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Hoja de trámite

Enviado a:

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

A-2023-4606
SENADO DE PUERTO RICO
OFICINA DEL SECRETARIO
13 ABR 2023 PM 3:38

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 2019-2020
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 2019-2020. 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, 2020

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

1. We were unable to ascertain the completeness of the Office of Economic Adjustment (OEA) expenditures for the year ended June 30, 2020.
2. We were unable to obtain information from the Authority's environmental and legal consultants to ensure the pollution remediation obligation, if any, is properly accrued in the financial statements.

Qualified Opinion

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

Other Matters

Required Supplementary Information

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

August 15, 2022

Stamp number E493424 was
affixed to the original of this report

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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)**

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

FINANCIAL HIGHLIGHTS

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

MAJOR FINANCIAL ELEMENTS

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

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

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

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

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS FOR BUSINESS-TYPE ACTIVITIES

Proprietary Fund Financial Statements

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

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

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

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

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

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

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

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Statement of Net Position

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

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

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

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

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

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

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Statement of Net Position (Continued)

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

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

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

Statements of Revenues, Expenses and Changes in Net Position

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

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

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

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

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

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

- Professional services decreased by \$260,771 or 39%, primarily due to significant reductions in legal and engineering services received during the year. In 2019, one of the riskiest tenants filed for bankruptcy, which brought the Authority to contract a specialized legal counsel. Also, in 2019, the Authority used the services of engineers and environmental consultants for the reconstruction of the lands and facilities damaged by Hurricanes María and Irma in 2017, which is still in process.
- Bad debt expenses decreased by \$202,748 or 77% compared to the prior year mainly due to the allowance in 2019 of \$310,046 pertaining to tenant that filed for bankruptcy.

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

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

Going Concern, Liquidity Risk and Fiscal Plan

Alleviated Substantial Doubt About Going Concern and Liquidity Risk

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

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

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

Fiscal Plans 2021 and 2022

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

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

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

STATEMENT OF NET POSITION

JUNE 30, 2020

ASSETS

CURRENT ASSETS

Cash	\$ 1,846,197
Federal grant receivable, net	420,043
Tenants and other receivables, net of allowance for doubtful accounts of \$442,811	596,620
Prepaid expenses	<u>138,766</u>
Total current assets	<u>3,001,626</u>

NONCURRENT ASSETS

Cash restricted for debt service reserve	50,520
Accrued rent following the straight-line method	176,637
Capital assets, net	<u>16,386,060</u>
Total noncurrent assets	<u>16,613,217</u>
Total assets	<u>19,614,843</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued expenses	751,706
Loans payable	244,983
Interest payable	22,162
Accrual for disposition of equipment and material left by terminated lessee	295,000
Accrual for external property damage incurred by tenants	152,000
Compensated absences	60,220
Lease security deposits	<u>401,153</u>
Total current liabilities	<u>1,927,224</u>

NONCURRENT LIABILITIES

Loans payable	17,163,155
Compensated absences	<u>100,588</u>
Total noncurrent liabilities	<u>17,263,743</u>
Total liabilities	<u>19,190,967</u>

NET POSITION

Net investment in capital assets	(498,578)
Restricted for debt service reserve	50,520
Unrestricted	<u>871,934</u>
Total net position	<u>\$ 423,876</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, 2020

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from tenants and customers	\$ 1,100,972
Payments to employees for services	(817,372)
Payments to other suppliers of goods and services	(1,370,683)
Other payments	<u>(155,280)</u>
Net cash used in operating activities	<u>(1,242,363)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Receipts from Federal grants, net	456,586
Receipts from contributions from Commonwealth	<u>1,042,000</u>
	<u>1,498,586</u>

CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of a vehicle and construction in progress	(76,233)
Proceeds from issuing federal loan	41,585
Payment of loans payable	<u>(14,000)</u>
Net cash used in capital and related financing activities	(48,648)

NET INCREASE IN CASH

207,575

CASH AND RESTRICTED CASH, beginning of year

1,689,142

CASH AND RESTRICTED CASH, end of year

\$ 1,896,717

CASH AND RESTRICTED CASH

Cash	\$ 1,846,197
Cash restricted for debt service reserve	<u>50,520</u>
	<u>\$ 1,896,717</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, 2020

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED IN OPERATING ACTIVITIES**

Operating loss	<u>\$(1,719,567)</u>
Adjustment to reconcile operating loss to net cash used in operating activities:	
Depreciation	152,243
Bad debt	58,920
Net change in operating assets and liabilities:	
Tenants and other receivables	63,063
Prepaid expenses	(13,383)
Accounts payable and accrued expenses	268,413
Due to the federal government	<u>(52,052)</u>
	<u>477,204</u>
Net cash used in operating activities	<u>\$(1,242,363)</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Construction in-progress accrued	<u>\$ 34,648</u>
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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, 2020

1. ORGANIZATION

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

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

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

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

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

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

**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, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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