SENADO
ESTADO LIBRE ASOCIADO DE PUERTO RICO

Secretaría

LCDA. TANIA BARBAROSSA ORTIZ

- [ ] VER AL DORSO
- [x] NOTAS
- [ ] PARA CALENDARIO
- [ ] TRAER EXPEDIENTE
- [x] DAR CUENTA
- [ ] REGISTRAR Y PROCESAR
- [ ] ARCHIVAR
- [ ] PREPARAR CARTA
- [ ] NOMBRAMIENTO
- [ ] AUTORIZADO Y GESTIONAR

EL CAPITOLIO
PO BOX 9023431
SAN JUAN, PUERTO RICO
00902-3431

Dejen saber a Roberto.

INICIALES

REFERIDO A:

COMISIONES PERMANENTES

- ☐ HACIENDA Y FINANZAS PÚBLICAS
- ☐ GOBIERNO, EFICIENCIA GUBERNAMENTAL E INNOVACIÓN ECONÓMICA
- ☐ JURÍDICA, SEGURIDAD Y VETERANOS
- ☐ SALUD Y NUTRICIÓN
- ☐ EDUCACIÓN, FORMACIÓN Y DESAROLLO DEL INDIVIDUO
- ☐ ASUNTOS DE LA MUJER
- ☐ INFRASTRUCTURA, DESAROLLO URBANO Y TRANSPORTACIÓN
- ☐ AGRICULTURA, SEGURIDAD ALIMENTARIA Y SUSTENTABILIDAD DE LA MONTAÑA
- ☐ RECURSOS NATURALES, AMBIENTALES Y ASUNTOS ENERGÉTICOS
- ☐ COOPERATIVISMO, PEQUEÑAS Y MEDIANAS EMPRESAS Y MICRO-EMPRESAS
- ☐ TURISMO, CULTURA, RECREACIÓN Y DEPORTES Y GLOBALIZACIÓN
- ☐ RELACIONES LABORALES, ASUNTOS DEL CONSUMIDOR Y CREACIÓN DE EMPLEOS
- ☐ DERECHOS CIVILES, PARTICIPACIÓN CIUDADANA Y ECONOMÍA SOCIAL
- ☐ AUTONOMÍA MUNICIPAL, DESCENTRALIZACIÓN Y REGIONALIZACIÓN
- ☐ BANCA, SEGUROS Y TELECOMUNICACIONES
- ☐ VIVIENDA Y COMUNIDADES SOSTENIBLES
- ☐ ÉTICA E INTEGRIDAD LEGISLATIVA
- ☐ CORPORACIONES PÚBLICAS Y ALIANZAS PÚBLICO-PRIVADAS
- ☐ REGLAS, CALENDARIO Y ASUNTOS INTERNOS

ESTADO LIBRE ASOCIADO DE PUERTO RICO
FOMENTO ECONÓMICO DE PUERTO RICO
DDEC
ROOSEVELT ROADS

#4565
Autoridad para el Redesarrollo
Local de Roosevelt Roads
#355 FD Roosevelt Ave., Of. 106
Hato Rey, P.R. 00918
Tel: 787-758-4747

LRA-15-31

2 de marzo de 2015

Hon. Eduardo Bhatía Gautier
Presidente
Senado de Puerto Rico
Apartado 9023431
San Juan, PR 00902-3431

Re: Ley Núm. 508 - Informe

Estimado señor Presidente:

De conformidad con el Artículo 18 de la Ley Núm. 508-2004, la Autoridad rinde los siguientes informes:

1. Estado financiero auditado para el año terminando el 30 de junio de 2014.
2. Informe de las actividades realizadas y logros principales alcanzados por parte de la Autoridad desde el 1 de julio de 2013 hasta el 2 de febrero de 2015. (Ley Núm. 508 de 29 de septiembre de 2004, conocida como *Ley de la Autoridad para el Redesarrollo de los Terrenos y Facilidades de la Estación Naval Roosevelt Roads*).

Además, la Autoridad informa que para el año terminado el 30 de junio de 2014 recibió $215,361.00 por concepto de renta de negocios establecidos en Roosevelt Roads.

Agradecemos la oportunidad de poder expresarnos en torno a este asunto y quedamos a su entera disposición para contestar cualquier pregunta que pueda tener en torno a los comentarios antes expuestos. Puede comunicarse con nosotros al (787)758-4747 ext. 5115.

Cordialmente,

María de L. Blázquez Arsuaga
Directora Ejecutiva

RECIBIDO MAR 6 '15 PM 4:07
SECRETARIA SENADO PR

A continuación, incluimos un breve resumen de las actividades y logros principales de la Autoridad para el Redesarrollo de Roosevelt Roads (Autoridad) desde junio 2013 hasta el 2 de febrero de 2015.

En colaboración con la Policía de Puerto Rico, la Autoridad para el Redesarrollo de Roosevelt Roads (Autoridad) implantó un Plan Integrado de Seguridad en junio de 2013 con la participación de miembros de la Policía de Puerto Rico, el Cuerpo de Vigilantes del DRNA, quien se instaló oficialmente en la marina comercial el 13 de agosto de 2013, la policía municipal de Ceiba y tres patrullas de la Guardia Nacional de Puerto Rico. Dicho plan se estableció para proteger los activos de la antigua base, los inquilinos y sus empleados, y los visitantes que a diario entran a Roosevelt Roads. El mismo respondió también al vandalismo y robo continuo de cablería y tubería de plomo en los edificios y facilidades de la antigua base.

Por otro lado, la Autoridad finalizó un contrato de arrendamiento con NBC-Universal el 15 de mayo de 2013 para la filmación de la serie de televisión "Crossbones" en los terrenos y facilidades de Roosevelt Roads. El contrato fue por un año con opción de renovación para un año adicional. El anuncio con el Gobernador se efectuó el 15 de octubre de 2013 en La Fortaleza y la inversión en Puerto Rico fue de sobre $30 millones. Los talleres de filmación se construyeron durante junio-septiembre de 2013, la filmación comenzó en octubre y finalizó en mayo de 2014. Los productores nunca ejercieron la opción de renovación por un año adicional.

La Autoridad celebró un Día Familiar en las facilidades de Roosevelt Roads el 24 de noviembre de 2013. El mismo contó con la participación de aproximadamente 10,000 personas. Bajo el lema, "Conocer, Explorar y Disfrutar", el Día Familiar estuvo revestido de un sano compartir con actividades variadas para jóvenes y adultos. Por primera vez en la historia se dio un evento de esa magnitud con la apertura y participación de la ciudadanía, y se logró mayor identificación y sentido de pertenencia de los residentes con las facilidades de Roosevelt Roads.

Ademas, la Autoridad publicó una Solicitud de Propuestas el 13 de marzo de 2014 dirigida mayormente a microempresarios y pequeños comerciantes de los pueblos de Ceiba, Naguabo, y pueblos limítrofes para proyectos de servicios eco turísticos, turismo de la naturaleza, recreativos y/o actividades complementarias. Se recibieron 17 propuestas el 9 de mayo de 2014 que fueron evaluadas por la Autoridad, quien adjudicó 8 proponentes para contratos directos (y 2 que se refirieron al Municipio de Ceiba por ser este último quien opera la Marina Comercial y la Playa "All Hands Beach") para establecer negocios que ofrecerán servicios de: alquiler y excursiones acuáticas en kayaks y botes, alquiler y excursiones terrestres en bicicletas, caminatas y excursiones guiadas para la observación de aves; pesca recreativa y venta de carnadas, alquiler de equipos de buceo, "snorkeling" y otros; y puestos de comida ligera. A finales de 2014 la Autoridad firmó siete contratos con dichos microempresarios de la región este. La Autoridad estima que se crearán aproximadamente 35 empleos durante el primer año de operación de dichos establecimientos.

La Autoridad también firmó un acuerdo de negociación exclusivo el 27 de marzo de 2014 con Astivenca Shipyards Corporation para el desarrollo de un astillero en el área del dique seco en Roosevelt Roads. Bajo los términos y condiciones aprobados, Astivenca efectuará una evaluación técnica o "due diligence" del área designada para asegurar que la misma es adecuada para el desarrollo de su negocio. Luego de completada dicha evaluación la Autoridad y Astivenca podrían firmar un acuerdo de arrendamiento a largo plazo del área designada para este negocio en o antes de marzo 2015. De materializarse dicho acuerdo, la compañía estima que estaría invirtiendo aproximadamente $25 millones y que se estarían creando 300 empleos permanentes para construir, reparar y mantener embarcaciones, así como 1,500 empleos indirectos.

La Autoridad colaboró con la Junta de Planificación en establecer un nuevo Plan de Usos de Terrenos, el cual fue firmado por el Gobernador el 28 de agosto de 2014. Este Plan exige que el 20% de las residencias que se construyan sean dedicadas a viviendas de costos asequibles, y el mismo brinda mayor flexibilidad en usos y harán más fácil la consecución de permisos por parte de proponentes para los proyectos planificados. Asimismo, el nuevo Plan de Uso de Terrenos y Plan Maestro fortalece la protección de las áreas de conservación, reconociendo las zonas de amortiguamiento entre los desarrollos y las zonas de valor ecológico, y brindando continuidad en las áreas verdes de Roosevelt Roads. Además, el Plan de Uso de Terrenos y Plan Maestro aumenta en aproximadamente 400 acres de terrenos las zonas de reserva natural. Por consiguiente, se reduce la huella o densidad de las áreas desarrollables, a tono con los reclamos de la comunidad, el Departamento de Recursos Naturales y Ambientales, el Fideicomiso de Conservación y la propia Junta de Planificación para aumentar la protección y conservación de la flora y fauna existente en Roosevelt Roads. Como ejemplo de esto, reducimos las zonas desarrollables de once a nueve sin impactar adversamente el proyecto de redesarrollo.

El Plan de Desarrollo para el redesarrollo de Roosevelt Roads que estamos promoviendo es nuevo en su enfoque comunitario y en la sustancia de lo que debe ser un desarrollo de envergadura:

- Se promueve desarrollar un proyecto de usos mixtos que incluye usos turísticos, comerciales, recreacionales, residenciales, institucionales e industrial liviano.
- Se promueve la creación de empleos puertorriqueños con proyectos a largo-plazo y a corto-plazo.
- Se promueve desarrollar empleos para residentes de Ceiba, Naguabo y pueblos limítrofes.
- Se pretende incorporar negocios de pequeños comerciantes de Ceiba, Naguabo y la región este.
- Se promueve desarrollar proyecto con la inclusión y participación de las comunidades aledañas.
- Se pretende hacer un desarrollo con accesos a todas las costas y playas, y áreas para el disfrute del público.
- Se promueve la conservación de energía y el desarrollo sostenible.
- Se promueve la protección de las áreas de conservación.

Por otro lado, la Autoridad firmó un contrato de arrendamiento el 15 de agosto de 2014 con la Asociación Reservistas, Guardias Nacionales y Veteranos Nautas por un término de cuatro años en un área que consiste de 2.45 acres de terrenos y facilidades aledaños al área en la Marina Comercial en Roosevelt Roads. El 24 de marzo de 2014 la Autoridad seleccionó una propuesta presentada por el Municipio de Ceiba para operar la Marina Comercial por un periodo de 4 años. Esta decisión se tomó como parte de la Solicitud de Propuestas efectuada por parte de la Autoridad el 14 de julio de 2013. Se crearán alrededor de 30 empleos. El contrato entre la Autoridad y el Municipio se firmó el 29 de agosto de 2014.

Además, el Centro Residencial para Oportunidades Educativas para el pueblo de Ceiba (CROEC, por sus siglas en español) iniciará su propio programa escolar en Roosevelt Roads, el cual se espera lograr para agosto de 2015. CROEC emplea métodos alternativos de enseñanza escolar a estudiantes sobresalientes en las áreas académicas de las ciencias y matemáticas, en un ambiente que apoya la transición del estudiante hacia la vida universitaria. La escuela elemental de Roosevelt Roads fue seleccionada como la sede para iniciar este programa para 200 estudiantes. Se estima que la inversión total para este programa será de aproximadamente $6.4 millones. Además, el Centro estima que dicho programa creará 55 empleos directos, 45 indirectos y 25 inducidos. La evaluación de las condiciones de los edificios comenzó en junio-julio de 2014; la demolición y remediación ambiental se completó en enero de 2015; y las reparaciones y construcción a edificaciones existentes ya comenzaron y continúan efectuándose.

La Autoridad publicó Solicitud de Credenciales (RFQ, por sus siglas en inglés) para "Master Developers" el 30 de junio de 2014 y el 14 de agosto de 2014 recibimos credenciales de 8 entidades de Estados Unidos, Europa, Latinoamérica y Puerto Rico. La Autoridad efectuó la preselección de cuatro (4) proponentes que pasaron a la fase final del proceso de Solicitud de Propuestas (RFP) para Master Developer. El 29 de agosto de 2014, la Autoridad para el Redesarrollo de Roosevelt Roads publicó una Solicitud de Propuestas (RFP, por sus siglas en inglés) dirigida exclusivamente a las cuatro entidades que fueron pre-seleccionadas para participar en la última fase del proceso de selección para un "Master Developer" o Desarrollador Maestro: Clark Realty Capital, Roosevelt Roads Redevelopment, Ariel Investments y OHorizons. Como parte del proceso del RFP, la Autoridad requirió propuestas detalladas de su capacidad financiera y experiencia para iniciar el desarrollo de Roosevelt Roads, y planes e itinerarios específicos de cómo y cuándo se desarrollarían cada una de las nueve zonas del plan maestro. Malu Blázquez, Directora Ejecutiva de la Autoridad, y su personal llevaron a cabo visitas adicionales a Roosevelt Roads y sostuvieron reuniones con los cuatro proponentes durante septiembre y noviembre de 2014 como parte del proceso de solicitud de propuestas para "Master Developer". El objetivo de estas reuniones fue hacer visitas a lugares específicos solicitados por los proponentes en Roosevelt Roads y poder responder a preguntas generales con respecto a la infraestructura de Roosevelt Roads, detalles del Plan Maestro, los itinerarios de remediación ambiental por parte de la Marina y su progreso, entre otros temas relacionados con el desarrollo. Roosevelt Roads Redevelopment fue la única entidad que no presentó una propuesta para la fecha límite de radicación del 21 de noviembre de 2014. El 8 de diciembre de 2014, la Autoridad llevó a cabo una sesión de un día de presentaciones con los tres proponentes, seguidas de preguntas y respuestas. Al día siguiente el personal de la Autoridad se

reunió con sus asesores externos para evaluar el contenido de las propuestas y presentaciones. Más adelante, la Autoridad presentó un análisis exhaustivo tanto al Comité de Selección de la Junta de Directores como a todos los miembros de la Junta de Directores.

El 22 de diciembre de 2014, la Junta de Directores de la Autoridad seleccionó por unanimidad a Clark Realty Capital como "Master Developer" para el redesarrollo de 3,000 acres de terrenos en Roosevelt Roads, luego de una revisión exhaustiva de las tres propuestas recibidas el 21 de noviembre 2014 de parte de Clark Realty Capital, Ariel Investments y OHorizons, respectivamente, de los Estados Unidos, América Latina y Puerto Rico. La Autoridad preparó un comunicado de prensa para hacer el anuncio, que recibió amplia divulgación en los medios impresos y televisivos regionales y nacionales.

La Autoridad inició negociaciones a principios de enero 2015 con Clark que culminaron con la firma de un Acuerdo de Negociación Exclusiva entre la Autoridad y Clark el 2 de febrero de 2015. Se espera finalizar la negociación con Clark durante los próximos meses para firmar un "Master Developer Agreement" en o cerca del 30 de junio 2015.

De otra parte, el Gobernador, Alejandro García Padilla, firmó la extensión de la Ley 508 por 30 años adicionales el 18 de septiembre de 2014. Dicha acción tuvo un significado muy importante para la Autoridad y Puerto Rico. La extensión de la Ley 508 por 30 años adicionales envió el mensaje apropiado de que el gobierno de Puerto Rico permanece comprometido con el proyecto y con la creación de empleos, y con el pago de sus obligaciones (La Autoridad le adeuda $16.5 millones a la Marina de los Estados Unidos por la compra de 3,400 acres de terrenos que comprenden las Parcelas I, II y III. Los términos y condiciones para el pago de esa deuda estipulan que esa cantidad será pagadera en 30 años a partir del 2015). Asimismo, la extensión de la vigencia de la Ley 508 llevó un mensaje positivo a inversionistas potenciales en Puerto Rico y en el extranjero respecto al compromiso del gobierno a largo plazo con el proyecto de redesarrollo y con la intención de hacer cumplir la visión del Plan de Desarrollo. De igual manera, reforzó la perspectiva de que la Autoridad será una entidad facilitadora en la gestión de permisos para proyectos futuros de desarrollo en Roosevelt Roads.

Además, la extensión de la Ley 508 por 30 años complació a las organizaciones comunitarias de los pueblos de Ceiba y Naguabo, así como a sus alcaldes, de que podrán continuar teniendo voz y voto en las deliberaciones de la Junta de Directores donde actualmente están representadas. Con esto la Autoridad continuará recibiendo las aportaciones federales que recibe anualmente por parte del Departamento de la Defensa de los Estados Unidos.

Por último, la Directora Ejecutiva de la Autoridad y su equipo de trabajo sostuvieron sobre quince (15) reuniones formales e informales con los residentes de las comunidades de Ceiba y Naguabo, y diversas organizaciones y líderes comunitarios (APRODEC, la Asociación Reservistas, Guardias Nacionales y Veteranos Nautas, Roosevelt Roads Sin Límites, comerciantes y pescadores del área) durante 2014. Personal de Fortaleza (Oficina de Bienestar Social y Cultura, y Desarrollo Económico y Asuntos Fiscales) y de otras agencias de la rama ejecutiva, como el DRNA, participaron también en muchos de estos foros. El propósito de dichas reuniones fue hacerlos partícipes de diferentes

iniciativas, como la publicación de Solicitud de Propuestas para Microempresarios y posterior firma de siete (7) contratos, Solicitud de Credenciales y Solicitud de Propuestas para "Master Developer", extensión de la ley 508. Asistimos también a reuniones de organizaciones comunitarias como APRODEC y a una reunión especial en la Asamblea Legislativa de Ceiba junto a representante de la Marina para presentar resultados de la limpieza ambiental en Roosevelt Roads, progreso del proyecto de redesarrollo, contratos de arrendamiento de la Marina Comercial y playa "All Hands Beach" con el Municipio de Ceiba, Plan de Usos de Terrenos y Plan Maestro 2014, seguridad, acceso y mantenimiento a facilidades dentro de nuestra propiedad, entre otros temas de interés.

La Directora Ejecutiva también se ha reunido en diversas ocasiones con los alcaldes de Ceiba y Naguabo para discutir temas de mutuo interés y ha participado activamente de las reuniones trimestrales que lleva a cabo la Marina para explicar a los residentes de Ceiba el progreso de la limpieza ambiental que lleva a cabo la propia Marina y para discutir asuntos de Roosevelt Roads con los residentes de la comunidad que asisten a dichas reuniones. Los esfuerzos de comunicación con diversos grupos comunitarios han sido consecuentes y muy productivos en fomentar un clima de apertura y diálogo cordial con los residentes de Ceiba y Naguabo, mantenerlos informados y atender sus inquietudes, a la vez que demostramos nuestro interés por su bienestar y progreso.

Nuevamente agradecemos la oportunidad de podernos expresar en torno a las actividades y logros principales como parte de nuestro Informe relacionado a la Ley 508 de 2004, según enmendada.

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, 2014

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, 2014

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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Horwath Vélez & Co. PSC
Member Crowe Horwath International

Centro Internacional de Mercadeo
100 Carr 165, Suite 410
Guaynabo, PR 00968-8051
Telephone: (787) 625-1800
Fax: (787) 625-1812
Web Site www.horwathpr.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads (hereinafter the "LRA-RR"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the LRA-RR's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the LRA-RR, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America and the respective budgetary comparison for the General Fund.

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 and 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 to management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the LRA-RR's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014, on our consideration of the LRA-RR's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the LRA-RR's internal control over financial reporting and compliance.

October 31, 2014

Horwath Vélez & Co. PSC

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Our discussion and analysis of the Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads (the "LRA-RR") financial performance provide a narrative overview of the LRA-RR's financial activities for the fiscal year ended June 30, 2014, and is intended to serve as an introduction to the basic financial statements, which have the following components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This Management Discussion and Analysis (the "MD&A") is designed to: (a) assist the reader in focusing on significant financial matters; (b) provide an overview of the LRA-RR's financial activities; (c) identify any material changes from the original budget; and (d) highlight individual fund matters. We encourage readers to review this information together with the LRA-RR's basic financial statements that follow.

FINANCIAL HIGHLIGHTS

- The LRA-RR's net position decreased by $279,315, or nearly 703% compared to prior year.
- The LRA-RR received $900,000 in legislative appropriations.
- Federal grants from governmental activities increased by $195,170 or 21% compared to prior year.
- This year's Governmental Funds' expenses totaled $2,895,768.

MAJOR FINANCIAL ELEMENTS

Revenues – The General Fund is the primary operating fund of the LRA-RR. The General Fund revenues are broadly based and include revenues not accounted for in other funds. All funds received from the Government of the Commonwealth of Puerto Rico (the "Commonwealth") that are not restricted by law or by contractual agreements are recorded in this fund. In addition, it accounts for the funds available and not used in prior years by the budgetary fund. The Federal Fund includes the federal received grants from the Department of Defense (DoD) through the Office of Economic Adjustment. Proprietary Fund's revenues include income generated from rentals and sales of lands and revenues that represent the charges for water and sewer services, and electricity provided for a determined period until the utility services are transferred to the Puerto Rico Aqueduct and Sewer Authority (PRASA) and the Puerto Rico Electric Power Authority (PREPA), respectively.

Expenditures – Expenditures consist principally of payroll, professional services, materials, and supplies.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government–wide Financial Statements

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government–wide Financial Statements (Continued)

- ***Statement of Net Position*** – This presents all of the government's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in the LRA-RR's net position may serve as a useful indicator of whether the financial position of the LRA-RR is improving or deteriorating.

- ***Statement of Activities*** – This presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenue for each function of the LRA-RR.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The LRA-RR, like other states and local governments, uses fund accounting to help ensure and demonstrate compliance with finance related legal requirements. The fund financial statements focus on individual parts of the LRA-RR, reporting the LRA-RR's operations in more detail than the government-wide financial statements. All of the funds of LRA-RR can be divided into two categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The two categories of funds are the following:

- ***Governmental Funds Financial Statements*** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the LRA-RR's near term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

  These statements provide a detailed short-term view of the LRA-RR's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the LRA-RR. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

The LRA-RR has two major governmental funds. Each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The LRA-RR's two major governmental funds are the General Fund and the Federal Fund. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

The LRA-RR adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The statement of revenue and expenditures — budget and actual — budget basis — general fund only presents the information for the general fund for which there is a legally adopted budget, as required by GAAP.

- ***Proprietary Funds Financial Statements*** – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds include rentals and/or sales of lands and charge fees for services provided to outside customers, including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The LRA-RR has one major proprietary fund. The basic proprietary fund financial statements can be found immediately following the governmental fund financial statements.

Notes to the Basic Financial Statements

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

THE LRA-RR AS A WHOLE

Government-wide Financial Statements Analysis

Current Assets - The LRA-RR current assets increased by $49,627 or 4%, mainly as a result of an increase in accounts receivable.

Current Liabilities - The LRA-RR current liabilities increased by $327,121 or 25%, mainly as a result of an increase in customer deposits.

THE LRA-RR AS A WHOLE (CONTINUED)

Government-wide Financial Statements Analysis (Continued)

Net Position - The LRA-RR's net position decreased from prior year by $279,315 or 703%, mainly as a result of increase in debts. Unrestricted funds, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or legal requirements decreased from $165,891 at June 30, 2013 to $713,462 at June 30, 2014.

	2014	2013	Increase (Decrease) Amount	Increase (Decrease) %
Current and other assets	$ 1,217,938	$ 1,168,311	$ 49,627	4 %
Capital assets, net	16,548,795	16,550,616	(1,821)	- %
Total assets	$ 17,766,733	$ 17,718,927	$ 47,806	- %
Current liabilities	$ 1,661,323	$ 1,334,202	$ 327,121	25 %
Long-term liabilities	16,345,000	16,345,000	-	- %
Total liabilities	$ 18,006,323	$ 17,679,202	$ 327,121	2 %
Net position:				
Net investment in capital assets	$ 203,795	$ 205,616	$(1,821)	(1)%
Restricted for specific purpose	270,077	-	270,077	100 %
Unrestricted	(713,462)	(165,891)	(547,571)	330 %
Total net position	$(239,590)	$ 39,725	$(279,315)	(703)%

THE LRA-RR AS A WHOLE (CONTINUED)

Governmental activities

Revenues for the LRA-RR increased by $330,862 or 14%. Total expenditures decreased by $476,809 or 14%.

	Revenues		Increase (Decrease)	
Functions/Programs	**2014**	**2013**	**Amount**	**%**
Revenues				
Legislative appropriations	$ 900,000	$ 900,000	$ -	- %
Federal grants	1,130,046	934,876	195,170	21 %
Water services	88,985	270,190	(181,205)	(67)%
Electricity services	-	143,818	(143,818)	(100)%
Rent	215,361	36,707	178,654	487 %
Other	282,061	-	282,061	100 %
Total revenues	2,616,453	2,285,591	330,862	14 %
Expenditures				
Administrative services	25,285	361,183	(335,898)	(93)%
Salaries and fringe benefits	730,946	633,115	97,831	15 %
Professional services	551,302	1,035,916	(484,614)	(47)%
Rent	38,241	34,191	4,050	12 %
Utilities	19,216	-	19,216	100 %
Maintenance	75,088	91,940	(16,852)	(18)%
Advertising	164,009	26,039	137,970	530 %
Insurance	211,557	134,602	76,955	57 %
Travel	8,862	28,989	(20,127)	(69)%
Services cost	1,071,262	1,026,321	44,941	4 %
Other	-	281	(281)	(100)%
Total expenditures	2,895,768	3,372,577	(476,809)	(14)%
Change in net position	(279,315)	(1,086,986)	807,671	(74)%
Net position, beginning of fiscal year, as previously presented	39,725	1,186,180	(1,146,455)	(97)%
Restatement	-	(59,469)	59,469	(100)%
	39,725	1,126,711	(1,086,986)	(96)%
Net position, end of fiscal year	$(239,590)	$ 39,725	$(279,315)	(703)%

THE LRA-RR'S COMBINED FUND BALANCE

The LRA-RR's governmental funds reported a combined fund balance of $1,067,191, compared to last year's combined fund balance of $919,305, representing an increase of $147,886 as a result of the LRA-RR's operations during the fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The indicators that follow were taken into account when adopting the General Fund budget for 2014. The original and the final amount available for appropriation in the General Funds budget for the fiscal year 2014 was $900,000.

CONTACTING THE LRA-RR'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the LRA-RR's finances and to show the LRA-RR's accountability for the money it receives. If you have 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, 2014

	Governmental Activities	Business-type Activities	Total Governmental Funds
ASSETS			
Cash	$ 246,727	$ -	$ 246,727
Accounts receivable:			
State and local	14,584	67,977	82,561
Federal grants	486,421	-	486,421
Internal balances	774,532	(774,532)	-
Prepaid expenses	402,229	-	402,229
Capital assets, net	16,548,795	-	16,548,795
Total Assets	$ 18,473,288	$(706,555)	$ 17,766,733
LIABILITIES			
Accounts payable	$ 207,298	$ 600,987	$ 808,285
Accrued liabilities	98,521	-	98,521
Compensated absences	104,517	-	104,517
Customer deposits	650,000	-	650,000
Long-term debt	16,345,000	-	16,345,000
Total Liabilities	$ 17,405,336	$ 600,987	$ 18,006,323
NET POSITION			
Net investment in capital assets	$ 203,795	-	203,795
Restricted	270,077	-	270,077
Unrestricted	594,080	(1,307,542)	(713,462)
Total Net Position	$ 1,067,952	$(1,307,542)	$(239,590)

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 ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Charges for Services	Program Revenue: Operating Grant	Program Revenue: Capital Grant	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities	Net (Expenses) Revenues and Changes in Net Position: Business-type Activities	Total
Governmental Activities							
Administrative Services	$ 25,285	$ -	$ 900,000	$ -	$ 874,715	$ -	$ 874,715
Salaries and Fringe Benefits	730,946	-	1,130,046	-	399,100	-	399,100
Professional Services	551,302	-	-	-	(551,302)	-	(551,302)
Rent	38,241	-	-	-	(38,241)	-	(38,241)
Utilities	19,216	-	-	-	(19,216)	-	(19,216)
Maintenance	75,088	-	-	-	(75,088)	-	(75,088)
Advertising	164,009	-	-	-	(164,009)	-	(164,009)
Insurance	211,557	-	-	-	(211,557)	-	(211,557)
Travel	8,862	-	-	-	(8,862)	-	(8,862)
Other	-	-	122,306	-	122,306	-	122,306
Total governmental activities	1,824,506	-	2,152,352	-	327,846	-	327,846
Business-type Activities							
Water services	429,491	88,985	-	-	-	(340,506)	(340,506)
Rent	641,771	215,361	-	-	-	(426,410)	(426,410)
Other	-	159,755	-	-	-	159,755	159,755
Total business-type activities	1,071,262	464,101	-	-	-	(607,161)	(607,161)
Total	$ 2,895,768	$ 464,101	$ 2,152,352	$ -	$ 327,846	$(607,161)	$(279,315)
Net Position, beginning of fiscal year							39,725
Net Position, end of fiscal year							$(239,590)

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)

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2014

	General Fund	Federal Fund	Total Governmental Funds
ASSETS			
Cash	$ 219,254	$ 27,473	$ 246,727
Accounts receivable	14,584	486,421	501,005
Prepaid insurance	382,273	19,956	402,229
Due from other funds	942,892	-	942,892
Total assets	$ 1,559,003	$ 533,850	$ 2,092,853
LIABILITIES			
Accounts payable	$ 59,386	$ 147,916	$ 207,302
Other liabilities	650,000	-	650,000
Due to other funds	-	168,360	168,360
Total liabilities	709,386	316,276	1,025,662
FUND BALANCES			
Restricted	-	217,574	217,574
Unassigned	849,617	-	849,617
Total fund balances	849,617	217,574	1,067,191
Total liabilities and fund balances	$ 1,559,003	$ 533,850	$ 2,092,853

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)

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

Total Fund Balances – Governmental Funds	$ 1,067,191
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet	16,548,795
Long-term debt	(16,345,000)
Compensated absences not liquidated immediately with current financial resources are not reported in the governmental funds balance sheet	(104,517)
Other	(98,517)
Net Position of Governmental Activities	$ 1,067,952

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, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	Federal Fund	Total Governmental Funds
Revenues			
Legislative appropriations	$ 900,000	$ -	$ 900,000
Federal grant	-	1,130,046	1,130,046
Contributions	76,176	-	76,176
Other income	-	29,984	29,984
	976,176	1,160,030	2,136,206
Expenditures			
Salaries and fringe benefits	9,070	669,373	678,443
Administrative services	21,896	23,566	45,462
Professional services	165,337	385,965	551,302
Insurance	192,019	19,538	211,557
Rent	-	38,241	38,241
Utilities	3,065	16,152	19,217
Maintenance	75,088	-	75,088
Advertising	160,832	3,177	164,009
Travel	3,001	5,860	8,861
Capital outlays	1,095	762	1,857
Debt service:			
Principal	194,283	-	194,283
Total expenditures	825,686	1,162,634	1,988,320
(Deficiency)/Excess of Revenues Over Expenditures	150,490	(2,604)	147,886
Other Financing Sources			
Transfer in	-	113,005	113,005
Transfer out	(113,005)	-	(113,005)
Total other financing sources	(113,005)	113,005	-
Net Change in Fund Balance	37,485	110,401	147,886
Fund Balances, beginning of fiscal year	812,132	107,173	919,305
Fund Balances, end of fiscal year	$ 849,617	$ 217,574	$ 1,067,191

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)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Net Change in Fund Balances - Total Governmental Funds	$ 147,886
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives	1,857
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but do not require the use of current financial resources. Therefore, depreciation expense on capital assets is not reported as expenditure in the governmental funds	(3,677)
An increase in the compensated absences liability represents a long-term effect in net position that is not reported as part of net changes in governmental funds	(52,503)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items:	
Principal payments of long-term debt	194,283
Proceeds from issuance of long-term debt	40,000
Change in Net Position of Governmental Activities	$ 327,846

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, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	GENERAL FUND			
	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues	$ 900,000	$ 900,000	$ 900,000	$ -
Expenditures				
Professional services	285,000	285,000	165,337	119,663
Advertising	170,000	170,000	160,832	9,168
Administrative services	20,000	20,000	30,966	(10,966)
Insurance	200,000	200,000	192,019	7,981
Maintenance	100,000	100,000	75,088	24,912
Utilities	5,000	5,000	3,065	1,935
Travel	5,000	5,000	3,001	1,999
Total expenditures	785,000	785,000	630,308	154,692
Excess of Revenues / (Expenditures) Over (Expenditures) / Revenues	115,000	115,000	269,692	(154,692)
Other Financing Sources				
Transfer to other funds	-	-	(113,005)	(113,005)
Net Change in Fund Balance	115,000	115,000	156,687	(267,697)
Fund Balance, beginning of fiscal year	4,000	4,000	(1,209,027)	(1,205,027)
Fund Balance, end of fiscal year	$ 119,000	$ 119,000	$(1,052,340)	$(1,472,724)

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 NET POSITION - PROPRIETARY FUND

JUNE 30, 2014

ASSETS	
Accounts receivable, net	$ 67,977
LIABILITIES	
Account payable	$ 600,987
Due to other funds	774,532
	1,375,519
NET POSITION	
Unrestricted	(1,307,542)
Total net position	$ 67,977

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 - PROPRIETARY FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Operating Revenue	
Water services	$ 88,985
Rent	215,361
Other	159,755
	464,101
Operating Expense	
Water services	429,492
Electricity services	399,004
Security	77,339
Bad debt	165,429
	1,071,264
Operating loss	(607,163)
Net Position - beginning of fiscal year	(700,379)
Net Position - end of fiscal year	$(1,307,542)

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 - PROPRIETARY FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Cash Flows from Operating Activities	
Receipts from tenants	$ 582,095
Payments to supplier	(1,034,740)
Net Cash Used in Operating Activities	(452,645)
Cash Flows from Noncapital Financing Activities; advances from General Fund	452,645
Net Change in Cash	-
Cash, beginning of fiscal year	-
Cash, end of fiscal year	$ -

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating loss	$(607,163)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Bad debts	165,429
Change in assets and liabilities:	
Accounts receivable	(47,434)
Accounts payable	36,523
	154,518
Net Cash Used in Operating Activities	$(452,645)

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)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

1. NATURE OF THE LRA-RR

Organization – The Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads (the "LRA-RR") is a public corporation and government instrumentality of the Commonwealth of Puerto Rico, which is hereby created as an independent corporate and political body, created by Law No. 508 of September 29, 2004. The LRA-RR's objective is to redevelop the lands and facilities of the Naval Station Roosevelt Roads and work with the private sector, in collaboration with the government, to provide incentives and tools needed to maximize the potential of our talented pool of workers, and the physical and ecological attributes found within the site.

Financial Independence – The LRA-RR is responsible for its debts and has the right to its surplus. No governmental agency receives the benefit nor can impose financial restraints on the LRA-RR.

Board of Directors – The LRA-RR is directed by a Board of Directors constituted by the Secretary of Economic Development and Commerce, who is the Chairperson, two persons designated by the Mayor of the Municipality of Ceiba, a person designated by the Mayor of the Municipality of Naguabo, a person designated by the President of the Senate, a person designated by the Speaker of the House of Representatives and three persons designated by the Governor.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the LRA-RR conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"), as applicable to governmental entities.

Measurement Focus, Basis of Accounting, and Financial Statements Presentation

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Net assets are reported in three categories:

Net Investment in Capital Assets — These consist of capital assets, net of accumulated depreciation and amortization and 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 — These result when constraints placed on the net position use are either externally imposed by creditors, grantors, contributors, and the like or imposed by law through constitutional provisions or enabling legislation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statements Presentation (Continued)

Unrestricted Net Position — These consist of net position that do 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. Unrestricted net position often have 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 LRA-RR's policy to use restricted resources first, then the unrestricted resources as they are needed.

Governmental Funds Financial Statements

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. Principal revenue sources considered susceptible to accrual as cash is received. In applying the susceptible to accrual concept to federal grants, there are essentially two types of revenues. For the majority of grants, moneys must be expended by the LRA-RR on the specific purpose or project before any amounts are reimbursed.

The proprietary fund financial statements are used to show activities that operate more like those of commercial enterprises. Because these funds include rentals and/or sales of lands and charge fees for services provided to outside customers, including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The LRA-RR has one major proprietary fund. Proprietary Fund's revenues include income generated from sales and/or rentals of lands and revenues that represent the charges for water, sewer, and electricity services provided for a determined period until the utility services are transfer to the Puerto Rico Aqueduct and Sewer Authority (PRASA) and Puerto Rico Electricity Power Authority (PREPA). The basic proprietary fund financial statements can be found immediately following the governmental fund financial statements.

Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- Employees' vested annual vacation and sick leave are recorded as expenditures when utilized.
- The amount of accumulated annual vacation and sick leave unpaid at June 30, 2014 has been reported only in the government-wide financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statements Presentation (Continued)

Governmental Funds Financial Statements (Continued)

- Executory purchase orders and contracts are recorded as a reserve of fund balance.
- Federal funds' cost disallowances, other long-term obligations, and amounts subject to judgments under litigation are recorded only when payment is due.

The LRA-RR is organized on the basis of funds, each of which is considered to be a separate accounting entity. The transactions of each fund are summarized by providing a separate set of self-balancing accounts which include their revenues and expenditures. An emphasis is placed on major funds. A fund is considered major if it meets both of the following criteria:

Ten Percent Criterion – an individual governmental fund reports at least 10% of any of the following: (a) total governmental fund assets, (b) total governmental fund liabilities, (c) total governmental fund revenues, or (d) total governmental fund expenditures.

Five Percent Criterion – an individual governmental fund reports at least 5% of the total for both governmental and enterprise funds of any one of the items for which the 10% criterion is met.

Governmental funds are those through which the general functions of the LRA-RR are financed. The acquisition, use, and balance of the LRA-RR expendable financial resources are accounted for through the governmental funds.

The following are the LRA-RR's major governmental funds:

General Fund – The General fund is the LRA-RR's primary operating fund. It accounts for all financial resources not accounted for in other funds. All funds received from the Government that are not restricted by law or contractual agreement are recorded in this fund.

Capital outlays in the General Fund are recorded as expenditures of those funds at the time of purchase.

Federal Fund – The Federal Fund accounts for the federal grant awarded by the Office of Economic Adjustment.

Total Governmental Funds column – The total columns on the statements are provided only to facilitate additional analysis. Interfund transactions have not been eliminated; therefore, total columns are not comparable to a consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statements Presentation (Continued)

Governmental Funds Financial Statements (Continued)

Interfund Transfer — Legally required transfers that are reported when incurred as transfer in by the recipient fund and as transfer out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government-wide financial statements.

Fund Balance – In accordance with Government Accounting Standards Board (the "GASB") No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent, as follows:

Nonspendable Fund Balance – amounts that cannot be spent because they are either (a) not in expendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance – amounts that are restricted to specific purposes externally imposed by creditors or imposed by law. The LRA-RR's restricted fund balance consists of the federal fund.

Committed Fund Balance – amounts that can be used only for specific purposes imposed by formal action (resolution) of the Board of Directors (the "Board"). Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process.

Assigned Fund Balance – amounts in the assigned fund balance classification are intended to be used by the LRA-RR for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than General Fund, assigned fund balance represents the remaining that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board or the LRA-RR official delegated that authority by Board resolution.

Unassigned Fund Balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. The LRA-RR's unassigned fund balance consists of the fund balance amount in the General Fund. This fund balance is available for any purpose and management will determine how to spend it.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statements Presentation (Continued)

Governmental Funds Financial Statements (Continued)

The LRA-RR applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amount are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

The LRA-RR does not have a formal minimum fund balance policy.

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.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by the general fund during the fiscal year to control expenditures. The cost of those goods received and services rendered on or before June 30 are recognized as expenditures. For US GAAP reporting purposes, encumbrances outstanding at year end are reported within the restricted, committed, assigned, and unassigned fund balance classifications and do not constitute expenditures or liabilities on US GAAP basis because the commitments will be honored during the subsequent year. The unencumbered balance of any appropriation of the general fund at the end of the fiscal year lapses immediately. Appropriations, other than in the general fund, are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

Concentration of Credit Risk

The LRA-RR maintains cash on deposit with financial institutions. The laws of the Commonwealth of Puerto Rico require public funds deposited in commercial banks to be collateralized by the bank when funds exceed the amount insured by the Federal Government. The securities pledged by the banks as collateral for those deposits are under the custody of the Secretary of the Treasury in the name of the Commonwealth of Puerto Rico. Deposits with the Government Development Bank of Puerto Rico (GDB) are exempt of the collateralization requirement and represent a credit risk of custody, because in case of bankruptcy of the bank the entity will not recover its deposits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions.

The accounts receivable from non-governmental customers of the LRA-RR are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users.

Capital Assets

Capital assets are stated at historical cost when purchased or at estimated fair market value when donated. Costs of repairs and maintenance, which do not increase or extend the life of the respective assets are expensed as incurred. Assets which cost or estimated fair value is stated over $500 are capitalized when purchased or received as a donation. The cost or donation amount was assigned to those included at the time of the acquisition.

Major outlays for capital assets are capitalized. In accordance to the presentation of a component unit, capital assets (depreciated for the purpose of presentation by the primary government) are depreciated using the straightline method over the following estimated useful lives:

Asset Category	Years
Furniture and fixtures	10
Computer equipment	3

Compensated Absences

It is the LRA-RR's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The excess over 60 days of vacations and over 90 days of sick leave benefits are paid to the employee. A liability is reported only for the amount due, for example, as a result of employee resignation and retirement.

Budgetary Data

The Budget is prepared following the modified accrual basis of accounting. The actual result of operations, presented in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual, is in conformity with the budgetary accounting of the LRA-RR for a better comparison with the budget information.

Subsequent Events

For purposes of these financial statements, subsequent events have been evaluated through September 30, 2014, which is the date the financial statements were available to be issued. For subsequent events, refer to Note 14.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards Released but Not Applicable to the Corporation

The GASB has issued the following accounting standards that have effective dates after June 30, 2014:

GASB Statement No. 67, *Financial Reporting for Pension Plans* — an amendment of GASB Statement No. 25. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures,* as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations.* This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards Released but Not Applicable to the Corporation

which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

(a) Budgetary Control – The LRA-RR is constitutionally required to submit to the Puerto Rico Office of Management and Budget (PROMB) an annual balanced budget for the ensuing fiscal year. Section 7 of Article VI of the Constitution of Puerto Rico provides that "The appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for the said fiscal year, unless the imposition of taxes sufficient to cover the said appropriations is provided by law".

The annual budget, which is developed utilizing elements of program budgeting, includes an estimate of revenue and other resources for the ensuing fiscal year under: (i) laws existing at the time the budget are submitted.

The Puerto Rico Office of Management and Budget (PROMB) has authority to amend the budget within a department, agency, or government unit without legislative approval.

For budgetary purposes, encumbrance accounting is used. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. For GAAP reporting purposes, encumbrances outstanding at year end are reported as reserves of budgetary appropriations within GAAP fund balances and do not constitute expenditures or liabilities on a GAAP basis because the commitments will be honored during the subsequent year. The unencumbered balance of any appropriation of the general fund at the end of the fiscal year lapses immediately. Appropriations, other than in the general fund, are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The PROMB has the responsibility to ensure that budgetary spending control is maintained on an individual department basis. PROMB may transfer part or all of any unencumbered balance within a department to another department subject to legislative approval. Budgetary control is exercised through the Puerto Rico Integrated Financial Accounting System (PRIFAS). PRIFAS ensures that encumbrances or expenditures are not processed if they exceed the department's total available spending authorization, which is considered its budget. The legal level of budgetary control is at the individual department level for general fund expenditures, principal and interest due for the year for the debt service fund, and by bond authorization for capital expenditures.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

(b) Budget/GAAP Reconciliation – The statement of revenues, expenses, and changes in fund balance - Actual and Budget Governmental Fund presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity, timing, and basis differences in the excess (deficiency) of revenue and other financing sources over expenditures and other financing uses for the year ended June 30, 2014 is presented on page 15 for the general fund (expressed in thousands).

Excess of revenues and other financing sources over expenditures and other financing uses - budget basis is $156,687.

4. CASH – CUSTODIAL CREDIT RISK DEPOSITS

The LRA-RR is authorized to deposit only in institutions approved by the Puerto Rico Treasury Department (PRTD), and such deposits should be kept in separate accounts in the name of the LRA-RR. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. The LRA-RR's policy regarding deposits requires for all opening of banks accounts to be approved by its Board of Directors.

Custodial credit risk is the risk that, in an event of a bank failure, the LRA-RR's deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the PRTD. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico.

Deposits maintained in the Government Development Bank of Puerto Rico (GDB) are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk because in the event of GDB's failure, the Commonwealth may not be able to recover the deposits.

As of June 30, 2014, the component unit had approximately $219,254 of cash that was exposed to custodial credit risk as uninsured and uncollateralized.

The carrying amount of deposits at June 30, 2014 as shown in the statement of net assets follows:

	Unassigned	Restricted	Total
Commercial bank	$ -	$ 27,473	$ 27,473
Governmental bank	219,254	-	219,254
Total deposits	$ 219,254	$ 27,473	$ 246,727

5. COMPENSATED ABSENCES

Compensated absences as of June 30, 2014 were as follow:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Vacations and licenses	$ 28,952	$ 67,553	$(36,581)	$ 59,924	$ 59,924
Sick leave benefits	23,061	41,905	(20,373)	44,593	44,593
	$ 52,013	$ 109,458	$(56,954)	$ 104,517	$ 104,517

6. CAPITAL ASSETS

The LRA-RR's capital assets at June 30, 2014 were as follow:

Capital Assets	Beginning Balance	Increase	Decrease	Ending Balance
Non-depreciable assets:				
Land	$ 16,545,000	$ -	$ -	$ 16,545,000
Depreciable assets:				
Furniture and equipment	9,764	1,857	-	11,621
Less accumulated depreciation:				
Furniture and equipment	(4,148)	(3,677)	-	(7,825)
Net depreciable assets	5,616	(1,820)	-	3,796
Capital assets, net	$ 16,550,616	$(1,820)	$ -	$ 16,548,796

The depreciation expense for the year ended on June 30, 2014 is $3,677 and is included as part of administrative services in the governmental activities in the Statement of Activities.

7. LONG-TERM DEBT

On January 25, 2013, an agreement between the U.S. Department of the Navy (DON) and the LRA-RR was formalized. The agreement consists in the acquisition of 1,370 acres of land and improvements referenced to as Parcel III at Naval Station Roosevelt Roads, with a total guaranteed payment of $8,045,000, due in fifteen annual equal principal installments plus interest beginning three (3) years after the initial closing (as deferred herein) or September 30, 2015, whichever is later. Interest shall be calculated at 150 basis points over the U.S. Treasury 10 Year Composite Note utilizing the rate established on the first day of the month immediately prior to the due date that the first annual principal installment is due.

7. LONG-TERM DEBT (CONTINUED)

On May 6, 2014, an agreement between the U.S. Department of the Navy (DON) and the LRA-RR was formalized. The agreement consists in the acquisition of 2,039 acres of land and improvements referenced to as Parcel I and II at Naval Station Roosevelt Roads, with a total guaranteed payment of $8,500,000, due in fifteen annual equal principal installments plus interest commencing one year after the LRA-RR's current payment obligations for Parcel III. Interest on the guaranteed consideration will begin accruing seven (7) years after the Parcels I and II Closing and shall be calculated at 150 basis points over the U.S. Treasury 10 Year Composite Note as of the date of the Parcels I and II Closing.

The Parcel was financed directly with the DON and subject to additional and special considerations stipulated in the agreement. The LRA-RR shall pay the DON "Additional Consideration" in the amount of forty percent (40%) of all monies received by the LRA-RR from the lease, sale, assignment or license of any portion of real property in Parcel I, II and III, excluding any monies received by the LRA-RR (i) from a public entity that is providing monies to the LRA-RR to reimburse the LRA-RR 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 ($80,000,000.00) received by the LRA-RR 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. In addition, and as a special consideration, if at any time within the five (5) year period beginning on the date of the Initial Closing, the LRA-RR sells, leases, assigns, or licenses any portion of Parcel I, II and III for a purpose not reasonably contemplated in the Addendum to the 2004 Roosevelt Roads Reuse Plan dated April 30, 2010 ("Reuse Plan Addendum") ("Outside Scope Parcel"), the LRA-RR agrees to pay to the DON seventyfive percent (75%) of the net proceeds received by the LRA-RR for such Outside Scope Parcel in excess of the amount of the Initial Consideration then outstanding ("Outside Scope Payment"). Any Outside Scope Payment required to be paid to the DON under this section shall be in lieu of an Additional Consideration payment for such parcel.

On May 6 2014, the LRA-RR has settled with the Puerto Rico Department of the Treasury an outstanding debt related to tax withholdings not remitted to the Department for the amount of $152,803. The debt will be paid in 33 equal installments plus interest of 10% starting on June 2014. As of June 30, 2014 the balance of this debt is $98,521.

8. CUSTOMER DEPOSITS

On January 24, 2014, the LRA-RR has signed a Real Property Option for a Purchase Agreement with the Puerto Rico Land Administration ("Land Administration"). The LRA-RR intends to sell a piece of land that comprehends 43.63 "cuerdas" (0.97 of an acre) for the amount of $2,500,000. The LRA-RR has received a down payment for the amount of $600,000 which is recorded as customer deposit in the Statement of Net Position. The agreement shall be finalized on or before June 30, 2016; if not, it is considered terminated and LRA-RR should refund the down payment to the Land Administration.

8. CUSTOMER DEPOSITS (CONTINUED)

The LRA-RR signed an exclusive access, use and negotiating agreement with Astivenca Shipyards Corporation ("Astivenca") on March 27, 2014 for a major shipyard project in the dry dock area at Roosevelt Roads. Astivenca paid to the LRA-RR $50,000 as an earnest money deposit and it is held by the LRA-RR to ensure that Astivenca proceeds diligently and in good faith to negotiate the Transaction Documents and perform Astivenca's obligations under this Agreement. When Astivenca completes its due diligence process, determines the viability of the project and secures the necessary permits, the LRA-RR may enter into a long-term leasing agreement with the company by March 2015. Should the parties enter into this agreement, Astivenca would pay the LRA-RR a yearly rental fee of approximately $500,000 after the first year of signing the agreement.

9. FUND BALANCES

Fund balances are classified as non-expendable, restricted required, committed, assigned, and/or unassigned based primarily on the extent to which the LRA-RR is to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on the fund balances for the major governmental funds and all other governmental funds are as follows:

	General Fund	Federal Fund	Total Governmental Funds	Business-type Funds	Total
FUND BALANCES					
Restricted	$ -	$ 217,574	$ 217,574	$ -	$ 217,574
Unassigned	849,617	-	849,617	(1,307,542)	(457,925)
Total fund balances	$ 849,617	$ 217,574	$ 1,067,191	$(1,307,542)	$(240,351)

10. BUDGETARY COMPARISON SCHEDULE

Uses / outflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule:

2013-2014	$ 1,130,046
Adjustments:	
Other transactions	2,650
Total expenditures for the federal grant	$ 1,132,696

11. INTERFUND AND INTRAENTITY TRANSACTIONS

Interfund receivables and payables at June 30, 2014, are summarized as follows:

Receivable Fund	Payable Fund	
General	Proprietary	$ 774,532

Transfers from (to) other funds for the year ended June 30, 2014 are summarized as follows:

Transferee Fund	Transferor Fund	
Federal	General	$ 113,005

Transfer of $113,005 from the General Fund to the Federal Fund to fund the 10% requirement of matching funds of the federal grant.

12. CONTINGENCIES

The LRA-RR receives funds under federal grant programs and such awards are to be expended in accordance with the provisions of each grant. Compliance with the grants is subject to audit by various government agencies, which may impose sanctions in the event of non-compliance.

13. SUBSEQUENT EVENTS

On August 29, 2014 the LRA-RR announced that 4 entities were selected to move on to the final phase of the Request for Proposals (RFP) for Master Developer as part of the Request for Qualifications (RFQ) for Master Developers issued on June 30, 2014. Entities should submit their proposals by November 21, 2014.

Law No. 508, which created the LRA-RR and would be extinguished on September 29, 2014, was amended on September 18, 2014 under Law 158-2014 to extend the life of the LRA-RR for 30 additional years.

On September 18, 2014, PREPA adjusted the LRA-RR's electricity services account to eliminate the charges related to two other entities that were included within LRA-RR's account. Before this adjustment, the LRA-RR served as an intermediary between these two entities and PREPA. As a result of this, the LRA-RR had recorded in their Proprietary Fund Statements operating revenue, accounts receivable, operating expenses and accounts payable to record said charges. As a result of the adjustment, the LRA-RR has recorded for the year ended June 30, 2014 other income for the amount of $151,755 and bad debt expense for the amount of $143,818.

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Expenditures
U.S. Department of Defense			
Office of Economic Adjustment pass-through program from:			
Puerto Rico Department of Economic Development and Commerce		BCO-401	
Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	12.607		$ 1,132,696
Total Expenditures of Federal Awards			$ 1,132,696

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the *Local Redevelopment Authority of the Lands and Facilities of Naval Station Roosevelt Roads* (hereinafter the "LRA-RR") under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and NonProfit Organizations.* Because the Schedule presents only selected portion of the operations of LRA-RR, it is not intended to and does not present the financial position and changes in net position of LRA-RR.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-Profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. GENERAL OBJECTIVES

LRA-RR received grants from the U.S. Department of Defense through the Office of Economic Adjustment to plan and undertake community economic development and base redevelopment; and, partner with the Military Departments in response to the proposed or actual expansion, establishment, realignment or closure of a military installation by the U.S. Department of Defense.

4. SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARDS REPORTING

The information included in the Schedule may not fully agree with other federal awards reports submitted directly to federal granting agencies or passthrough entities because, among other reasons, the award reports; (a) may be prepared for a different fiscal period, and (b) may include cumulative (from prior years) data rather than data from the current year only.

5. RELATION TO FEDERAL FINANCIAL REPORTS

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying schedule, which is prepared on the basis of accounting explained in Note 2. OMB Circular A-133 requires that federal financial reports claims for reimbursement contain information that is supported by the books and records from which the basic financial statements have been prepared. LRA-RR prepares the federal financial reports and claims for reimbursement primarily based on information from the internal accounting records of LRA-RR.

6. CONTINGENCIES

LRA-RR receives funds under federal grant programs and such awards are to be expended in accordance with the provisions of each grant. Compliance with the grants is subject to audit by various government agencies, which may impose sanctions in the event of non-compliance.

Horwath Vélez & Co. PSC
Member Crowe Horwath International

Centro Internacional de Mercadeo
100 Carr 165, Suite 410
Guaynabo, PR 00968-8051
Telephone: (787) 625-1800
Fax: (787) 625-1812
Web Site www.horwathpr.com

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of **Authority for the Redevelopment of the Land and the Facilities of the Roosevelt Roads Naval Station** (hereinafter "the LRA-RR"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the LRA-RR's basic financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the LRA-RR's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the LRA-RR's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

October 31, 2014

Horvath Vilez & Co. PSC

Horwath Vélez & Co. PSC
Member Crowe Horwath International

Centro Internacional de Mercadeo
100 Carr 165, Suite 410
Guaynabo, PR 00968-8051
Telephone: (787) 625-1800
Fax: (787) 625-1812
Web Site www.horwathpr.com

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCEREQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited **Authority for the Redevelopment of the Land and the Facilities of the Roosevelt Roads Naval Station**'s (hereinafter the "LRA-RR") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the LRA-RR's major federal programs for the year ended June 30, 2014. LRA-RR's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of LRA-RR's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the LRA-RR's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the LRA-RR complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of LRA-RR is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the LRA-RR's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LRA-RR's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

October 31, 2014

Horwath Vilez & Co. PSC

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal Control Over Major Programs:

1. Material weakness(es) identified?	No
2. Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs?	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No

Identification of Major Programs:

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

Dollar threshold used to distinguish between type A and type B programs:	$300,000
Auditee qualified as a low-risk auditee?	No

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

Section 2 - Financial Statements Findings

No matters were reported.

Section 3 - Federal Awards Findings And Questioned Costs

No matters were reported.

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2014

2013-01	**Accounting for Salary and Compensated Absences**
Finding Type	**Material Weakness**
Federal Programs	**Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation**

Statement of Condition

During the audit, we noted that LRA-RR's payroll registers reflect higher rates per hour for three employees compared with their standard base salary. These rates were used to compute and accumulate salaries and compensated absences.

	Base Salary	Actual Rate per Hour	Correct Rate per Hour	Difference
Finance Director	$ 86,000	$ 44.79	$ 41.35	$ 3.44
Communications Manager	$ 76,000	$ 38.68	$ 36.54	$ 2.14
Coordinating Project Manager	$ 50,000	$ 25.45	$ 24.04	$ 1.41

In addition, we could not verify the accuracy of the liquidation of compensated absences paid during the year to the Finance Director. There were neither records to substantiate the balances of compensated absences liquidated nor authorization to make the liquidation.

Recommendation

We recommend management to implement controls over the computation and payments of salaries and compensated absences.

Current Status

The finding was fully corrected.

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

STATEMENT OF SOURCES AND USES OF SALE AND LEASE PROCEEDS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014

PROCEEDS FROM SALE OR LEASE OF PROPERTY	
PROPERTY TRANSFERRED DURING REPORTING PERIOD	
1. Land sale	$ -
OTHER PROCEEDS	
2. Lease proceeds	193,751
TOTAL SALES, LEASE, AND OTHER PROCEEDS, recognized for the period	193,751
ALLOWABLE USES OF PROCEEDS	
1. Road construction and public buildings	-
2. Transportation management facilities	-
3. Sanitary sewer construction	-
4. Police and fire protection facilities and other public facilities	-
5. Utility construction	429,491
6. Building rehabilitation	-
7. Historic property preservation	-
8. Pollution prevention equipment or facilities	-
9. Demolition	-
10. Disposal of hazardous materials generated by demolition	-
11. Landscaping, grading, and other site or public improvements	75,088
12. Planning for or the marketing of the development and reuse of the installation	160,832
TOTAL EXPENDED, during reporting period	665,411
BALANCE (DEFICIT) IN RECOGNIZED PROCEEDS FOR THE YEAR ENDED JUNE 30, 2014	(471,660)
BALANCE (DEFICIT) IN RECOGNIZED PROCEEDS AT BEGINNING OF THE YEAR	(739,414)
BALANCE (DEFICIT) IN RECOGNIZED PROCEEDS AT END OF YEAR (6-30-2014)	$(1,211,074)

See accompanying note to supplementary information

Reporting Entity

The United States of America ("U.S.") Navy closed Naval Station Roosevelt Roads, Puerto Rico ("NSRR") on March 31, 2004 pursuant to Section 8132 of the Department of Defense Appropriations Act for Fiscal Year 2004 (Public Law No. 108-87; the "Appropriations Act") and in accordance with the procedures and authorities contained in the Defense Base Closure and Realignment Act of 1990, as amended (title XXIX of Public Law No. 101-510, 10 U.S.C. § 2687 note; the "Base Closure Act").

Naval Station Roosevelt Roads was named for then Assistant Secretary of the Navy Franklin D. Roosevelt, who conceived the idea in 1919 on a surveying trip. It would eventually become one of the largest naval facilities in the world, encompassing more than 100 miles of paved roads and more than 30 tenant commands. Its 1,300 buildings were home to 7,000 personnel.

The station was first commissioned as a U. S. Naval Operations Base in 1943. The newly constructed naval operating base was to become the keystone of the Caribbean Defense System with a well-protected anchorage, a major air station and an industrial establishment capable of supporting 60 percent of the Atlantic Fleet under wartime conditions. There were even rumors that if the British Empire ever fell to Axis powers, Roosevelt Roads would become the new operating base for the British Fleet.

The Local Redevelopment Authority for Roosevelt Roads (LRA-RR) was created by Commonwealth of Puerto Rico Law 508 on September 24, 2004. On August 30, 2006, the Office of Economic Adjustment of the Department of Defense recognized the LRA-RR, also known as the Roosevelt Roads Naval Base Lands and Facilities Redevelopment Authority, as the local redevelopment authority for purposes of implementing the local redevelopment plan at NSRR.

On December 20, 2011, the U. S. Navy and the LRA-RR executed an Economic Development Conveyance Memorandum of Agreement (EDC). The EDC Agreement contained the terms and conditions for the transfer to the LRA of approximately 1,370 acres of lands and facilities ("Parcel III") formerly used by the former Naval Station Roosevelt Roads to the LRA. On January 25-26, 2013, the Navy and the LRA executed various quitclaim deeds and a Lease in Furtherance of Conveyance ("LIFOC") related to the transfer of Parcel III.

On July 9, 2013, the U.S. Navy and the LRA-RR amended the EDC agreement to provide for the conveyance of additional property at former Naval Station Roosevelt Roads to the LRA in exchange for additional consideration. The additional property that was conveyed consists of approximately 2,039 acres of land and improvements (Parcels I – 1,542) & (Parcel II - 497). On May 7, 2014, the Navy and the LRA executed various quitclaim deeds and a Lease in Furtherance of Conveyance ("LIFOC") related to the transfer of Parcel I & II, bringing the total acreage for redevelopment to 3,409.

Contractual Agreements

- On May 21, 2013, the LRA-RR has signed a lease agreement with Reef Catamarans, Inc. ("Reef") to use four structures identified as Buildings 2275, 2234, 29 and 30 with approximately 3,203.854, 3,216.756, 2877 and 7,990.86 square feet, respectively, for a total of construction area of 17,288.47 square feet, for the manufacture of sea faring vessels. The lease agreement is for five years beginning on June 1, 2013, plus three additional renewal periods of five years each, subject to LRA approval. Reef has agreed to pay

#4565.

Contractual Agreements (Continued)

an annual basic rent payable on equal monthly installments beginning on the June 1, 2013. The basic rent to be paid to the LRA-RR shall be based on the gross construction area of the Buildings as follows:

- December 1, 2013 – December 1, 2017 - $3.00 per square feet
- December 1, 2017 – December 1, 2022 - $3.45 per square feet
- December 1, 2022 – December 1, 2032 – to be negotiated upon renewal

- On May 15, 2014, the LRA-RR has signed a lease agreement with Northern Entertainment Productions, LLC to use designated facilities within Roosevelt Roads for filming of television series named "Crossbones". The Lease shall begin on the effective date and shall terminate on May 31, 2014. NBC has agreed to pay the LRA an annual rent of $50,000 payable in equal monthly installments and pro-rated for partial months. NBC also has agreed to pay the LRA $150,000 for the demolition of two structures. This payment shall be made to the LRA-RR within 30 days of NBC receipt of the LRA-RR's written notice to proceed with demolition.

Purchase Agreement

- On January 24, 2014, the LRA-RR has signed a Real Property Option for a Purchase Agreement with the Puerto Rico Land Administration ("Land Administration"). The LRA-RR intends to sell a piece of land that comprehends 43.63 "cuerdas" (0.97 of an acre) for the amount of $2,500,000. The LRA-RR has received a down payment for the amount of $600,000 which is recorded as customer deposit in the Statement of Net Position. The agreement shall be finalized on or before June 30, 2016; if not, it is considered terminated and LRA-RR should refund the down payment to the Land Administration.

Exclusive Access, Use, and Negotiating Agreement

- The LRA-RR signed an exclusive access, use and negotiating agreement with Astivenca Shipyards Corporation ("Astivenca") on March 27, 2014 for a major shipyard project in the dry dock area at Roosevelt Roads. Astivenca paid to the LRA-RR $50,000.00 as an earnest money deposit and it is held by the LRA-RR to ensure that Astivenca proceeds diligently and in good faith to negotiate the Transaction Documents and perform the Astivenca's obligations under this Agreement. When Astivenca completes its due diligence process, determines the viability of the project and secures the necessary permits, the LRA-RR may enter into a long-term leasing agreement with the company by March 2015. Should the parties enter into this agreement, Astivenca would pay the LRA-RR a yearly rental fee of approximately $500,000 after the first year of signing the agreement.

Intergovernmental Agreements

- On June 30, 2013, the LRA-RR signed a Memorandum of Understanding (MOU) with the Department of Natural and Environmental Resources for coastal and land security services from the Commercial Marina at Roosevelt Roads. The LRA-RR is not receiving any monetary consideration from this MOU.

- On January 27, 2013, the LRA-RR and Municipality of Ceiba signed a MOU for the operation of "All Hands Beach". The agreement, whereby the Municipality agreed to operate, administer and maintain this facility, is for a five year period with an option for renewal. The LRA-RR is not receiving any monetary consideration from this MOU.