

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

**BASIC FINANCIAL STATEMENTS AND  
AUDITOR'S REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

**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, 2023**

**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	13-32

## 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**

### Opinion

We have audited the 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, 2023, and the related notes to the financial statements, which collectively compromise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2023, and the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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 opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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's 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.

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud

may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***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.

*Numbers Consulting LLC*

May 31, 2024

By: Alfonso Rossy, CPA  
Lic 6231  
Exp 12-2024



**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, 2023**

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, 2023, 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, 2023, is \$10,378,963, an increase of \$8,967,792 from a net position of \$1,411,171 as of June 30, 2022.
- Rental income, including common areas, and others decreased by \$168,096 or -12% when compared to the prior year.
- Utilities assessments increased by \$366,817 when compared to the prior year.
- Operating expenses increased by \$1,551,817 or 37% when compared to the prior year.
- Non-operating revenues from legislative appropriations, federal grants and others increased by \$10,311,774 or 471% 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, 2023**

**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, 2023**

**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 (deficit) as of June 30, 2023, and 2022:

	<u>2023</u>	<u>2022</u>	<u>Change</u>	<u>%</u>
<b>ASSETS</b>				
Current and other assets	\$ 12,958,349	\$ 3,933,183	\$ 9,025,166	229%
Noncurrent assets	32,088,373	32,842,695	(754,322)	-2%
Total assets	<u>\$ 45,046,722</u>	<u>\$ 36,775,878</u>	<u>\$ 8,270,844</u>	<u>22%</u>
<b>LIABILITIES</b>				
Current liabilities	\$ 1,265,533	\$ 1,134,804	\$ 130,729	12%
Noncurrent liabilities	16,942,384	16,960,508	(18,124)	0%
Total liabilities	<u>18,207,917</u>	<u>18,095,312</u>	<u>112,605</u>	<u>1%</u>
Deferred inflow of resources	16,459,842	17,269,395	(809,553)	-5%
Total net position	<u><u>\$ 10,378,963</u></u>	<u><u>\$ 1,411,171</u></u>	<u><u>\$ 8,967,792</u></u>	<u><u>635%</u></u>

**Current assets** – The Authority's current and other assets increase by \$9,025,166 or 229%, due to the net effect of increase on cash for \$8,493,304. During the fiscal year, the Authority collected in cash \$1,466,719 from tenants, customers and others receipts while disbursed in cash \$5,292,744 to carry out operating activities. In addition, the Authority collected in cash \$12,205,592 from legislative appropriations from the Commonwealth of Puerto Rico and federal grants for operating expenses and from the Federal Emergency Management Agency (FEMA).

**Net position** – The Authority's net position increased by \$8,967,792 or 635%, 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 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, 2023**

**OVERVIEW OF THE FINANCIAL STATEMENTS FOR BUSINESS-TYPE ACTIVITIES (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 \$4.5 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 \$155,785 for 2023 and 2022, respectively.

Remaining land and property for future development has been evaluated for impairment as of June 30, 2023 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, 2023 and 2022:

<b><u>Functions / Programs</u></b>	<b><u>2023</u></b>	<b><u>2022</u></b>	<b><u>Change</u></b>	<b><u>%</u></b>
<b>Operating revenues</b>				
Rental income, including common areas, utilities assessments and others	\$ 2,219,543	\$ 1,791,421	\$ 428,122	24%
<b>Operating expenses</b>	<u>5,754,797</u>	<u>4,202,979</u>	<u>1,551,818</u>	<u>37%</u>
<b>Operating income (loss)</b>	(3,535,254)	(2,411,558)	(1,123,696)	47%
<b>Non-operating revenues (expenses)</b>				
Legislative appropriations, federal grants, and others	12,205,592	2,177,933	10,027,659	460%
Interest revenue - leases related	301,199	-	301,199	100%
Interest expense	<u>(3,745)</u>	<u>-</u>	<u>(3,745)</u>	<u>100%</u>
	<u>12,503,046</u>	<u>2,177,933</u>	<u>10,325,113</u>	<u>474%</u>
<b>Change in net position</b>	<u>\$ 8,967,792</u>	<u>\$ (233,625)</u>	<u>\$ 9,201,417</u>	<u>3939%</u>



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FACILITIES OF NAVAL STATION ROOSEVELT ROADS  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

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

**Operating revenues** - The Authority's rental, utilities assessments, and other revenues increased by \$428,122, mainly because of an increase in utilities assessments.

**Operating expenses** - The Authority's operating expenses increased by \$1,551,818 mainly as a result of the net changes in salaries taxes and benefits and professional services.

- Salaries, fringe benefits and salaries related costs increased by \$539,338 or 34%.
- Professional services decreased by \$411,402 or -38%.
- Other expenses increased by \$1,412,155 or 487% primary due to salaries taxes and benefits.

**Non-operating revenues** - The Authority's non-operating revenues increased by \$10,325,113 or 474%, mainly as a result of increase in Federal Grants contributions by \$9,570,717.

**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 2023*

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 3, 2023, certified the 2023 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, 2023**

**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, 2023**

**CURRENT ASSETS**

Cash	\$ 9,569,036
Federal grant receivable, net	594,180
Tenants and other receivables, net of allowance for doubtful accounts of \$554,736	2,024,813
Lease receivable	598,522
Cash restricted for loan payments	50,520
Prepaid expenses	121,278
Total current assets	<u>12,958,349</u>

**NONCURRENT ASSETS**

Capital assets, net	15,918,707
Lease receivable	<u>16,169,666</u>
Total noncurrent assets	<u>32,088,373</u>
Total assets	<u><u>45,046,722</u></u>

**CURRENT LIABILITIES**

Accounts payable and accrued expenses	828,163
Current portion loans payable	36,000
Interest payable	217
Lease security deposits	<u>401,153</u>
Total current liabilities	<u>1,265,533</u>

**NONCURRENT LIABILITIES**

Loans payable	16,783,500
Compensated absences	<u>158,884</u>
Total noncurrent liabilities	<u>16,942,384</u>
Total liabilities	<u>18,207,917</u>

**DEFERRED INFLOWS OF RESOURCES**

Leases related	<u>16,459,842</u>
Total deferred inflows of resources	<u>16,459,842</u>
Total liabilities and deferred inflows of resources	<u><u>34,667,759</u></u>

**NET POSITION**

Net investment in capital asstes	271,568
Restricted for debt service reserve	271,220
Unrestricted	<u>9,836,175</u>
Total net position	<u><u>\$ 10,378,963</u></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, 2023**

**OPERATING REVENUES**

Utilities assessments	\$ 694,795
Rental income	1,271,140
Other	253,608
	<hr/>
Total operating revenues	2,219,543
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**OPERATING EXPENSES**

Salaries taxes and benefits	2,127,007
Security and related	364,877
Professional services	673,912
Insurance	167,406
Water plant system	243,949
Depreciation	155,785
Repairs and maintenance	222,165
Occupancy	97,721
Other expenses	1,701,975
	<hr/>
Total operating expenses	5,754,797
	<hr/>
Operating loss	(3,535,254)
	<hr/>

**NON-OPERATING REVENUES (EXPENSES)**

Federal grants	9,570,717
Contributions from Commonwealth of Puerto Rico	2,634,875
Interest revenue - leases related	301,199
Interest expense	(3,745)
	<hr/>
Total non-operating revenues	12,503,046
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**NET CHANGE**

8,967,792

**NET POSITION, beginning of year**

1,411,171

**NET POSITION, end of year**

\$ 10,378,963

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, 2023**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from tenants and customers	\$ 1,336,538
Payments to employees for services	(2,109,087)
Payments to other suppliers of goods and services	(3,183,657)
Other receipts	98,342
Net cash used in operating activities	<u>(3,857,864)</u>

**CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES**

Receipts from Federal grants	9,570,717
Receipts from contributions from Commonwealth of Puerto Rico	2,634,875
Interest revenue - leases related	301,199
Net cash provided by non-capital financing activities	<u>12,506,791</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Payments of loans payable	(202,397)
Interest payment	(3,745)
Net cash used in capital financing activities	<u>(206,142)</u>

**NET CHANGE IN CASH**

8,442,784

**CASH AND RESTRICTED CASH, beginning of year**

1,176,772

**CASH AND RESTRICTED CASH, end of year**

\$ 9,619,556

**CASH AND RESTRICTED CASH**

Cash	\$ 9,569,036
Cash restricted for loan payments	50,520
	<u><u>\$ 9,619,556</u></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**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

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

Operating loss	\$ (3,535,254)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	155,785
Net change in operating assets and liabilities:	
Lease receivable	654,070
Tenants and other receivables	(655,869)
Prepaid expenses	(8,517)
Interest receivable	26,472
Interest payable	217
Compensated absences	17,920
Deferred inflows	(809,553)
Accounts payable and accrued expenses	296,865
Total adjustments	(322,610)
Net cash used in operating activities	\$ (3,857,864)

See accompanying notes to the basic financial statements.

**LOCAL REDEVELOPMENT AUTHORITY OF THE LANDS AND  
FACILITIES OF NAVAL STATION ROOSEVELT ROADS  
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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

**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 lands 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 8**, the Navy still in the process of transferring SWMU 3 and 70, which are expected to be transferred by 2025, or promptly thereafter.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**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, 2023**

**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.

**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.

**Leases**

Leases are accounted for following the provisions of GASB Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of



**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, 2023**

resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Administration only has leasing activities as lessor. Lease collections are allocated between principal and interest. The interest is charged to statement of activities over the lease period. Rental income is presented as operating revenues in the accompanying statement of revenues, expenses and changes in fund net position.

Consists principally of the leasing of the spaces in the former Naval Station Roosevelt Roads subject to lease contracts at varying terms.

**Lease receivable**

The Administration's lease receivable is measured at the present value of lease payments expected to be received during the lease term.

**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 reported as non-operating revenues.

Revenue from nonexchange transactions consists of contributions from the Commonwealth and federal grants from the DoD, USDA and FEMA.

**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

**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, 2023**

included in restricted assets, they are considered cash equivalents for purposes of the statement of cash flows.

**Deferred Inflows of Resources**

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources, which represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Authority has deferred inflows of resources related to leases. the Authority has one item which is related to its activities as lessor. The deferred inflows of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflows of resources is amortized on a straight-line basis over the term of the lease.

**Capital Assets**

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

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

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

**Impairment of Capital Assets**

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

**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, 2023**

The Authority evaluated its capital assets, and no impairment was identified during the year ended June 30, 2023.

**Pollution Remediation Obligation**

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

**Compensated Absences**

The vacation policy of the Authority generally provides for the accumulation of 1.25 days per month up to a maximum annual amount of 15 days. Vacation time accumulated is fully vested by the employees from the first day of work up to a maximum of 60 days. Employees generally accumulate sick leave at a rate of 1 day per month up to a maximum annual amount of 12 days and a maximum accrual of 90 days. Upon retirement or employment separation an employee receives compensation for all accumulated unpaid vacation leave at the current rates regardless of years of service.

**Pension Benefits**

The Authority adopted a defined contribution savings and retirement plan ("the Plan"). All employees are eligible to participate in the Plan since commencement date. All employees' benefits become vested, once they have entered into the Plan, in accordance with the eligibility requirements. The Plan provides for contributions by the Authority of 50 cents per each dollar contributed by the participant, which cannot exceed 5% of the aggregate annual salary of the participant. Total contributions made by the Authority to the Plan during the year ended June 30, 2023, amounted to \$117,939.

**Risk Management**

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

**Accounting Pronouncements Issued But Not Yet Effective**

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

- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB, and AICPA Pronouncements, which are superseded by this statement. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not

**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, 2023**

be included in the historical cost of a capital asset reported in a Business-type Activity or enterprise fund. This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this statement are effective for reporting periods beginning after December 15, 2020.

- GASB Statement No. 91, *Conduit Debt Obligations*. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.
- GASB Statement No. 92, *Omnibus 2020*. This Statement addresses a variety of topics and includes specific provisions about the following, the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports; Reporting of intra entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; The applicability of Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits; The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments. The portion of this Statement that relates to the effective date of Statement 87 and its associated implementation guidance are effective upon issuance. Provisions related to intra entity transfers of assets and applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021. The remaining requirements related to asset retirement obligations are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021. Earlier application is encouraged and is permitted by topic.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate (IBOR). Some governments have entered into agreements in which variable payments made or received depend on an IBOR—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payments Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing

**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, 2023**

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

- GASB Statement No. 95, *Postponements of Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2019, and later.

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

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- GASB Statement No. 91, *Conduit Debt Obligations*
- GASB Statement No. 92, *Omnibus 2020*
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*
- GASB Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (and Certain Issues Related to OPEB Plan Reporting)
- GASB Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*
- GASB Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- GASB Implementation Guide No. 2019-2, *Fiduciary Activities*.

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

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

**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, 2023**

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

- GASB Statement No. 97, *Certain Component Unit Criteria*, and *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate cost associated with the reporting of certain defined contribution pension plans other than pension plans or OPEB plans (other employee benefits plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement that are related to the accounting and financial reporting for Sections 457 plans are effective for fiscal years beginning after June 15, 2021.
- GASB Statement No. 98, *The Annual Comprehensive Financial Report*. The objective of this statement is to establish the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on a commitment to promoting inclusiveness. The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.
- GASB Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023.
- GASB Statement No. 100, *Accounting Changes and Error Corrections* an amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for fiscal years beginning after June 15, 2023. Earlier application is encouraged.
- GASB Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023. Earlier application is encouraged.

**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, 2023**

- GASB Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

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

**3. CUSTODIAL CREDIT RISK ON DEPOSITS**

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

The carrying amount of deposits as of June 30, 2023, as shown in the statement of net position follows:

	<b>Carrying Amount</b>			<b>Depository Bank Balance</b>
	<b>Unrestricted</b>	<b>Restricted</b>	<b>Total</b>	
Commercial bank	<u>\$ 9,569,037</u>	<u>\$ 50,520</u>	<u>\$9,619,557</u>	<u>\$10,202,230</u>

**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, 2023**

**4. CAPITAL ASSETS**

The following schedule summarizes the capital assets held by the Authority as of June 30, 2023:

Beginning Balance	Increase	Decrease	Ending Balance
\$ 12,098,307	\$ -	\$ -	\$ 12,098,307
-	-	-	-
12,098,307	-	-	12,098,307
5,020,979	-	-	5,020,979
16,495	-	-	16,495
38,641	-	-	38,641
5,076,115	-	-	5,076,115
(1,063,794)	(148,056)	-	(1,211,850)
(16,495)	-	-	(16,495)
(19,642)	(7,728)	-	(27,370)
(1,099,931)	(155,785)	-	(1,255,716)
3,976,184	(155,785)	-	3,820,400
\$ 16,074,491	\$ (155,785)	\$ -	\$ 15,918,707

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

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



**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, 2023**

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

**5. LEASE AGREEMENTS AS LESSOR**

The Authority has entered into various other long-term rental agreements of certain land and properties available. The leases' expiration dates fluctuate from August 31, 2023 through June 30, 2069. As of June 30, 2023, lease receivable and deferred inflows of resources are follows.

**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, 2023**

<u>Description</u>	<u>Lease receivable</u>	<u>Deferred inflows of resources</u>
Pure Adventure - Ending date December 31, 2024. Discount rate of 1.15%. Monthly payments of \$1,450.	\$ 28,240	\$ 27,097
Para la Naturaleza - Ending date December 31, 2031. Discount rate of 1.95%. Monthly payments of \$1,300.	212,822	205,785
Equinoterapia - Ending date January 30, 2043. Discount rate of 1.95%. Monthly payments of \$500.	146,871	139,067
United Real Estate - Ending date July 31, 2038. Discount rate of 1.95%. Monthly payments of \$8,133 first year and \$19,572 in last year.	1,656,327	1,580,065
Linkactiv - Ending date August 31, 2023. Discount rate of 1.15%. Monthly payments of \$6,401 first year and \$7,160	14,300	12,980
ATM - Ending date June 30, 2048. Discount rate of 1.95%. Monthly payments of \$17,800.	4,223,768	4,155,804
Loopland - Ending date June 30, 2069. Discount rate of 1.95%. Monthly payments of \$27,500.	10,016,964	9,868,552
Nautas - Ending date June 22, 2025. Discount rate of 1.15%. Monthly payments of \$2,500.	59,287	58,670
Smart Parking - Ending date October 7, 2025. Discount rate of 1.15%. Monthly payments of \$15,000.	399,616	402,216
Marling Sailing - Ending date November 23, 2026. Discount rate of 1.15%. Monthly payments of \$208 first year and \$258 in last year.	9,992	9,608
	16,768,188	<u>\$ 16,459,842</u>
Less: Current portion	(598,522)	
Long-term portion	<u>\$ 16,169,666</u>	

For the fiscal year ended June 30, 2023, rent revenues on such rental agreements amounted to approximately \$1.3 million, which are reported as part of rental income.

Minimum annual rentals under these contracts for the years subsequent to June 30, 2023, are as follows:

**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, 2023**

Year ending June 30,	Principal	Interest	Total
2024	\$ 598,522	\$ 318,378	\$ 916,899
2025	588,829	308,685	897,514
2026	427,428	299,624	727,053
2027	392,441	291,989	684,430
2028	402,267	284,259	686,526
2029 - 2033	2,197,468	1,297,284	3,494,752
2034 - 2038	2,487,359	1,066,826	3,554,186
2039 - 2043	1,930,959	851,377	2,782,336
2044 - 2048	2,060,196	657,804	2,718,000
2049 - 2053	1,150,160	499,840	1,650,000
Thereafter	4,532,559	747,441	5,280,000
	<u>\$ 16,768,188</u>	<u>\$ 6,623,508</u>	<u>\$ 23,391,696</u>

**6. LEASE SECURITY DEPOSITS**

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

As of June 30, 2023, the Authority maintained lease security deposits as follows:

Puerto Rico and Municipal Islands Maritime Transport Authority	\$ 53,400
Loop Land Development LLC	55,000
MidAtlantic Shipyards LLC	50,000
United Real State	42,076
Smart Parking	30,000
Other tenants miscellaneous deposits	<u>170,677</u>
Total	<u>\$ 401,153</u>

**7. LONG-TERM LIABILITIES**

***U.S. Department of the Navy***

Navy Parcel III - Loan payable due in fifteen annual equal principal installments plus interest beginning three years after the initial closing, subject to completion of environmental remediation of SWMU 3 and 70 by the Navy. Interest shall be calculated at 150 basis points over the US Treasury 10-Year Composite Note using the established rate on the first day of the month preceding the first installment due date. The first annual principal installment has not been made as of June 30, 2023. Annual interest to be accrued by the Authority begins once the later of the following events occur: 1) an issuance of a new due date for the first annual principal installment or 2) thirty days following the conveyance of both SWMU 3 and SWMU

**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, 2023**

70 to the Authority. As of the date these financial statements were issued, none of these events had occurred.

Navy Parcel I and II - Loan payable due in fifteen annual equal principal installments plus interest commencing one year after the Authority's current payment obligations for Parcel III are settled. Interest on the guaranteed consideration will begin accruing seven years after the Parcels I and II closing and shall be calculated at 150 basis points over the U.S. Treasury 10-year Composite Note as of the date of the Parcels I and II closing. As of June 30, 2023, the loan payable bears interest of 3.3% (1.80% as the US Treasury 10-Year Composite Note as of May 6, 2013, plus 150 basis points).

On December 14, 2015, the Authority received a letter from the Navy conditioning the extension of the initial consideration and installment payments due from the EDC as a result of certain environmental remediation not completed by the Navy, as planned, for parcels SWMU 3 and SWMU 70. Originally, the Navy projected SWMU's 3 and 70 to be cleaned and conveyed to the Authority during fall of year 2017, at which time the Authority would start paying annual installments on the loan, as stipulated in the EDC.

However, on September 20, 2017, Hurricane María hit Puerto Rico delaying the conveyance of the SWMU 3 and SWMU 70 to the Authority. The Navy is currently performing environmental remediation on the parcels and anticipate that SWMU 3 will be conveyed to the Authority in late 2025 and SWMU 70 sometime thereafter. Once the clean title of both properties is transferred to the Authority, the Authority will have to meet the payment obligations under the EDC.

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

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

During the year ended June 30, 2023, the Authority did not comply with the required monthly payments established in the agreement signed between USDA and the Authority.

The balance of the debt service reserve fund as of June 30, 2023, shall be \$70,728; however, as of such date, there was a deposit deficiency of \$20,208.

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

***Puerto Rico Land Administration***

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

During 2016, the Land Administration determined not to exercise the land purchase option and requested the Authority to return the deposit payment of \$600,000 in accordance with the terms of the purchase

**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, 2023**

option. As a result, the Authority agreed with the Land Administration and subscribed a non-interest-bearing payment plan on October 18, 2016.

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

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

The following is a roll-forward of long-term debt maintained by the Authority for the year ended June 30, 2023.

	<b>Beginning Balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
US Department of Navy - Parcel III	\$ 7,840,000	\$ -	\$ -	\$ 7,840,000	\$ -
US Department of Navy - Parcel I & II	8,500,000	-	-	8,500,000	-
Land Administration payment plan	515,500		(36,000)	479,500	36,000
Loan advances - RUS	166,487		(166,397)	-	-
Total long-term debts	<u>\$ 17,021,897</u>	<u>\$ -</u>	<u>\$ (202,397)</u>	<u>\$ 16,819,500</u>	<u>\$ 36,000</u>

**Summary of Long-term Liabilities <sup>(1)</sup>**

The outstanding Land Administration, Navy, and Loan advances - RUS payment plans balance as of June 30, 2023, requires future minimum principal payments as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2024	\$ 36,000	\$ -	\$ 36,000
2025	777,280		777,280
2026	777,280		777,280
2027	777,280		777,280
2028-2032	3,886,400		3,886,400
2033-2037	3,861,900		3,861,900
2038-2042	3,706,400		3,706,400
2043-2046	2,996,960		2,996,960
<b>Total</b>	<u><b>\$ 16,819,500</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 16,819,500</b></u>

- (1) Assumes that the Navy - Parcel III will commence to amortize during the fiscal year 2022-2023. The interest rate would have been 5.30% (3.797% as the US Treasury 10-Year Composite Note, plus 150 basis points), payable in fifteen equal installments of \$522,667. The interest rate could change at the conveyance of SWMU 3 and SWMU 70 to the Authority, which could be significant.

**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, 2023**

**8. ENVIRONMENTAL COMMITMENTS AND CONTINGENCIES**

**Pollution Remediation Obligation (PRO)**

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

- a. The government is compelled to take remediation action because pollution creates an imminent endangerment to public health or welfare or the environment, leaving it little or no discretion to avoid remediation action.
- b. The government is in violation of a pollution prevention-related permit or license, such as a Resource Conservation and Recovery Act (RCRA) permit or similar permits under state law.
- c. The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs.
- d. The government is named, or evidence indicates that it will be named, in a lawsuit to compel the government to participate in remediation.
- e. The government commences, or legally obligates itself to commence, cleanup activities or monitoring or operation and maintenance of the remediation effort. If these activities are voluntarily commenced and none of the other obligating events have occurred relative to the entire site, the amount recognized should be based on the portion of the remediation project that the government has initiated and is legally required to complete.

The Authority has evaluated their environmental exposure and has determined that no significant pollution remediation obligation exists as of June 30, 2023, nor as of the date of these financial statements were issued.

**9. COMMITMENTS AND CONTINGENT LIABILITIES**

***U.S. Department of the Navy***

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

**Litigation and Claims**

The Authority is involved in litigation arising in the normal course of business. The Management of the Authority believes that the ultimate liability, if any, in connection with these matters will not have a

**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, 2023**

material effect on the Authority's financial position and results of operations.

**Leased Property Contingent Liabilities**

*Tenant in Violation - SWMUs 23, 55, and 74*

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

**Hurricanes Irma and María**

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

The Authority identified another source to finance the remaining costs to repair the damage caused by the hurricanes. As of June 30, 2023, the Authority received the obligation of eleven housing projects. The Authority ratified the Community Development Block Grant – Disaster Recovery (CDBG-DR) Subrecipient agreement with the Puerto Rico Department of Housing to cover the damages suffered by the passing of Hurricane María by matching the 10% portion of the FEMA funds and cover the total cost of each housing project. The financial support from CDBG-DR amounts to \$2,905,494, to complete the whole cost of the projects for the total amount of \$29,054,941.

**Federal Assistance Programs**

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

**10. REORGANIZATION OF THE COMMONWEALTH OF PUERTO RICO GOVERNMENT**

**Puerto Rico Oversight, Management, and Economic Stability Act**

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

**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, 2023**

**11. ALLEVIATED SUBSTANTIAL DOUBT ABOUT THE AUTHORITY'S ABILITY TO CONTINUE AS A GOING CONCERN**

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

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

- The Authority is still in the initial stages of fully developing the property assets.
- Only a small portion of the property is leased, and a considerable number of rent agreements have either been cancelled, are in the process of being terminated or involve novel projects that have been postponed.
- The Authority does not currently have sufficient funds available to fully repay its various obligations as they come due. The Authority has defaulted on various debt obligations during the previous year.
- The COVID-19 pandemic which had a negative effect on the Authority's collections and revenues, further weakening its liquidity position.
- As of June 30, 2023, the Authority had 5 years of recurring losses from operations.
- The Authority has relied on legislative appropriations and federal awards to continue operations.

*Remediation Plan*

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

**12. COVID-19 PANDEMIC**

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

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



**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, 2023**

operations. Due to new variants continue to surface, the future effect of the pandemic is difficult to predict.

*Moratoriums due to COVID-19*

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

**13. SUBSEQUENT EVENTS**

The Authority has evaluated subsequent events through May 31, 2024 the date the financial statements were issued. The Company has determined that there are no events occurring in this period that required disclosure or adjustment to the accompanying financial statements, except for those disclosed in **Note 10, Note 11, Note 12** and additional subsequent events disclosed on the following paragraphs.

*Interagency Agreement and Memorandum of Understanding*

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

*New Developments*

*Electrical System Improvements*

On July 14, 2022, the Authority requested a proposal for improvements and replacement of a portion of the electrical power grid system at former Naval Station Roosevelt Roads at the cost of between \$30 million and \$40 million, an allocation is expected to be received from the Federal Emergency Management Agency (FEMA). As of April 17, 2024, the improvements are under planning and design stage.

*Fiscal Plan 2024*

For the fiscal year ended June 2023, the Commonwealth's Oversight Board allocated a General Fund budget for 2023-2024, of \$1,122,000, of which \$0 was received as of May 20, 2024.

**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, 2023**

*Rehabilitation of Apartment Complex by Lessee*

Ocean Club is a 141-unit restored apartment complex, which project was substantially completed as of the date these financial statements were issued. The project under the lease agreement with United Real Estate involves a condo-hotel concept where the potential lessee rents individual units for thirty-nine years, and then the lessee has certain limited rights for the use of the property and the remaining time they are leased as hotel units. However, on January 2, 2024 this contract was cancelled. The cancellation of the contract was due to the contractor's failure to comply with the requirements of the contract for the development of the area.

*Employee Claim*

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