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Hoja de trámite

A-2023-4605
SENADO DE PUERTO RICO
OFICINA DEL SECRETARIO

13 ABR 2023 PM 3:38

Enviado a: Hon. José L. Dalmau Santiago
Presidente
Senado de Puerto Rico
PO Box 9023431
San Juan, Puerto Rico, 00902-3431

Enviado por: Arq. Nilda Marchán
Directora Ejecutiva
Autoridad para el Redesarrollo de Roosevelt Roads

Fecha: 10 de abril de 2023

Asunto: Entrega del estado financiero auditado correspondiente al FY 2020-2021
De la Autoridad para el Redesarrollo de los Terrenos y Facilidades de la
Estación Naval Roosevelt Roads.

Nota: En conformidad con el artículo 18 de la Ley 508-2004, según enmendada, se hace entrega del estado financiero auditado correspondiente al año fiscal 2020-2021. Agradeceremos que, en la medida de lo posible, se acuse recibo de esta comunicación.

De tener alguna duda al respecto, puede comunicarse con Nilda Marchán, Directora Ejecutiva a través de la siguiente información contacto: Tel. 787-705-7188 x.100 o Correo electrónico nilda.marchan@lra.pr.gov



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

**FINANCIAL STATEMENTS AND
AUDITOR'S REPORT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

TABLE OF CONTENTS

I.	Independent Auditor's Report	1-2
II.	Management's Discussion and Analysis (Unaudited)	3-8
III.	Basic Financial Statements	
	Statement of Net Position	9
	Statement of Revenues, Expenses and Changes in Net Position	10
	Statement of Cash Flows	11-12
	Notes to the Financial Statements	13-39



INDEPENDENT AUDITOR'S REPORT

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

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

Basis for Opinion

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

Management's Responsibility for the Financial Statements

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

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

Auditor's Responsibility

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

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

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appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Restatement to Net Position (Deficit)

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

Other Matters

Required Supplementary Information

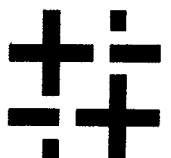
Generally accepted accounting principles in the United States of America require that the management's discussion and analysis on pages 3-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

February 15, 2023

San Juan, Puerto Rico

Numbers Consulting LLC

Stamp number E516391 was
affixed to the original of this report



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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

FINANCIAL HIGHLIGHTS

- The Authority's net position as of June 30, 2021, is \$1,644,796, an increase of \$1,220,920 from a net position of \$423,876 as of June 30, 2020.
- Rental income, including common areas, and others increased by \$27,808 or 3% when compared to the prior year.
- Utilities assessments increased by \$960,896 when compared to the prior year.
- Operating expenses increased by \$430,851 or 15% when compared to the prior year.

MAJOR FINANCIAL ELEMENTS

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

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

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

OVERVIEW OF THE FINANCIAL STATEMENTS FOR BUSINESS-TYPE ACTIVITIES

Proprietary Fund Financial Statements

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

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

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

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

- **Statement of Revenues, Expenses, and Changes in Net Position** – The statement of revenues, expenses, and changes in net position presents the results of the Authority's activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.
- **Statement of Cash Flows** – presents changes in cash, resulting from operational, investing, and capital and related financing activities. This statement presents cash receipts and cash disbursements information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.
- **Notes to the Financial Statements** – The notes to the financial statements provide required disclosures and other information that are essential for a full understanding of the numeric data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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

Statement of Net Position

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

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

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

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

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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

Statement of Net Position (Deficit) (Continued)

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

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

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

Statements of Revenues, Expenses and Changes in Net Position

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

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

**LOCAL REDEVELOPMENT AUTHORITY OF THE LANDS AND
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(A Component Unit of the Commonwealth of Puerto Rico)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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

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

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

- Salaries, fringe benefits and salaries related costs decreased by \$146,219 or 18%. This decreased on salaries and fringe benefits responds to a long-time vacancies on trust and career employees.
- Professional services increased by \$301,039 or 75%, primarily due to the services used by the Authority related to Engineers and environmental consultant for the reconstruction of the lands and facilities damaged by Hurricanes María and Irma in 2017, which is still in process.
- Other expenses increased by \$104,716 due to the underground water well repairs.
- Bad debt expense increased by \$62,761 due to changes in accounts receivable allowance.

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

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

Going Concern, Liquidity Risk and Fiscal Plan

Alleviated Substantial Doubt About Going Concern and Liquidity Risk

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

Fiscal Plan 2022

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

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

STATEMENT OF NET POSITION

JUNE 30, 2021

CURRENT ASSETS

Cash	\$ 2,552,484
Federal grant receivable, net	420,043
Tenants and other receivables, net of allowance for doubtful accounts of \$1,115,653	1,054,674
Cash restricted for loan payments	50,520
Prepaid expenses	<u>125,766</u>
Total current assets	<u>4,203,487</u>

NONCURRENT ASSETS

Capital assets, net	<u>16,230,276</u>
Total noncurrent assets	<u>16,230,276</u>
Total assets	<u>20,433,763</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued expenses	1,056,972
Loans payable	581,667
Interest payable	12,900
Lease security deposits	<u>401,153</u>
Total current liabilities	<u>2,052,692</u>

NONCURRENT LIABILITIES

Loans payable	16,632,618
Compensated absences	<u>103,657</u>
Total noncurrent liabilities	<u>16,736,275</u>
Total liabilities	<u>18,788,967</u>

NET POSITION

Net investment in capital assets	271,568
Restricted for debt service reserve	50,520
Unrestricted	<u>1,322,708</u>
Total net position	<u>\$ 1,644,796</u>

See accompanying notes to the basic financial statements.

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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

See accompanying notes to the basic financial statements.

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

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from tenants and customers	\$ 1,735,440
Payments to employees for services	(728,304)
Payments to other suppliers of goods and services	(2,101,078)
Other receipts	<u>228,794</u>
Net cash used in operating activities	<u>(865,148)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Receipts from Federal grants	898,909
Receipts from contributions from Commonwealth of Puerto Rico	<u>891,770</u>
Net cash provided by non-capital financing activities	<u>1,790,679</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Payments of loans payable	<u>(219,244)</u>
Net cash used in capital financing activities	<u>(219,244)</u>

NET CHANGE IN CASH

706,287

CASH AND RESTRICTED CASH, beginning of year

1,896,717

CASH AND RESTRICTED CASH, end of year

\$ 2,603,004

CASH AND RESTRICTED CASH

Cash	\$ 2,552,484
Cash restricted for loan payments	<u>50,520</u>
	<u>\$ 2,603,004</u>

Continues.

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

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

RECONCILIATION OF OPERATING LOSS TO NET CASH

USED IN OPERATING ACTIVITIES

Operating loss	<u>\$ (1,000,630)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	155,784
Bad debt	111,925
Net change in operating assets and liabilities:	
Tenants and other receivables	(393,342)
Prepaid expenses	13,000
Accounts payable and accrued expenses	<u>248,115</u>
Total adjustments	<u>135,482</u>
Net cash used in operating activities	<u>\$ (865,148)</u>

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 (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

1. ORGANIZATION

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

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

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

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

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

**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 (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

**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 (CONTINUED)

YEAR ENDED JUNE 30, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

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

Rent Revenue, Accounts Receivable, and Allowance for Doubtful Accounts

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

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

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

Grants and Revenue Recognition of Voluntary Non-exchange Transactions

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

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

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

Cash and Cash Equivalents

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