Statements

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

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

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

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Statement of Net Position

The table below is a condensed summary of assets, liabilities, and net position as of June 30, 2020 and 2019:

	2020	2019	Change	%
ASSETS				
Current and other assets	$ 3,228,783	$ 2,874,187	$ 354,596	12 %
Capital assets, net	16,386,060	16,423,429	(37,369)	- %
Total assets	$ 19,614,843	$ 19,297,616	$ 317,227	2 %
LIABILITIES				
Current liabilities	$ 1,927,224	$ 1,525,665	$ 401,559	26 %
Noncurrent liabilities	17,263,743	17,360,553	(96,810)	(1)%
Total liabilities	19,190,967	18,886,218	304,749	2 %
Total net position	$ 423,876	$ 411,398	$ 12,478	3 %

Current and other assets – The Authority’s current and other assets increased by $354,596 or 12%, due to the accounts receivable from the OEA and FEMA grants which increased by $133,637 or 13%.

Net position – The Authority's net position increased by $12,478 or 3%, mainly due to a significant increase in current assets.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Statement of Net Position (Continued)

However, based on the independent appraisal values and the use of its best professional judgment on the estimated value on a per square foot basis, the Authority was able to distribute the acquisition cost to the different components of the acquired property, principally land, buildings, piers, and infrastructure. As a result, the Authority allocated approximately $4.4 million to depreciable assets like buildings, piers, and infrastructure as of June 30, 2016. The Authority recognized depreciation on depreciable buildings, piers and infrastructure that are currently being used as operating capital assets in the total amount of $152,243 and $148,056 for 2020 and 2019, respectively.

Remaining land and property for future development has been evaluated for impairment as of June 30, 2020 and have determined that no loss has been incurred as of this date.

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

Statements of Revenues, Expenses and Changes in Net Position

The table below is a condensed summary of the revenues, expenses and changes in net position for the years ended June 30, 2020 and 2019:

Functions/Programs	2020	2019	Change	%
Operating revenues				
Rental income, including common areas, utilities assessments and others	$ 1,095,863	$ 1,334,249	$(238,386)	(18)%
Operating expenses	2,815,430	2,922,440	(107,010)	(4)%
Operating loss	(1,719,567)	(1,588,191)	(131,376)	8 %
Non-operating revenues (expenses)				
Legislative appropriations, federal grants, and others	1,732,045	2,466,802	(734,757)	(30)%
Accrual for the disposition of equipment and materials left by lessor	-	(195,000)	195,000	(100)%
Accrual for the external property damage property incurred by tenants	-	(173,000)	173,000	(100)%
	1,732,045	2,098,802	(366,757)	(17)%
Change in net position	$ 12,478	$ 510,611	$(498,133)	(98)%

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

Operating revenues - The Authority's rental, utilities assessments, and other revenues decreased by $238,386 or 18%, mainly as a result of the contracts to be cancelled.

Operating expenses - The Authority's operating expenses decreased by $107,010, mainly as a result of the changes in professional services, and bad debts expense.

- Professional services decreased by $260,771 or 39%, primarily due to significant reductions in legal and engineering services received during the year. In 2019, one of the riskiest tenants filed for bankruptcy, which brought the Authority to contract a specialized legal counsel. Also, in 2019, the Authority used the services of engineers and environmental consultants for the reconstruction of the lands and facilities damaged by Hurricanes María and Irma in 2017, which is still in process.

- Bad debt expenses decreased by $202,748 or 77% compared to the prior year mainly due to the allowance in 2019 of $310,046 pertaining to tenant that filed for bankruptcy.

Non-operating revenues - The Authority's non-operating revenues decreased by $734,757 or 30%, mainly due to the budget reductions by the Commonwealth on its General Fund, and termination of the Office of Economic Adjustment (OEA) grant on December 31, 2019. Effective July 1, 2020, the OEA approved two more grants for the years ended June 30, 2021 and 2022.

Non-operating expenses - The Authority's non-operating expenses decreased by $368,000, mainly to reductions to the provision for contingency losses due to the Authority's estimated costs of $152,000 to address the unauthorized land alteration and the reparation of two monitoring wells by the Puerto Rico Electric Power Authority. See **Note 11**, *Commitments and Contingent Liabilities*. It also includes $295,000 for the disposition of equipment and materials from a leased facility.

Going Concern, Liquidity Risk and Fiscal Plan

Alleviated Substantial Doubt About Going Concern and Liquidity Risk

The Authority is still in the early stages of fully developing the property assets. Only a small portion of the property has been leased. Accordingly, to offset recurring losses from operations, the Authority has relied significantly on legislative appropriations and federal awards and will continue to rely on those appropriations and awards in the foreseeable future. See **Note 13**, where significant matters are disclosed to evidence that the risk of substantial doubt about going concern has been alleviated for at least one year after the release of the financial statements.

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

Fiscal Plans 2021 and 2022

Pursuant to the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) and the requirements imposed by the Puerto Rico Management and Budget Office, the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), on April 22, 2022, and January 27, 2022, certified the 2021 and 2022, respectively, the Fiscal Plan for the Commonwealth. The Oversight Board's Fiscal Plan commits to fiscal responsibility and implements specific revenue enhancements and targeted expenditure reductions to return Puerto Rico to fiscal stability and economic growth. For additional information regarding the Board Fiscal Plan, please refer to **Note 12** and **Note 15**.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

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

STATEMENT OF NET POSITION

JUNE 30, 2020

ASSETS	
CURRENT ASSETS	
Cash	$ 1,846,197
Federal grant receivable, net	420,043
Tenants and other receivables, net of allowance for doubtful accounts of $442,811	596,620
Prepaid expenses	138,766
Total current assets	3,001,626
NONCURRENT ASSETS	
Cash restricted for debt service reserve	50,520
Accrued rent following the straight-line method	176,637
Capital assets, net	16,386,060
Total noncurrent assets	16,613,217
Total assets	19,614,843
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	751,706
Loans payable	244,983
Interest payable	22,162
Accrual for disposition of equipment and material left by terminated lessee	295,000
Accrual for external property damage incurred by tenants	152,000
Compensated absences	60,220
Lease security deposits	401,153
Total current liabilities	1,927,224
NONCURRENT LIABILITIES	
Loans payable	17,163,155
Compensated absences	100,588
Total noncurrent liabilities	17,263,743
Total liabilities	19,190,967
NET POSITION	
Net investment in capital assets	(498,578)
Restricted for debt service reserve	50,520
Unrestricted	871,934
Total net position	$ 423,876

See accompanying notes to the basic financial statements.

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

OPERATING REVENUES	
Rental income, including common areas expenses	$ 840,506
Utilities assessments	187,647
Other	67,710
Total operating revenues	1,095,863
OPERATING EXPENSES	
Salaries, taxes and benefits	817,372
Security and related	300,995
Professional services	400,677
Insurance	195,277
Water plant system	208,118
Depreciation expenses	152,243
Repairs and maintenance	338,734
Property services, including utilities	278,610
Occupancy	5,877
Bad debt	58,920
Other expenses	58,607
Total operating expenses	2,815,430
Operating loss	(1,719,567)
NON-OPERATING REVENUES (EXPENSES)	
Federal grants	712,207
Contributions from Commonwealth of Puerto Rico	1,042,000
Interest expense	(22,162)
Total non-operating revenues, net	1,732,045
NET CHANGE	12,478
NET POSITION, beginning of year	411,398
NET POSITION, end of year	$ 423,876

See accompanying notes to the basic financial statements.

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

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tenants and customers	$ 1,100,972
Payments to employees for services	(817,372)
Payments to other suppliers of goods and services	(1,370,683)
Other payments	(155,280)
Net cash used in operating activities	(1,242,363)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Receipts from Federal grants, net	456,586
Receipts from contributions from Commonwealth	1,042,000
	1,498,586
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of a vehicle and construction in progress	(76,233)
Proceeds from issuing federal loan	41,585
Payment of loans payable	(14,000)
Net cash used in capital and related financing activities	(48,648)
NET INCREASE IN CASH	207,575
CASH AND RESTRICTED CASH, beginning of year	1,689,142
CASH AND RESTRICTED CASH, end of year	$ 1,896,717
CASH AND RESTRICTED CASH	
Cash	$ 1,846,197
Cash restricted for debt service reserve	50,520
	$ 1,896,717

Continues.

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

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	$(1,719,567)
Adjustment to reconcile operating loss to net cash used in operating activities:	
Depreciation	152,243
Bad debt	58,920
Net change in operating assets and liabilities:	
Tenants and other receivables	63,063
Prepaid expenses	(13,383)
Accounts payable and accrued expenses	268,413
Due to the federal government	(52,052)
	477,204
Net cash used in operating activities	$(1,242,363)

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Construction in-progress accrued	$ 34,648

See accompanying notes to the basic financial statements.

1. ORGANIZATION

The Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads (the Authority) is a public corporation and government instrumentality of the Commonwealth of Puerto Rico (the Commonwealth), which was created as an independent corporate and political body, by Law No. 508 of September 29, 2004. The Authority is responsible for the implementation of the reuse and redevelopment plan for the former Navy Station of Roosevelt Roads located in Ceiba, Puerto Rico. Some of the activities involved in these redevelopment plans include the direction, supervision, regulation, and maintenance of the economic development on the land and facilities formerly occupied by the U.S. Department of the Navy (the Navy). The Commonwealth generally provides financial support to the Authority through legislative appropriations.

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

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

As more fully explained in **Notes 7** and **15**, the Navy still in the process of transferring SWMU 3 and 70, which are expected to be transferred by 2025, or promptly thereafter.

Financial independence – The Authority is subject to the annual budget approval and financial restraint of the Puerto Rico Management and Budget Office (OGP, as its Spanish acronym), under the oversight of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board). In addition, the Federal Office of Economic Adjustment (OEA); now the Office of Local Defense Community Cooperation (OLDCC) provides annual support to offset payroll and other operational costs. However, it is impracticable to determine if the OLDCC commitment is long-term.

Board of Directors – The Authority is governed by a nine member board comprising of the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, two members appointed by the Mayor of the Municipality of Ceiba, one member appointed by the Mayor of the Municipality of Naguabo, one member appointed by the President of the Senate, one member appointed by the Speaker of the House of Representatives and three additional members appointed by the Governor, all to possess known interest and expertise in the areas of planning; commercial, tourism, residential, and institutional development; real estate; tourism and recreational facilities administration; and infrastructure projects' management.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Measurement Focus and Basis of Accounting

The Authority's operations are accounted on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with operations are included on the statement of net position; and revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

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

Rent Revenue, Accounts Receivable, and Allowance for Doubtful Accounts

Rent revenue is recorded following the straight-line basis or a method that approaches such a basis. Utility services and common area maintenance is recognized as earned monthly, as costs are incurred. However, rental revenue of lease contracts cancellations that are more probable than not of being cancelled or are related to projects still in the conceptualization stage, or that still have not commenced commercial operations, are not accounted using the straight-line basis is not used.

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

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

The activity of the allowance for doubtful accounts, for the year ended June 30, 2020, follows:

Balance, beginning of year	$ 462,244
Add provision for doubtful accounts	120,456
Add collection of receivables previously allowed	(61,536)
	521,164
Less current year receivables written-off	(88,353)
Add collection of receivables previously written-off	10,000
Balance, end of year	$ 442,811

Grants

Operating Grants, including those to finance operating deficits, and contributions that are not restricted for capital purposes are excluded from an operating category since these are result of non-exchange transactions; therefore, they are reported as non-operating revenues.

Revenue Recognition of Non-exchange Transactions

Revenue from nonexchange transactions consist of contributions from the Commonwealth and federal grants from the DoD and the USDA.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of cash flows, the Authority considers all highly liquid investments (including restricted assets, if any) with a maturity of three months or less to be cash equivalents. If such instruments are included in restricted assets, they are considered cash equivalents for purposes of the statement of cash flows. The available cash balance in the general checking account beyond immediate need is maintained in interest bearing accounts with commercial banks insured with the Federal Deposit Insurance Corporation (FDIC).

The Authority receives grants, which may require separate bank accounts to register grant revenues and disbursements.

Restricted Assets

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

Capital Assets

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Capital Assets

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

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

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

The Authority evaluated its capital assets as required by GASB Statement No. 42 and no impairment was identified during the year ended June 30, 2020.

Compensated Absences

The vacation policy of the Authority generally provides for the accumulation of 1.25 days per month up to maximum 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 day per month up to a maximum annual amount of 12 days and a maximum accrual of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid vacation leave at the current rates regardless of years of service.

Vacation and sick leave expected to be paid in the next twelve months are classified as current accrued liabilities while amounts expected to be paid after twelve months are classified as noncurrent liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tenant Inflicted External Property Damage

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

Pension Benefits

The Authority adopted a defined contribution savings and retirement plan (“the Plan”). All employees are eligible to participate in the Plan since commencement date. All employees' benefits become vested, once they have entered the Plan, in accordance with the eligibility requirements. The Plan provides for contributions by the Authority of 50 cents per each dollar contributed by the participant, which cannot exceed 5% of the aggregate annual salary of the participant. Total contributions made by the Authority to the Plan during the year ended June 30, 2020, amounted to $18,338.

Risk Management

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

Accounting Pronouncement Issued But Not Yet Effective

GASB has issued the following standard that have not been adopted by the Authority, and are currently under evaluation for their impact in future financial statements:

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. This statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. The requirements of this statement became effective for reporting periods beginning after June 15, 2019. GASB Statement No. 95, ahead, provides for a postponement date, however, earlier application is encouraged.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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 assets, 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. GASB Statement No. 95, ahead, provides for a postponement date, however, earlier application is encouraged.

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

- GASB Statement No. 92, *Omnibus 2020*. This Statement addresses a variety of topics and includes specific provisions about the following, the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports; Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; The applicability of 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, as amended*, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits; 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. GASB Statement No. 95, ahead, provides for a postponement date, however, earlier application is encouraged.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Pronouncement Issued But Not Yet Effective (Continued)

- GASB Statement No. 95, *Postponements of 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, 2019, and later.

  The effective dates of certain provisions contained in the following pronouncements are postponed by one year after the original implementation date:
  -- GASB Statement No. 83, *Certain Asset Retirement Obligations*
  – GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
  – GASB Statement No. 90, *Majority Equity Interests*
  – GASB Statement No. 91, *Conduit Debt Obligations*
  – GASB Statement No. 92, *Omnibus 2020*
  – GASB Statement No. 93, *Replacement of Interbank Offered Rates*
  – GASB Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (and Certain Issues Related to OPEB Plan Reporting)
  – GASB Implementation Guide No. 2018-1, Implementation Guidance Update—2018
  – GASB Implementation Guide No. 2019-1, Implementation Guidance Update—2019

  The effective dates of the following pronouncements are postponed by 18 months after the original implementation date:
  – GASB Statement No. 87, *Leases*
  – GASB Implementation Guide No. 2019-3, *Leases*.

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

- GASB Statement No. 96, *Subscription Based Information Technology Arrangements*. The primary objective of this Statement is to provide 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Pronouncement Issued But Not Yet Effective (Continued)

- GASB Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

  - Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.

  - Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.

  - Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.

  - Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt

  - Disclosures related to nonmonetary transactions

  - Pledges of future revenues when resources are not received by the pledging government

  - Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as amended*, related to the focus of the government-wide financial statements.

  - Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

  - Terminology used in Statement 53 to refer to resource flows statements.

  The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Pronouncement Issued But Not Yet Effective (Continued)

- GASB Statement No. 100, *Accounting Changes and Error Correction - An amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

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

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

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

  Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

  The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Pronouncement Issued But Not Yet Effective (Continued)

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

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

3. CUSTODIAL CREDIT RISK ON DEPOSITS

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

The carrying amount of deposits on June 30, 2020, as shown in the statement of net position follows:

	Carrying Amount			Depository
	Unrestricted	Restricted	Total	Bank Balance
Commercial bank	$ 1,846,197	$ 50,520	$ 1,896,717	$ 1,938,287

4. CAPITAL ASSETS

The following schedule summarizes the capital assets held by the Authority as of June 30, 2020:

Capital Assets	Beginning Balance	Increase	Decrease	Ending Balance
Non-depreciable assets:				
Land and property for future development	$ 12,098,307	$ -	$ -	$ 12,098,307
Construction in-progress	503,053	76,233	-	579,286
	12,601,360	76,233	-	12,677,593
Depreciable assets:				
Buildings, piers and infrastructure	4,441,693	-	-	4,441,693
Furniture and equipment	16,495	-	-	16,495
Vehicle	-	38,641	-	38,641
	4,458,188	38,641	-	4,496,829
Less accumulated depreciation				
Buildings, piers and infrastructure	(619,624)	(148,057)	-	(767,681)
Furniture and equipment	(16,495)	-	-	(16,495)
Vehicle	-	(4,186)	-	(4,186)
	(636,119)	(152,243)	-	(788,362)
Net depreciable assets	3,822,069	(113,602)	-	3,708,467
Capital assets, net	$ 16,423,429	$(37,369)	$ -	$ 16,386,060

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

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

During the year ended June 30, 2020, the Authority recognized depreciation on depreciable buildings, piers, infrastructure, and vehicle that are currently being used as operating capital assets in the amount of $152,243.

4. CAPITAL ASSETS (CONTINUED)

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

As of June 30, 2020, the improvements to the water and sewer system funding were funded as follows:

Federal loan (**Note 8**)	$ 41,585
Local funds (unpaid as of June 30, 2020)	34,648
	$ 76,233

5. LEASE AGREEMENTS AS LESSOR

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

LoopLand Development LLC

On July 10, 2019, the Authority signed with Loopland Development LLC a 50-year lease agreement commencing eighteen months from the execution of the lease agreement. The leased premises will be used exclusively for a hotel, vacation center, residences, food and beverage outlets, meeting and retail spaces and action sport parks within a total area of 493.21 acres. Upon the commencement of the lease term, the lease agreement provides for employment level compliance requirements to improve the economy of various municipalities in the eastern area of Puerto Rico.

The lessee agrees to pay monthly rent equal to $27,500 beginning the second year, with common areas maintenance service charges of $9,900, and a 2% of the gross sale revenues from the hotel, park, and events to be paid annually.

Loopland Development LLC paid the Authority a security deposit of $55,000 in connection with this lease agreement.

The Loopland Hotel, was conceptualized as a millennial destination hotel with a total of 1,500 rooms, will be developed in five phases, with the first phase to be operational by 2022, the projected to 2024. However, the construction of the project, as originally conceptualized never took off, and in 2022, Loopland brought a new business partner, Discovery Hospitality, from the Philippines, and together they presented a much more ambitious conceptualization of the project. At the date these financial statements were issued, the Authority was beginning to evaluate the new proposal. Therefore, at this time it its impractical to determine if the lease agreement, as currently written, will be terminated or if the new concept to develop the property is feasible and if the developers have the financial support to carry out the project.

5. LEASE AGREEMENTS AS LESSOR

Puerto Rico Maritime Transport Authority

On July 27, 2018, the Authority singed with Puerto Rico Maritime Transport Authority (MTA), a 20-year lease agreement commencing from the execution of the lease agreement for the use of the parking facilities. The leased premises compromise a total area of 20.5 “cuerdas” of land.

On July 10, 2019, the Authority signed with MTA a 30-year lease agreement commencing from the execution of the lease agreement for the use of the harbor patrol. The leased premises will be used exclusively for maritime transport operations from the Roosevelt Roads premises in Ceiba to Vieques and Culebra. The leased premises compromise a total area of 9.866 acres.

The lease agreements provide for employment level compliance requirements to improve the economy of various municipalities in the eastern area of Puerto Rico.

The lessee agrees to pay monthly rent equal to $17,800 and $4,000 for the harbor patrol and parking facilities, respectively, with common area maintenance service changes of $500, plus 50% of the gross revenue received by MTA for the parking facilities. Due to the financial constraints of the Commonwealth, MTA is not currently paying rent as it becomes due.

MTA paid the Authority security deposits amounting to $57,400 in connection with these lease agreements.

United Real Estate

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

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

United paid the Authority a security deposit of $41,575 in connection with this lease agreement.

See **Note 15**, for additional information about the status of the project.

5. LEASE AGREEMENTS AS LESSOR (CONTINUED)

MidAtlantic Shipyard, LLC (Tenant in Default and Possible Termination)

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

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

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

On April 26, 2022, the Board of Directors instructed Management to rescind the 30-year ground lease due to noncompliance with the rent agreement and its amendments.

Premier Healthcare Management (Tenant in Default and Termination)

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

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

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

On April 26, 2022, the Board of Directors instructed Management to rescind the 50-year lease due to noncompliance with the rent agreement and its amendments.

LinkActiv, Inc.

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

5. LEASE AGREEMENTS AS LESSOR (CONTINUED)

LinkActiv, Inc. (Continued)

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

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

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

MER Group Puerto Rico (Tenant in Default and Terminated)

During the fiscal year 2015-2016, the Authority and MER Group Puerto Rico, LLC (“MER”) signed various lease agreements. Leased premises were to be used exclusively for recycling, environmental remediation, demolitions, storage, ship docking vessel operations and related activities associated to ships. However, as of December 31, 2018, these lease agreements had expired, and the tenant subsequently filed for bankruptcy, as more fully disclosed in **Note 11**.

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

Future Minimum Rental Income

Future minimum rental income from lease agreements duly executed and signed as of June 30, 2020, but excluding contracts that had a significant probability of cancellation, follows:

Year Ending June 30,	Amount
2021	$ 865,729
2022	1,058,855
2023	1,131,149
2024	1,156,570
2025	1,155,389
2026-2030	4,739,251
2031-2035	4,613,685
2036-2040	4,673,169
2041-2045	4,828,943
2046-2050	4,547,776
2051-2055	4,017,465
2056-2060	3,899,434
2061-2065	2,244,000
2066-2070	1,795,200
Total	$ 40,726,615

5. LEASE AGREEMENTS AS LESSOR (CONTINUED)

Over 90% of the future minimum rental income listed above is related to:

1. Loopland Development LLC
2. Puerto Rico Maritime Transport Authority
3. Untied Real Estate

The realization of the future rental income of Loopland Development LLC and United is principally dependent on success of the projects of those entities, as previously disclosed in this **Note** and **Note 15**.

6. LEASE SECURITY DEPOSITS

As of June 30, 2020, the Authority maintained lease security deposits as follows:

MidAtlantic Shipyards, LLC	$	100,000
Puerto Rico Maritime Transport Authority		57,400
Loopland Development LLC		55,000
IBD Energy		50,000
United Real Estate		41,575
DAMCO USA, Inc.		36,000
MER Group Puerto Rico, LLC (**Note 11**)		31,246
LinkActiv, Inc		9,691
Other tenants' deposits below $3,000 individually		20,241
Total	$	401,153

7. LOANS PAYABLE

U.S. Department of the Navy

Navy Parcel III - Loan payable due in fifteen annual equal principal installments plus interest beginning three years after the initial closing, subject to completion of environmental remediation of SWMU 3 and 70 by the Navy. Interest shall be calculated at 150 basis points over the US Treasury 10-Year Composite Note using the established rate on the first day of the month preceding the first installment due date. The first annual principal installment has not been made as of June 30, 2020. Annual interest to be accrued by the Authority begins once the later of the following events occur: 1) an issuance of a new due date for the first annual principal installment or 2) thirty days following the conveyance of both SWMU 3 and SWMU 70 to the Authority. As of the date these financial statements were issued, none of these events had occurred.

Navy Parcel I and II - Loan payable due in fifteen annual equal principal installments plus interest commencing one year after the Authority’s current payment obligations for Parcel III are settled. Interest on the guaranteed consideration will begin accruing seven years after the Parcels I and II closing and shall be calculated at 150 basis points over the U.S. Treasury 10-year Composite Note as of the date of the Parcels I and II closing. As of June 30, 2020, the loan payable bears interest of 3.3% (1.80% as the US Treasury 10-Year Composite Note as of May 6, 2013, plus 150 basis points).

7. LOANS PAYABLE (CONTINUED)

U.S. Department of the Navy (Continued)

On December 14, 2015, the Authority received a letter from the Navy conditioning the extension of the initial consideration and installment payments due from the EDC as a result of certain environmental remediation not completed by the Navy, as planned, for parcels SWMU 3 and SWMU 70. Originally, the Navy projected SWMU's 3 and 70 to be cleaned and conveyed to the Authority during fall of year 2017, at which time the Authority would start paying annual installments on the loan, as stipulated in the EDC. However, on September 20, 2017, Hurricane María hit Puerto Rico delaying the conveyance of the SWMU 3 and SWMU 70 to the Authority. The Navy is currently performing environmental remediation on the parcels and anticipate that SWMU 3 will be conveyed to the Authority in late 2025 and SWMU 70 sometime thereafter. Once the clean title of both properties is transferred to the Authority, the Authority will have to meet the payment obligations under the EDC.

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

On August 12, 2016, the Authority was granted a loan and grant program by the Rural Utilities Service (RUS) administered by the USDA Rural Development. Funds were to be used to rehabilitate/improve the potable water infrastructure at NSRR. Under the agreement, the Authority will receive a $4,936,000 loan, a grant of $666,200, and a second grant of $1,615,980. On December 23, 2016, the Authority closed the loan with a repayment schedule over a period of over forty years, including interest of 2.375%, only during the first three years. The Authority shall pay the principal and interest beginning December 23, 2020. The loan is evidenced with a promissory note and secured with real estate owned by the Authority. The Authority is required to establish a debt service reserve fund that has to be funded by monthly payments of $1,684 until $201,982 has been accrued. During the year ended June 30, 2020, the Authority did not comply with the required monthly payments established in the agreement signed between USDA and the Authority. The balance of the debt service reserve fund as of June 30, 2020, shall be $70,728; however, as of such date, there was a deposit deficiency of $20,208.

Upon any default under agreement, the grantee, at the option and demand of RUS, will repay to RUS forthwith the stated original principal amount with interest at the rate of five percent annually from the date of default. Default by the Authority will constitute termination of the grant thereby causing cancellation of federal assistance under the grant.

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As of June 30, 2020, the Authority has received and expended $544,638, from the loan, of which $41,585 were received in fiscal year 2020.

7. LOANS PAYABLE (CONTINUED)

Puerto Rico Land Administration

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

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

Under the original terms of the payment plan, the Authority was to pay to the Land Administration monthly installments of $12,500 commencing in November 2016 through November 2020. Accordingly, this payment plan has been presented as long-term debt in the Statement of Net Position as of June 30, 2020, net of any current portion.

On October 23, 2018, a new payment plan was reached with the Land Administration to liquidate the outstanding balance of $537,500. The Authority will pay installments of $2,000 for twelve months, commencing August 2019. Then, the payments will increase to $3,000 monthly until the debt is paid in full. Also, the agreement provides to liquidate the debt at any time, through a lump-sum payment. As of June 30, 2020, the Authority has defaulted under the terms of the new payment plan by failing to pay $8,000 equivalent for five months. As for the date these financial statements were issued the balance in arrears had been paid.

The following is a roll-forward of long-term debt maintained by the Authority for the year ended June 30, 2020.

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
US Department of Navy - Parcel III	$ 7,840,000	$ -	$ -	$ 7,840,000	$ -
US Department of Navy - Parcel I and II	8,500,000	-	-	8,500,000	-
Loan advances - RUS	503,053	41,585	-	544,638	201,983
Land Administration payment plan	537,500	-	(14,000)	523,500	43,000
Total long-term debts	$ 17,380,553	$ 41,585	$(14,000)	$ 17,408,138	$ 244,983

7. LOANS PAYABLE (CONTINUED)

Summary of Loan Obligations (1)

The outstanding Land Administration, Navy, and Loan advances - RUS payment plans balance as of June 30, 2020, requires future minimum principal payments as follows:

Year Ending June 30,	Principal	Interest	Total
2021	$ 767,650	$ 628,796	$ 1,396,446
2022	760,650	605,236	1,365,886
2023	699,339	584,713	1,284,052
2024	558,667	566,770	1,125,437
2025	558,667	548,055	1,106,722
2026-2030	6,405,170	2,385,313	8,790,483
2031-2035	6,381,670	1,428,458	7,810,128
2036-2040	1,276,325	610,823	1,887,148
Total	$ 17,408,138	$ 7,358,164	$ 24,766,302

(1) Assumes that the Navy Parcel III will commence to amortize during the fiscal year 2020-2021. The interest rate would have been 4.31% (2.81% as the US Treasury 10-Year Composite Note, plus 150 basis points), payable in fifteen equal installments of $522,667. The interest rate could change at the conveyance of SWMU 3 and SWMU 70 to the Authority, which could be significant.

8. FEDERAL GRANTS AND LOAN

The Authority has determined to undertake a project for the rehabilitation and improvement of the potable water infrastructure of the water and sewer system to serve the area under its jurisdiction at an estimated cost of $7,218,180. On December 23, 2016, under a combined grant and loan agreement awarded by the RUS, the Authority was able to finance up to $4,936,000 of the development costs through revenues, charges, taxes or assessments, or funds otherwise available to the Authority resulting in a reasonable user charge. During the year ended June 30, 2020, the Authority received and expensed $41,585 from said loan. The balance of entitlement on June 30, 2020, is $4,291,262 (refer to **Note 7** for the terms of the loan agreement).

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

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

Since its organization, the Authority has received significant grants from the OEA, an office of the DoD, to partially offset the costs of operating and administering the NSRR. During the year ended June 30, 2020, the Authority received $612,964 from these grants. See **Note 15** for disclosure of subsequent grants received by OEA.

9. ENVIRONMENTAL COMMITMENTS AND CONTINGENCIES

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

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

The Authority has evaluated their environmental exposure and has determined that no significant pollution remediation obligation exists as of June 30, 2020, nor as of the date of these financial statements were issued.

10. RELATED PARTY TRANSACTIONS

For the purpose of these financial statements all Commonwealth's agencies, instrumentalities and public companies are considered related parties of the Authority. The accounts receivable and payable of the Authority include, on June 30, 2020, the following balances considered related parties:

Balance due from other governmental entities	$ 426,682
Balance due to other governmental entities	$ 99,640

11. COMMITMENTS AND CONTINGENT LIABILITIES

U.S. Department of the Navy

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

Litigation and Claims

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

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

Leased Property Contingent Liabilities

SWMU 70

The Authority's cost to address the repairing of two monitoring wells within the SWMU 70, a restricted area subject to the Lease in Furtherance of Conveyance (LFC) is $152,469. The two monitoring wells were damaged by a contractor of the Puerto Rico Electric Power Authority (PREPA) while restoring the electrical infrastructure.

The Authority issued a letter to the lessee claiming the reimbursement of the costs to be incurred by the Authority. However, it is uncertain if this amount will be collected.

Tenant in default

On December 31, 2018, the Authority terminated the lease agreements with MER, the only high environmental risk tenant currently operating within the facilities, and on May 1, 2019, MER filed for bankruptcy under Chapter 11, Reorganization, in the State of New Jersey. Then, in 2021, MER transfer its bankruptcy filing to Chapter 7, Liquidation. However, although MER has discontinued its operations, MER occupied the facilities until January 21, 2020. After leaving the facilities, MER still maintains scrap vessels moored to Pier 3, and scrap metal and salvage parts on the Authority's facilities. The estimated costs accrued for the disposition of said assets and cleaning amounts to $295,000, said amount is recorded in the statement of position as of June 30, 2020. As of the date these financial statements were issued, it was impracticable to determine if any amount of these damages could be recovered from MER or from the Authority's insurance.

11. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Tenant in Violation - SWMUs 23, 55, and 74

As part of the Puerto Rico Maritime Transport Authority's (MTA) relocation of ferry services to the Authority's facilities, the MTA incurred in various violations to the lease agreement and the EDC. The MTA removed soil from SWMUs (SWMU 23, 55, and 74), a restricted area subject to the LFC. Prior to any addition or alteration of soil, the lessee was to follow the protocol included in the LFC. Besides, during soil removal, various monitoring wells were damaged. The MTA assumed the responsibility and is waiting for the EPA and NAVY approval of the corrective action plan presented. At the date these financial statements were issued, the Authority's position was that there was no significant exposure, although that estimate could change with time. As of June 30, 2020, the Authority had no provision for losses related to this matter. Subsequent to that date, MTA paid for the repair of the damaged incurred.

Hurricanes Irma and María

In 2017, the Authority prepared an economic assessment of the damages caused by hurricanes Irma and Maria. The estimate for the damages amounts to $188,000,000, $100,000,000 relates to the dock facilities, and $88,000,000 to the rest of the properties. The Authority requested financial support to the Federal Emergency Management Agency (FEMA); however, the extent of support to receive cannot be determined at present. The Authority has resolute that the cost value of the property has not been significantly impaired since the purchase price of the property is considerably below the estimated market value. However, the Authority has not identified any other source of financing to repair the damage, in the event FEMA does not supply full financial support. Furthermore, the Authority has not determined the impact these damages may have on the development of the premises. During the year ended June 30, 2020, FEMA granted the Authority $99,243 and continue providing support.

Federal Assistance Programs

The Authority participates in federal financial assistance programs. These programs are subject to audits in accordance with the provisions of OMB 2 CFR Part 200 Compliance Supplement, or to compliance audits by grantor agencies. Compliance with requirements of each program is subject to audit by various governmental agencies, which may impose sanctions in the event of noncompliance. The Authority believes that there are no significant events of noncompliance pending resolution as of the date of issuance of these financial statements. See **Note 15**, Subsequent Events for other disclosures on commitments and subsequent events.

Lease with a Related Party

The Authority maintains an office space with the Puerto Rico Industrial Development Company. The rental expense for the year ended June 30, 2020, was $5,822.

12. REORGANIZATION OF THE COMMONWEALTH OF PUERTO RICO GOVERNMENT

Puerto Rico Oversight, Management, and Economic Stability Act

On June 30, 2016, Title III of Puerto Rico Oversight Management, and Economic Stability Act (PROMESA) was signed by the U.S. President to restructure the Commonwealth's finances. In May 2017, the Commonwealth was placed in receivership under PROMESA, until March 2022, when the Commonwealth was able to obtain a discharge. At which time, debt was significantly reduced, as well as payment terms, which are now tied mostly to an allocation of State Sales and Use Tax proceeds. However, even after being discharged from bankruptcy, the Commonwealth still faces significant economic challenges and budget constraints.

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

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

The Authority is still in the early stages of fully developing the property assets. Only a small portion of the property has been leased and a significant number of rent agreements have either been cancelled, are in the process of being terminated or involve novel projects that have been postponed. Accordingly, to offset recurring losses from operations, the Authority has relied significantly on legislative appropriations and federal awards and will continue to rely on those appropriations and awards in the foreseeable future. Furthermore, the Authority faces significant near-term financial challenges including among other, the reconstruction of the property from Hurricane Maria damages in 2017, and the construction of new water, sewer, and electricity systems, which matters will principally depend on federal grants may be received in the future.

Remediation Plan

To mitigate the cash shortfall from operations, the Commonwealth’s General Fund budget for 2022-2023, approved by PROMESA, allocated $2,878,000 to the Authority. This amount represented an increase of 176% compared to the current year. Furthermore, the OEA approved additional grants for the fiscal years ended June 30, 2022 and 2021. Also, the US Economic Development Administration (EDA) approved two grants amounting to approximately $21 million to improve and construct new facilities as part of the Hurricane María disaster recovery plan and establish an Oceanographic Institute, as more fully disclosed in **Note 15**. Then, that same year, the Commonwealth assigned a capital contribution of $12.6 million, of which only $6 million were received in fiscal year 2020-2021.

These facts indicate that the support of the Commonwealth and federal agencies, will provide a reasonable opportunity to continue operations for at least one year from the date of the release of the financial statements.

14. COVID-19 PANDEMIC

During the commencement of the pandemic there were some delays in the operations of the Authority. However, thereafter, the Authority was able to slowly resume normal operations. However, because new variants continue to surface, the future effect of the pandemic is difficult to predict.

Moratoriums due to COVID-19

The Board of Directors of the Authority evaluated various tenants' moratorium proposals and determined to grant two months after the expiration of the closing order issued by the Governor of the Commonwealth on May 21, 2020, through Executive Order OE2020041. OE2020041 extended the lockdown by continuing the phase of reopening of various economic sectors, and other purposes related to the measures adopted to control the risk of COVID19 in Puerto Rico which kept operations closed until June 15, 2020. After two months, tenants will start paying current rent. However, if the tenants do not receive any federal or state aid to cover the rent payments for the blackout period, tenants will be granted a period of 24 months to pay the months left unpaid of approximately $13,000 due to the closing of operations.

15. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through July 31, 2022, the date the financial statements were issued. The Company has determined that there are no events occurring in this period that required disclosure or adjustment to the accompanying financial statements, except for those disclosed in Note 12, **Note 13**, **Note 14** and additional subsequent events disclosed below paragraphs.

Interagency Agreement and Memorandum of Understanding

On September 16, 2021, the Authority, MTA, the Puerto Rico Integrated Transportation Authority (PRITA), and the Department of Transportation and Public Works (DTOP) signed an interagency agreement to perform improvements and new construction to existing buildings and infrastructure at the leased premises at Roosevelt Roads. This agreement will delineate the responsibilities of each party to achieve the common goal, which is to conduct the required improvements to develop the maritime transportation facilities of Roosevelt Roads. With this agreement, the Authority will be in a better position to oversee, monitor and control the required steps toward the infrastructure improvements and new constructions to be conducted on the site. This interagency agreement assists the Authority to achieve the objectives established in the 2014 Master Plan.

Special Investment Allocation from the Local Government

In July 2020, the Oversight Board approved $12,600,000 to be distributed during the fiscal year ended June 30, 2021, to undertake the rehabilitation and improvement of the potable water infrastructure of the water and sewer system in conjunction with the combined grant and loan agreement awarded RUS, as more fully disclosed in **Note 7,** and **Note 12**. The project is expected to be completed in December 2023.

15. SUBSEQUENT EVENTS (CONTINUED)

New Developments

Marina Development and Operation

On April 29, 2022, the Authority issued a request for proposal to design, build, operate, maintain, and finance a marina, inclusive of related hospitality, residential and commercial mixed uses at Roosevelt Roads, facilities. The deadline for the response to the proposal was July 29, 2022, currently, Management is evaluating the responses.

Electrical System Improvements

On July 14, 2022, the Authority requested a proposal for improvements and replacement of a portion of the electrical power grid system at former Naval Station Roosevelt Roads at the cost of between $30 million and $40 million, an allocation expected to come from the Federal Emergency Management Agency (FEMA).

Fuel Tank Farm Development and Operation

On June 16, 2022, the Authority requested a proposal for the Roosevelt Roads Tank Farm. The Project is composed of three parcels totaling 59 acres and contains a deep draft fueling pier, eight storage tanks, a pumping facility, and a laboratory building. Fuel pipelines (currently decommissioned) run from the fueling pier, through the eight tanks, and to the Ceiba airport, arriving at a large above ground jet fuel steel tank. The proposal deadline date is August 11, 2022.

Design Competition For The Marine, Business, Research and Innovation Center (MBRIC)

On August 1, 2022, the Authority requests a proposal for the design of a multi-tenant commercial facility to house the Marine Business, Research, and Innovation Center (the Center), an oceanographic institute located at the former Coast Guard Pier, Roosevelt Roads. The Center will be developed in conjunction with Bluetide Puerto, Inc. (Bluetide), which will subsequently oversee the operation and maintenance of the facilities. Bluetide collaborated with the Authority in the development of the Program as well as in establishing the needs and requirements necessary for the development of the Center. This Center will be funded by a 16 million dollars grant awarded to the Authority on June 26, 2021, by the U.S. Department of Commerce Economic Development Administration (EDA). The proposal deadline date is November 17, 2022.

Waterfront Development

EDA granted $4.8 million for the development of facilities for small businesses. The project includes the rehabilitation of the old “Waterfront Operations Building and its reuse to establish small businesses; improvements to the premises required to enable a food-truck and geometric improvement in streets and sidewalks to facilitate the pedestrian and intermodal flow between the installation and the existing boat terminal. As of the date of these financial statements were issued, the request for proposal had been circulated.

15. SUBSEQUENT EVENTS (CONTINUED)

Puerto Rico Electric Power Authority Employees Transfer

In 2021, the Authority received eight employees from the Puerto Rico Electric Power Authority as established by Act 120 of June 21, 2018, *Puerto Rico Electric Power System Transformation Act*. This transfer represents additional costs to which the Authority intend include in the proposals to the Office of Local Defense Community Cooperation.

Office of Economic Adjustment and Community Development Block Grant

The OEA approved two grants for the fiscal years ended June 30, 2022, and 2021, of $1,656,561 and $1,509,610, including the non-Federal funds, respectively.

The Authority ratified the Community Development Block Grant – Disaster Recovery (CDBG-DR) Subrecipient agreement with the Puerto Rico Department of Housing to cover the damages suffered by the passing of Hurricane María by matching the 10% portion of the FEMA funds.

Fiscal Plan 2021 and 2022

For the fiscal years ended June 2021 and 2022, the Oversight Board certified a General Fund budget of $955,000 and $756,000, respectively, of which $754,000 were received in 2021 and $585,000 in 2022.

Rehabilitation of Apartment Complex by Lessee

Ocean Club is a 141-unit restored apartment complex, which project was substantially completed as of the date these financial statements were issued. The project under the lease agreement with United Real Estate involves a condo-hotel concept where the potential lessee rents individual units for thirty-nine years, and then the lessee has certain limited rights for the use of the property and the remaining time they are leased as hotel units, and profits and losses are shared between the operator and the lessee. However, operations had not commenced.

The Ocean Club project is the first significant hospitality project developed within the Authority's property; accordingly, until other relevant hospitality projects are developed, the acceptance of the project by potential unit buyers and the potential acceptance of the property as a hotel by local and foreign customers could be a slow process. As of the date these financial statements were issued, United Real Estate is not paying, claiming that certain terms are not satisfied, for said reason both parties are negotiating the lease agreement.

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

As of June 30, 2020, the Authority has defaulted in the first installment of $201,982, plus interest related to a loan agreement signed on December 23, 2016. However, in March 2021, the Authority paid said balance with funds assigned and approved by OGP. See **Note 7**, for detail of the loan.

15. SUBSEQUENT EVENTS (CONTINUED)

SWMU 3 and SWMU 70

As explained in **Note 7**, the Navy still in the process of transferring SWMU 3 and SWMU 70 to the Authority. The Navy is currently in the process of doing an environmental clean-up. However, SWMU 3 includes a closed solid waste landfill. Currently, the Authority is negotiating with the Navy to determined who will be responsible for the post closure costs, which are normally significant. In the event the Authority becomes liable for the cost it will require to recognize, at the time of the transfer, a post closure liability equal to the estimated future costs of maintaining the landfill under current laws and regulations. However, the future outcome of this matter cannot be determined at the present time.

Puerto Rico Land Administration

See **Note 7**, for detail of the loan and subsequent payments that were in default.

MidAtlantic Shipyard, LLC and Premier Health Management Lease Agreements

See **Note 5**, for contracts status.

Employee Claim

The Authority is defendant in a $2 million civil suit brought by an employee, in the Federal court, in Puerto Rico. At the present time, it is improbable to determine the outcome of this matter or coverage that the existing insurance may provide, no provision for losses, if any, have been recorded in the financial statements.

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

FINANCIAL STATEMENTS AND
AUDITOR'S REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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Certified Public Accountants
and Business Consultants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the **Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads** (hereinafter "the Authority"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively compromise the Authority's basic financial statements as listed in the table of contents.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads (hereinafter "the Authority") and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the generally accepted accounting principles 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about "the Authority" ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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

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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 unmodified audit opinion.

Restatement to Net Position (Deficit)

As discussed in **Note 3** to the basic financial statements, the net position balance at July 1, 2020 of the governmental activities was restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Generally accepted accounting principles in the United States of America require that the management's discussion and analysis on pages **3-8** 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 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.

February 15, 2023

Numbers Consulting LLC

San Juan, Puerto Rico

Stamp number E516391 was
affixed to the original of this report

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

Our discussion and analysis of the **Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads'** (the Authority) financial performance provides a narrative overview of the Authority's financial activities for the fiscal year ended June 30, 2021, and is intended to serve as an introduction to the basic financial statements. This Management Discussion and Analysis (the MD&A) is designed to assist the reader in focusing on significant financial matters and provide an overview of the Authority's financial activities. We encourage readers to review this information together with the Authority's financial statements that follow.

FINANCIAL HIGHLIGHTS

- The Authority's net position as of June 30, 2021, is $1,644,796, an increase of $1,220,920 from a net position of $423,876 as of June 30, 2020.

- Rental income, including common areas, and others increased by $27,808 or 3% when compared to the prior year.

- Utilities assessments increased by $960,896 when compared to the prior year.

- Operating expenses increased by $430,851 or 15% when compared to the prior year.

MAJOR FINANCIAL ELEMENTS

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

Non-operating Revenues – Revenues are recorded from the following sources: (1) legislative appropriations from the Commonwealth of Puerto Rico (the Commonwealth) and (2) federal grants from the US Department of Defense (DoD) through the Office of Economic Adjustment (OEA), which are provided for operating expenses, and from the Federal Emergency Management Agency (FEMA).

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

OVERVIEW OF THE FINANCIAL STATEMENTS FOR BUSINESS-TYPE ACTIVITIES

Proprietary Fund Financial Statements

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

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

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

  The statement of net position provides information about the nature and number of resources and obligations at year-end.

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

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

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

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

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

Statement of Net Position

The table below is a condensed summary of assets, liabilities, and net position as of June 30, 2021, and 2020:

	2021	2020 As Restated*	Change	%
ASSETS				
Current and other assets	$ 4,203,487	$ 3,228,783	$ 974,704	30%
Capital assets, net	16,230,276	16,386,060	(155,784)	-1%
Total assets	$ 20,433,763	$ 19,614,843	$ 818,920	4%
LIABILITIES				
Current liabilities	$ 2,052,692	$ 1,927,224	$ 125,468	7%
Noncurrent liabilities	16,736,275	17,263,743	(527,468)	-3%
Total liabilities	18,788,967	19,190,967	(402,000)	-2%
Total net position	$ 1,644,796	$ 423,876	$ 1,220,920	288%

Current assets – The Authority’s current and other assets increased by $974,407 or 30%, due to the net effect of increase on cash for $706,287 and accounts receivable from tenants which increased by 281,417 or 36%.

Net position – The Authority's net position increased by $1,220,920 or 288%, due to a significant increase in current assets and other assets.

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

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

Statement of Net Position (Deficit) (Continued)

However, based on the independent appraisal values and the use of its best professional judgment on the estimated value on a per square foot basis, the Authority was able to distribute the acquisition cost to the different components of the acquired property, principally land, buildings, piers, and infrastructure. As a result, the Authority allocated approximately $4.5 million to depreciable assets like buildings, piers, and infrastructure as of June 30, 2016. The Authority recognized depreciation on depreciable buildings, piers and infrastructure that are currently being used as operating capital assets in the total amount of $155,785 and $152,243 for 2021 and 2020, respectively.

Remaining land and property for future development has been evaluated for impairment as of June 30, 2021 and have determined that no loss has been incurred as of this date.

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

Statements of Revenues, Expenses and Changes in Net Position

The table below is a condensed summary of the revenues, expenses and changes in net position for the years ended June 30, 2021 and 2020:

Functions / Programs	2021	2020	Change	%
Operating revenues				
Rental income, including common areas, utilities assessments and others	$ 2,245,651	$ 1,095,863	$ 1,149,788	105%
Operating expenses	3,246,281	2,815,430	430,851	15%
Operating income (loss)	(1,000,630)	(1,719,567)	718,937	-42%
Non-operating revenues (expenses)				
Legislative appropiations, federal grants, and others	1,774,550	1,732,045	42,505	2%
Change in net position	$ 773,920	$ 12,478	$ 761,442	6102%

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

Operating revenues - The Authority's rental, utilities assessments, and other revenues increased by $1,149,788, mainly because of an increase in utilities assessment fees.

Operating expenses - The Authority's operating expenses increased by $430,851 mainly as a result of the net changes in salaries taxes and benefits and professional services.

- Salaries, fringe benefits and salaries related costs decreased by $146,219 or 18%. This decreased on salaries and fringe benefits responds to a long-time vacancies on trust and career employees.

- Professional services increased by $301,039 or 75%, primarily due to the services used by the Authority related to Engineers and environmental consultant for the reconstruction of the lands and facilities damaged by Hurricanes María and Irma in 2017, which is still in process.

- Other expenses increased by $104,716 due to the underground water well repairs.

- Bad debt expense increased by $62,761 due to changes in accounts receivable allowance.

Non-operating revenues - The Authority's non-operating revenues increased by $36,472 or 2%, mainly as a result of increase in federal grant revenues by $186,702. Effective July 1, 2020, the OEA approved grants for the year ended on June 30, 2022.

Non-operating expenses - The Authority’s non-operating expenses decreased by $6,033, mainly due to reductions on interest expenses.

Going Concern, Liquidity Risk and Fiscal Plan

Alleviated Substantial Doubt About Going Concern and Liquidity Risk

The Authority is still in the early stages of fully developing the property assets. Only a small portion of the property has been leased. Accordingly, to offset recurring losses from operations, the Authority has relied significantly on legislative appropriations and federal awards and will continue to rely on those appropriations and awards in the foreseeable future. See **Note 12**, where significant matters are disclosed to evidence that the risk of substantial doubt about going concern has been alleviated for at least one year after the release of the financial statements.

Fiscal Plan 2022

Pursuant to the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) and the requirements imposed by the Puerto Rico Management and Budget Office, the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), on January 27, 2022, certified the 2022 Fiscal Plan for the Commonwealth. The Oversight Board's Fiscal Plan commits to fiscal responsibility and implements specific revenue enhancements and targeted expenditure reductions to return Puerto Rico to fiscal stability and economic growth. For additional information regarding the Board Fiscal Plan, please refer to **Note 11** and **Note 14**.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

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

STATEMENT OF NET POSITION

JUNE 30, 2021

CURRENT ASSETS	
Cash	$ 2,552,484
Federal grant receivable, net	420,043
Tenants and other receivables, net of allowance for doubtful accounts of $1,115,653	1,054,674
Cash restricted for loan payments	50,520
Prepaid expenses	125,766
Total current assets	4,203,487
NONCURRENT ASSETS	
Capital assets, net	16,230,276
Total noncurrent assets	16,230,276
Total assets	20,433,763
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	1,056,972
Loans payable	581,667
Interest payable	12,900
Lease security deposits	401,153
Total current liabilities	2,052,692
NONCURRENT LIABILITIES	
Loans payable	16,632,618
Compensated absences	103,657
Total noncurrent liabilities	16,736,275
Total liabilities	18,788,967
NET POSITION	
Net investment in capital assets	271,568
Restricted for debt service reserve	50,520
Unrestricted	1,322,708
Total net position	$ 1,644,796

See accompanying notes to the basic financial statements.

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

OPERATING REVENUES	
Utilities assessments	$ 1,148,543
Rental income	868,314
Other	228,794
Total operating revenues	2,245,651
OPERATING EXPENSES	
Salaries taxes and benefits	671,153
Security and related	341,075
Professional services	701,716
Insurance	192,939
Water plant system	197,522
Depreciation expenses	155,785
Repairs and maintenance	283,148
Property services, including utilities	258,025
Bad debt	111,925
Occupancy	3,255
Other expenses	329,738
Total operating expenses	3,246,281
Operating loss	(1,000,630)
NON-OPERATING REVENUES (EXPENSES)	
Federal grants	898,909
Contributions from Commonwealth of Puerto Rico	891,770
Interest expense	(16,129)
Total nonoperating revenues	1,774,550
NET CHANGE	773,920
NET POSITION, beginning of year, as restated	870,876
NET POSITION, end of year	$ 1,644,796

See accompanying notes to the basic financial statements.

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

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tenants and customers	$ 1,735,440
Payments to employees for services	(728,304)
Payments to other suppliers of goods and services	(2,101,078)
Other receipts	228,794
Net cash used in operating activities	(865,148)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Receipts from Federal grants	898,909
Receipts from contributions from Commonwealth of Puerto Rico	891,770
Net cash provided by non-capital financing activities	1,790,679
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments of loans payable	(219,244)
Net cash used in capital financing activities	(219,244)
NET CHANGE IN CASH	706,287
CASH AND RESTRICTED CASH, beginning of year	1,896,717
CASH AND RESTRICTED CASH, end of year	$ 2,603,004
CASH AND RESTRICTED CASH	
Cash	$ 2,552,484
Cash restricted for loan payments	50,520
	$ 2,603,004

Continues.

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

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	$ (1,000,630)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	155,784
Bad debt	111,925
Net change in operating assets and liabilities:	
Tenants and other receivables	(393,342)
Prepaid expenses	13,000
Accounts payable and accrued expenses	248,115
Total adjustments	135,482
Net cash used in operating activities	$ (865,148)

See accompanying notes to the basic financial statements.

1. ORGANIZATION

The Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads (the Authority) is a public corporation and government instrumentality of the Commonwealth of Puerto Rico (the Commonwealth), which was created as an independent corporate and political body, by Law No. 508 of September 29, 2004. The Authority is responsible for the implementation of the reuse and redevelopment plan for the former Navy Station of Roosevelt Roads located in Ceiba, Puerto Rico. Some of the activities involved in these redevelopment plans include the direction, supervision, regulation, and maintenance of the economic development on the land and facilities formerly occupied by the U.S. Department of the Navy (the Navy). The Commonwealth generally provides financial support to the Authority through legislative appropriations.

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

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

As more fully explained in **Note 7**, the Navy still in the process of transferring SWMU 3 and 70, which are expected to be transferred by 2025, or promptly thereafter.

Board of Directors – The Authority is governed by a nine member board comprising of the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, two members appointed by the Mayor of the Municipality of Ceiba, one member appointed by the Mayor of the Municipality of Naguabo, one member appointed by the President of the Senate, one member appointed by the Speaker of the House of Representatives and three additional members appointed by the Governor, all to possess known interest and expertise in the areas of planning; commercial, tourism, residential, and institutional development; real state; tourism and recreational facilities administration; infrastructure projects' management.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Measurement Focus and Basis of Accounting

The Authority's operations are accounted on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with operations are included on the statement of net position; and revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

In addition, the Authority receives a legislative appropriation from the Commonwealth and federal grants from the United States Department of Defense (DoD) through the Office of Economic Adjustment (OEA) and from the US Department of Agriculture (the USDA), which are considered non-operating revenues.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

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

Rent Revenue, Accounts Receivable, and Allowance for Doubtful Accounts

Rent revenue is recorded following the straight-line basis or a method that approaches such a basis consistent with the tenant use of rental space or unit. Utility services and common area maintenance is recognized as earned monthly, as costs are incurred.

The accounts receivable is net of estimated uncollectible amounts, which are determined based upon past collection experience and current economic conditions, among other factors. These receivables arise primarily from rent, common areas charges, including water and sewer services, and charges to tenants.

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectability and prior credit loss experience. Because of uncertainties inherit in the estimation process, management's estimate of credit losses inherit in the exiting accounts receivable and related allowance may change in the near future.

Grants and Revenue Recognition of Voluntary Non-exchange Transactions

Federal and state grants revenues are recognized when all applicable eligibility requirements are met (including time restrictions) and the resources are available.

Operating Grants, including those to finance operating deficits, and contributions that are not restricted for capital purposes are excluded from an operating category since these are result of non-exchange transactions; therefore, they are not reported as non-operating revenues.

Revenue from nonexchange transactions consist of contributions from the Commonwealth and federal grants from the DoD and the USDA.

Cash and Cash Equivalents

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

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

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

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

Impairment of Capital Assets

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

The Authority evaluated its capital assets, and no impairment was identified during the year ended June 30, 2021.

Pollution Remediation Obligation

The Authority accrues pollution remediation obligations ("PRO") under GASB No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," which requires that the liability should be recorded at the current value of the costs the Authority expects to incur to perform the work. Estimated remediation costs are subject to change over time and are revised for updated technology, changes in potential responsible parties, results of environmental studies, changes in statutes or regulations, and other factors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

The vacation policy of the Authority generally provides for the accumulation of 1.25 days per month up to maximum 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 day per month up to a maximum annual amount of 12 days and a maximum accrual of 90 days. Upon retirement or employment separation an employee receives compensation for all accumulated unpaid vacation leave at the current rates regardless of years of service.

Pension Benefits

The Authority adopted a defined contribution savings and retirement plan ("the Plan"). All employees are eligible to participate in the Plan since commencement date. All employees' benefits become vested, once they have entered into the Plan, in accordance with the eligibility requirements. The Plan provides for contributions by the Authority of 50 cents per each dollar contributed by the participant, which cannot exceed 5% of the aggregate annual salary of the participant. Total contributions made by the Authority to the Plan during the year ended June 30, 2021, amounted to $13,923.

Risk Management

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

New Accounting Standards Adopted

The following new accounting standards were adopted by the Commonwealth effective July 1, 2020:

- GASB Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a Business-type Activity that normally expects to hold custodial assets for three months or less. This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. This statement does not have any impact on the accompanying basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards Adopted

- GASB Statement No. 90, *Majority Equity Interest*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. This statement does not have any impact on the accompanying basic financial statements.

Accounting Pronouncements Issued But Not Yet Effective

GASB has issued the following standard that have not been adopted by the Authority, and are currently under evaluation for their impact in future financial statements:

- 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 assets, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Pronouncements Issued But Not Yet Effective (Continued)

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

- GASB Statement No. 91, *Conduit Debt Obligations*. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

- GASB Statement No. 92, *Omnibus 2020*. This Statement addresses a variety of topics and includes specific provisions about the following, the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports; Reporting of intra entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; The applicability of 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, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits; The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The portion of this Statement that relates to the effective date of Statement 87 and its associated implementation guidance are effective upon issuance. Provisions related to intra entity transfers of assets and applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021. The remaining requirements related to asset retirement obligations are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021. Earlier application is encouraged and is permitted by topic.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Pronouncements Issued But Not Yet Effective (Continued)

- GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate (IBOR). Some governments have entered into agreements in which variable payments made or received depend on an IBOR—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.
  The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payments Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, 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. This Statement requires that PPPs that meet the definition of a lease apply the guidance in Statement No. 87, Leases, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of a service concession arrangement (SCA). This Statement also provides specific guidance in financial statements prepared using the economic resources measurement focus for a government that is an operator in a PPP that either (1) meets the definition of an SCA or (2) is not within the scope of Statement 87, as amended (as clarified in this Statement). This Statement also requires a government to account for PPP and non-PPP components of a PPP as separate contracts. This Statement also requires an amendment to a PPP to be considered a PPP modification, unless the operator's right to use the underlying PPP asset decreases, in which case it should be considered a partial or full PPP termination. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Pronouncement Issued But Not Yet Effective (Continued)

- GASB Statement No. 95, *Postponements of 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, 2019, and later.

  The effective dates of certain provisions contained in the following pronouncements are postponed by one year after the original implementation date:
  -- GASB Statement No. 84, *Fiduciary Activities*
  -- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
  -- GASB Statement No. 90, *Majority Equity Interests*
  -- GASB Statement No. 91, *Conduit Debt Obligations*
  -- GASB Statement No. 92, *Omnibus 2020*
  -- GASB Statement No. 93, *Replacement of Interbank Offered Rates*
  -- GASB Implementation Guide No. 2017-3, A*ccounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (and Certain Issues Related to OPEB Plan Reporting)
  -- GASB Implementation Guide No. 2018-1, Implementation Guidance Update—2018
  -- GASB Implementation Guide No. 2019-1, Implementation Guidance Update—2019
  -- GASB Implementation Guide No. 2019-2, *Fiduciary Activities.*

  The effective dates of the following pronouncements are postponed by 18 months after the original implementation date:
  -- GASB Statement No. 87, *Leases*
  -- GASB Implementation Guide No. 2019-3, *Leases.*

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

- GASB Statement No. 96, *Subscription Based Information Technology Arrangements*. The primary objective of this Statement is to provide 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Pronouncement Issued But Not Yet Effective (Continued)

- GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate cost associated with the reporting of certain defined contribution pension plans other than pension plans or OPEB plans (other employee benefits 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 requirements of this Statement that are related to the accounting and financial reporting for Sections 457 plans are effective for fiscal years beginning after June 15, 2021.

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

- GASB Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Pronouncement Issued But Not Yet Effective (Continued)

- GASB Statement No. 100, *Accounting Changes and Error Corrections* an amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for fiscal years beginning after June 15, 2023. Earlier application is encouraged.

- GASB Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023. Earlier application is encouraged.

Management is evaluating the impact that these statements may have on the Commonwealth basic financial statements upon adoption.

3. CORRECTION OF ERRORS

During fiscal year ended June 30, 2021, the Authority identified various errors related to prior year basic financial statements. The impact of the related adjustments to beginning net position are as follows:

Net position – July 1, 2020, as previously reported	$	423,876
Overstatement of liability for property damage repairs		152,000
Overstatement of liability for disposition of waste materials		295,000
Net position – July 1, 2020, as restated	$	870,876

The correction of errors in the beginning net position of the Authority were related to an overstatement of liabilities resulting from the recognition of expenses for property damage repairs and disposition of waste materials not incurred on or before the reporting period.

4. CUSTODIAL CREDIT RISK ON DEPOSITS

The Authority is authorized to deposit only in depository institutions approved by the Puerto Rico Treasury Department (PRTD), and such deposits should be kept in separate accounts in the name of the Authority. Custodial credit risk for deposits is the risk that in the event for bank failure, the Authority's deposits might not be recovered. However, because of the collateral provided by the bank credit risk is not significant.

4. CUSTODIAL CREDIT RISK ON DEPOSITS (CONTINUED)

The carrying amount of deposits at June 30, 2021 as shown in the statement of net position follows:

	Carrying Amount			Depository
	Unrestricted	Restricted	Total	Bank Balance
Commercial bank	$ 2,552,484	$ 50,520	$2,603,004	$ 2,469,944

5. CAPITAL ASSETS

The following schedule summarizes the capital assets held by the Authority as of June 30, 2021:

Capital Assets	Beginning Balance	Increase	Decrease	Ending Balance
Non-depreciable assets:				
Land and property for future development	$ 12,098,307	$ -	$ -	$ 12,098,307
Construction in-progress	579,286	-	-	579,286
	12,677,593	-	-	12,677,593
Depreciable assets:				
Buildings, piers and infrastructure	4,441,693	-	-	4,441,693
Furniture and equipment	16,495	-	-	16,495
Vehicle	38,641	-	-	38,641
	4,496,829	-	-	4,496,829
Less accumulated depreciation				
Buildings, piers and infrastructure	(767,681)	(148,056)	-	(915,737)
Furniture and equipment	(16,495)	-	-	(16,495)
Vehicle	(4,186)	(7,728)	-	(11,914)
	(788,362)	(155,784)	-	(944,146)
Net depreciable assets	3,708,467	(155,784)	-	3,552,683
Capital assets, net	$ 16,386,060	$ (155,784)	-	$ 16,230,276

5. CAPITAL ASSETS (CONTINUED)

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

However, based on the independent appraisal values and the use of its best professional judgment on the estimated value on a per square foot basis, the Authority could distribute the acquisition cost to the different components of the acquired property, principally land, buildings, pier, and infrastructure. As a result, the Authority allocated approximately $4.5 million to depreciable assets as buildings, piers, and infrastructure as of June 30, 2016.

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

6. LEASE AGREEMENTS AS LESSOR

The following is a summary of the major existing leases at the Naval Service Roosevelt Roads (NSRR).

LoopLand Development LLC

On July 10, 2019, the Authority signed with Loopland Development LLC a 50-year lease agreement commencing eighteen months from the execution of the lease agreement. The leased premises will be used exclusively for a hotel, vacation center, residences, food, and beverage outlets, meeting, and retail spaces and action sport parks within a total area of 493.21 acres.

The lessee agrees to pay monthly rent equal to $27,500 beginning the second year, with common areas maintenance service charges of $9,900, and a 2% of the gross sale revenues from the hotel, park, and events to be paid annually.

The Loopland Hotel, was conceptualized as a millennial destination hotel with a total of 1,500 rooms, will be developed in five phases, with the first phase to be operational by 2021. Project scope of work was amended. Find new phasing plan:

(i) Phase 1 shall not commence until the following conditions are met: (1) the unappealable Consulta approval is granted, provided that tenant submits its application for Consulta approval no later than June 30, 2023, or six (6) months following the Effective Date, whichever is later, and (2) sufficient electrical capacity is available to the Leased Premises to allow the TENANT to undertake the Project.

(ii) Phase 1 and Phase 2 shall be completed within seven (7) years from the commencement of Phase 1, subject to extension.

(iii) Phase 1, Phase 2, and Phase 3 shall be completed within fifteen (15) years from the commencement of Phase 1, subject to extension.

(iv) Tenant shall initiate a sales and marketing program and the facilitation of contracts during the twenty-four (24) month period following receipt of the unappealable Consulta approval.

Puerto Rico and Municipal Islands Maritime Transport Authority (PRMIMTA)

On July 27, 2018, the Authority singed with PRMIMTA, a 20-year lease agreement commencing from the execution of the lease agreement for the use of the parking facilities. The leased premises compromise a total area of 20.5 “cuerdas” of land.

On July 10, 2019, the Authority signed with PRMIMTA a 30-year lease agreement commencing from the execution of the lease agreement for the use of the harbor patrol. The leased premises will be used exclusively for maritime transport operations from the Roosevelt Roads premises in Ceiba to Vieques and Culebra. The leased premises compromise a total area of 9.866 acres.

The lessee agrees to pay monthly rent equal to $17,800 and $4,000 for the harbor patrol and parking facilities, respectively, with common area maintenance service changes of $500, plus 50% of the gross revenue received by MTA for the parking facilities.

United Real Estate

On July 28, 2018, the Authority signed with United Real Estate (United) a 40-year lease agreement commencing two years after the execution of the lease agreement. The leased premises will be used exclusively for a resort style community, on an approximate area of 20.5 “cuerdas” of land.

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

LinkActiv, Inc.

On September 4, 2018, the Authority signed with LinkActiv, Inc. a 5-year lease agreement with three five-year renewal periods each. The lease premises, which include three lots totaling 2.90 “cuerdas”, to be used for a business process outsourcing center (BPO) that will operate twenty-four hours a day and seven days a week on 2.9 “cuerdas” of land.

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

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

IBD Energy

During the year ended on June 30, 2020, the Authority awarded to IBD Energy the responsibility for management, operation, maintenance, repairs, restoration, and replacement of the Authority’s Electrical System.

Pursuant to the Contract, IBD Energy took over the management and operation of the Authority’s Electrical System. With regards to the Authority’s power generation operations, IBD is conducting a competitive process to perform as a private operator to run the Authority’s power generation assets.

6. LEASE AGREEMENTS AS LESSOR (CONTINUED)

Future Minimum Rental Income

Future minimum rental income from lease agreements duly executed and signed as of June 30, 2021, follows:

Year Ending June 30,	Amount
2022	$ 922,603
2023	916,557
2024	908,621
2025	900,686
2026	900,686
2027-2031	4,285,645
2032-2036	4,121,913
2037-2041	4,047,745
2042-2046	4,022,350
2047-2051	3,528,215
Thereafter	7,625,714
Total	$ 32,180,736

Other tenants (miscellaneous)

Miscellaneous agreements are relevant to small lots, leased to be used for short-term leases and food-truck vendors to be located on the Authority's premises. Tenant lease rent is reported as income over the lives of the individual lease based on amount currently receivable pursuant to the applicable lease agreements. Most leases include provisions for escalation at periodic intervals during the lease term. The increases in rents are recognized as income once they become effective.

Over 90% of the future minimum rental income listed above is related to:

1. Loopland Development LLC
2. Puerto Rico Maritime Transport Authority
3. United Real Estate

6. LEASE AGREEMENTS AS LESSOR (CONTINUED)

LEASE SECURITY DEPOSITS

The Authority collects a security deposit from tenants that intend to occupy the rental space for more than one year. The deposit will be use as a tangible security in the event of damages or lost property or will be considered as rent income if tenant defaults in their contractual rent payment.

As of June 30, 2021, the Authority maintained lease security deposits as follows:

Puerto Rico and Municipal Islands Maritime Transport Authority	$	57,400
Loop Land Development LLC		55,000
IBD Energy		50,000
United Real State		41,575
LinkActiv, Inc.		9,691
Other tenants miscellaneous deposits		20,241
Total	$	233,907

7. LONG-TERM LIABILITIES

U.S. Department of the Navy

Navy Parcel III - Loan payable due in fifteen annual equal principal installments plus interest beginning three years after the initial closing, subject to completion of environmental remediation of SWMU 3 and 70 by the Navy. Interest shall be calculated at 150 basis points over the US Treasury 10-Year Composite Note using the established rate on the first day of the month preceding the first installment due date. The first annual principal installment has not been made as of June 30, 2021. Annual interest to be accrued by the Authority begins once the later of the following events occur: 1) an issuance of a new due date for the first annual principal installment or 2) thirty days following the conveyance of both SWMU 3 and SWMU 70 to the Authority. As of the date these financial statements were issued, none of these events had occurred.

7. LONG-TERM LIABILITIES (CONTINUED)

U.S. Department of the Navy (Continued)

Navy Parcel I and II - Loan payable due in fifteen annual equal principal installments plus interest commencing one year after the Authority's current payment obligations for Parcel III are settled. Interest on the guaranteed consideration will begin accruing seven years after the Parcels I and II closing and shall be calculated at 150 basis points over the U.S. Treasury 10-year Composite Note as of the date of the Parcels I and II closing. As of June 30, 2021, the loan payable bears interest of 3.3% (1.80% as the US Treasury 10-Year Composite Note as of May 6, 2013, plus 150 basis points).

On December 14, 2015, the Authority received a letter from the Navy conditioning the extension of the initial consideration and installment payments due from the EDC as a result of certain environmental remediation not completed by the Navy, as planned, for parcels SWMU 3 and SWMU 70. Originally, the Navy projected SWMU's 3 and 70 to be cleaned and conveyed to the Authority during fall of year 2017, at which time the Authority would start paying annual installments on the loan, as stipulated in the EDC.
However, on September 20, 2017, Hurricane María hit Puerto Rico delaying the conveyance of the SWMU 3 and SWMU 70 to the Authority. The Navy is currently performing environmental remediation on the parcels and anticipate that SWMU 3 will be conveyed to the Authority in late 2025 and SWMU 70 sometime thereafter. Once the clean title of both properties is transferred to the Authority, the Authority will have to meet the payment obligations under the EDC.

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

On August 12, 2016, the Authority was granted a loan and grant program by the Rural Utilities Service (RUS) administered by the USDA Rural Development. Funds were to be used to rehabilitate/improve the potable water infrastructure at NSRR. Under the agreement, the Authority will receive a $4,936,000 loan, a grant of $666,200, and a second grant of $1,615,980. On December 23, 2016, the Authority closed the loan with a repayment schedule over a period of over forty years, including interest of 2.375%, only during the first three years. The Authority shall pay the principal and interest beginning December 23, 2020. The loan is evidenced with a promissory note and secured with real estate owned by the Authority. The Authority is required to establish a debt service reserve fund that has to be funded by monthly payments of $1,684 until $201,982 has been accrued.

During the year ended June 30, 2020, the Authority did not comply with the required monthly payments established in the agreement signed between USDA and the Authority. However, on March 2021, the Authority paid said balance with funds assigned and approved by the Office of Management and Budget (OMB)

The balance of the debt service reserve fund as of June 30, 2021, shall be $70,728; however, as of such date, there was a deposit deficiency of $20,208.

As of the date these financial statements were issued, the Federal Government have not provided any communications related to new terms related to this loan.

7. LONG-TERM LIABILITIES (CONTINUED)

Puerto Rico Land Administration

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

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

Under the original terms of the payment plan, the Authority was to pay to the Land Administration monthly installments of $12,500 commencing in November 2016 through November 2020. Accordingly, this payment plan has been presented as long-term debt in the Statement of Net Position as of June 30, 2020, net of any current portion.

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

The following is a roll-forward of long-term debt maintained by the Authority for the year ended June 30, 2021.

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
US Department of Navy - Parcel III	$ 7,840,000	$ -	$ -	$ 7,840,000	$ 522,667
US Department of Navy - Parcel I & II	8,500,000	-	-	8,500,000	-
Land Administration payment plan	523,500	-	(8,000)	515,500	59,000
Loan advances - RUS	544,638	-	(185,853)	358,785	-
Total long-term debts	$ 17,408,138	$ -	$ (193,853)	$ 17,214,285	$ 581,667

7. LONG-TERM LIABILITIES (CONTINUED)

Summary of Long-term Liabilities [(1)]

The outstanding Land Administration, Navy, and Loan advances - RUS payment plans balance as of June 30, 2021, requires future minimum principal payments as follows:

Year Ending June 30,	Principal	Interest	Total
2022	$ 558,667	$ 246,646	$ 805,313
2023	558,667	227,674	786,341
2024	558,667	208,701	767,368
2025	558,667	189,728	748,395
2026	558,667	170,755	729,422
2027-2031	5,546,519	2,700,121	8,246,640
2032-2036	5,546,519	2,700,121	8,246,640
2037-2040	3,327,912	1,620,072	4,947,984
Total	$ 17,214,285	$ 8,063,818	$ 25,278,103

(1) Assumes that the Navy - Parcel III will commence to amortize during the fiscal year 2020-2021. The interest rate would have been 4.31% (2.81% as the US Treasury 10-Year Composite Note, plus 150 basis points), payable in fifteen equal installments of $522,667. The interest rate could change at the conveyance of SWMU 3 and SWMU 70 to the Authority, which could be significant.

8. FEDERAL GRANTS AND LOAN

The Authority has determined to undertake a project for the rehabilitation and improvement of the potable water infrastructure of the water and sewer system to serve the area under its jurisdiction at an estimated cost of $7,218,180. During the year ended June 30, 2021, the Authority received and expensed $41,585 from said loan. The balance of entitlement on June 30, 2021, is $4,291,262 (refer to **Note 7** for the terms of the loan agreement).

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

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

Since its organization, the Authority has received grants from the OEA, an office of the DoD, to partially offset the costs of operating and administering the NSRR. During the year ended June 30, 2021, the Authority received $863,400 from these grants.

9. ENVIRONMENTAL COMMITMENTS AND CONTINGENCIES

Pollution Remediation Obligation (PRO)

The Authority follows the guidance of GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", which requires the recognition of a liability when a government knows or reasonably believes that a site is polluted and any of the following events have occurred:

a. The government is compelled to take remediation action because pollution creates an imminent endangerment to public health or welfare or the environment, leaving it little or no discretion to avoid remediation action.

b. The government is in violation of a pollution prevention–related permit or license, such as a Resource Conservation and Recovery Act (RCRA) permit or similar permits under state law.

c. The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs.

d. The government is named, or evidence indicates that it will be named, in a lawsuit to compel the government to participate in remediation.

e. The government commences, or legally obligates itself to commence, cleanup activities or monitoring or operation and maintenance of the remediation effort. If these activities are voluntarily commenced and none of the other obligating events have occurred relative to the entire site, the amount recognized should be based on the portion of the remediation project that the government has initiated and is legally required to complete.

The Authority has evaluated their environmental exposure and has determined that no significant pollution remediation obligation exists as of June 30, 2021, nor as of the date of these financial statements were issued.

10. COMMITMENTS AND CONTINGENT LIABILITIES

U.S. Department of the Navy

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

10. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Litigation and Claims

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

Leased Property Contingent Liabilities

Tenant in Violation - SWMUs 23, 55, and 74

As part of the PRMIMTA relocation of ferry services to the Authority's facilities, the PRMIMTA incurred in various violations to the lease agreement and the EDC. The PRMIMTA removed soil from SWMUs (SWMU 23, 55, and 74), a restricted area subject to the LFC. Prior to any addition or alteration of soil, the lessee was to follow the protocol included in the LFC. Besides, during soil removal, various monitoring wells were damaged. The PRMIMTA assumed the responsibility and is waiting for the Environmental Protection Agency (EPA) and NAVY approval of the corrective action plan presented. At the date these financial statements were issued, the Authority's position was that there was no significant exposure, although that estimate could change with time. PRMIMTA paid for the repair of the damages incurred.

Hurricanes Irma and María

During the year 2017, the Authority prepared an economic assessment of the damages caused by the passing of hurricanes Irma and María. The estimated sum of total damages amounts to $30 million dollars. The Authority requested financial support to the Federal Emergency Management Agency (FEMA); that provided the Best Available Federal Share Cost of 90% of financial support that amounts to $26,149,447.

The Authority identified another source to finance the remaining costs to repair the damage caused by the hurricanes. For the fiscal year 2020-2021, the Authority received the obligation of eleven housing projects. The Authority ratified the Community Development Block Grant – Disaster Recovery (CDBG-DR) Subrecipient agreement with the Puerto Rico Department of Housing to cover the damages suffered by the passing of Hurricane María by matching the 10% portion of the FEMA funds and cover the total cost of each housing project. The financial support from CDBG-DR amounts to $2,905,494, to complete the whole cost of the projects for the total amount of $29,054,941.

Federal Assistance Programs

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

11. REORGANIZATION OF THE COMMONWEALTH OF PUERTO RICO GOVERNMENT

Puerto Rico Oversight, Management, and Economic Stability Act

On June 30, 2016, Title III of Puerto Rico Oversight Management, and Economic Stability Act (PROMESA) was signed by the U.S. President to restructure the Commonwealth's finances. In May 2017, the Commonwealth was placed in receivership under PROMESA, until March 2022, when the Commonwealth was able to obtain a renegotiation and adjusted according to the Plan of Adjustment Mediation. At which time, debt was significantly reduced, as well as payment terms, which are now tied mostly to an allocation of State Sales and Use Tax proceeds.

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

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

Management believes that there is substantial doubt about the Authority’s ability to continue as a going concern because:

- The Authority is still in the initial stages of fully developing the property assets.
- Only a small portion of the property is leased, and a considerable number of rent agreements have either been cancelled, are in the process of being terminated or involve novel projects that have been postponed.
- The Authority does not currently have sufficient funds available to fully repay its various obligations as they come due. The Authority has defaulted on various debt obligations during the previous year.
- The COVID-19 pandemic which had a negative effect on the Authority’s collections and revenues, further weakening its liquidity position.
- As of June 30, 2021, the Authority had 3 years of recurring losses from operations.
- The Authority has relied on legislative appropriations and federal awards to continue operations.

Remediation Plan

During the year 2020, the Commonwealth assigned a total amount of $12.6 million, of which only $6 million was received in fiscal year 2020-2021. From the Commonwealth’s general budget for 2022-2023 an additional amount was allocated to the Authority that represented an increase of 176% compared to the current year. Furthermore, the OEA approved additional grants for the fiscal year ended June 30, 2022. The US Economic Development Administration (EDA) approved two grants amounting to approximately $21 million to improve and develop new facilities as part of the Hurricane María disaster recovery plan and establish an Oceanographic Institute in the future.

13. COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization declared the Coronavirus disease caused by a novel coronavirus (“COVID-19”) a global pandemic. As a result of the health threat and to contain the COVID-19 spread across the island, the Governor 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 residents of Puerto Rico. The executive order authorizes the Secretary of the Department of Transportation and the Executive Director of the Office of Management and Budget of Puerto Rico 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. The Governor has issued several extensions on the March order with various modifications to Puerto Rico’s social distancing measures.

The COVID-19 pandemic associated mitigation policies, and the resulting economic impact have presented certain challenges for the Authority, including but not limited to delays in the operations, increase in operational expenses, shortage of supplies and interruption to contracted services, workforce issues and delayed in implementation of CIP. However, the Authority was able to slowly resume normal operations. Due to new variants continue to surface, the future effect of the pandemic is difficult to predict.

Moratoriums due to COVID-19

The Board of Directors of the Authority evaluated various tenants' moratorium proposals and determined to grant two months after the expiration of the closing order issued by the Governor of the Commonwealth on May 21, 2020, through Executive Order OE2020041. OE2020041 extended the lockdown by continuing the phase of reopening of various economic sectors, and other purposes related to the measures adopted to control the risk of COVID-19 in Puerto Rico which kept operations closed until June 15, 2020. After two months, tenants will start paying current rent. However, if the tenants do not receive any federal or state aid to cover the rent payments for the blackout period, tenants will be granted a period of 24 months to pay the months left unpaid of approximately $13,000 due to the closing of operations.

14. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through February 15, 2023, the date the financial statements were issued. The Company has determined that there are no events occurring in this period that required disclosure or adjustment to the accompanying financial statements, except for those disclosed in **Note 10**, **Note 11**, **Note 12** and additional subsequent events disclosed on the following paragraphs.

MidAtlantic Shipyard, LLC (Tenant in Default and Possible Termination)

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

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

On April 26, 2022, the Board of Directors instructed Management to rescind the 30-year ground lease due to noncompliance with the rent agreement and its amendments.

Premier Healthcare Management (Tenant in Default and Termination)

The Authority is in the process of terminating a rent agreement signed on April 20, 2018, with Premier Healthcare Management. The agreement provided a 50-year lease. The leased premises were to be used exclusively for a senior health lifestyle community that were to include independent living facilities, assisted living facilities, skilled nurse services, hospice services, a health and wellness center on 6.79 acres of land.

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

On April 26, 2022, the Board of Directors instructed Management to rescind the 50-year lease due to noncompliance with the rent agreement and its amendments.

Interagency Agreement and Memorandum of Understanding

On September 16, 2021, the Authority, PRMIMTA, the Puerto Rico Integrated Transportation Authority (PRITA), and the Department of Transportation and Public Works (DTOP) signed an interagency agreement to perform improvements and new construction to existing buildings and infrastructure at the leased premises at Roosevelt Roads. This agreement will delineate the responsibilities of each party to achieve the common goal, which is to conduct the required improvements to develop the maritime transportation facilities of Roosevelt Roads. With this agreement, the Authority will be able to oversee, monitor and control the required steps toward the infrastructure improvements and new constructions to be conducted on the site.

New Developments

Electrical System Improvements

On July 14, 2022, the Authority requested a proposal for improvements and replacement of a portion of the electrical power grid system at former Naval Station Roosevelt Roads at the cost of between $30 million and $40 million, an allocation is expected to be received from the Federal Emergency Management Agency (FEMA). As of December 31, 2022, the improvements are under planning and design stage.

Office of Economic Adjustment and Community Development Block Grant

The OEA approved a grant for the fiscal year ended June 30, 2022, of $1,656,561 including the non-Federal funds in order to cover the damages caused by the passing of Hurricane María, as more fully disclosed on **Note 10**.

14. SUBSEQUENT EVENTS (CONTINUED)

Fiscal Plan 2022

For the fiscal year ended June 2022, the Commonwealth's Oversight Board allocated a General Fund budget for 2022-2023, of $756,000, of which $585,000 was received in 2022.

Rehabilitation of Apartment Complex by Lessee

Ocean Club is a 141-unit restored apartment complex, which project was substantially completed as of the date these financial statements were issued. The project under the lease agreement with United Real Estate involves a condo-hotel concept where the potential lessee rents individual units for thirty-nine years, and then the lessee has certain limited rights for the use of the property and the remaining time they are leased as hotel units. However, operations had not commenced.

The Ocean Club project is the first hospitality project developed within the Authority's premises accordingly, until other hospitality projects are developed, the acceptance of the project by potential unit buyers and the potential acceptance of the property as a hotel by local and foreign customers could be a slow process.

Employee Claim

The Authority is defendant in a $2 million civil suit brought by an employee, in the Federal court, in Puerto Rico. At the present time, it is improbable to determine the outcome of this matter or coverage that the existing insurance may provide, no provision for losses, if any, have been recorded in the financial statements.