NATIONAL PARKS COMPANY OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND SINGLE AUDIT REPORTS

FOR THE YEAR ENDED JUNE 30, 2013

(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

NATIONAL PARKS COMPANY OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

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INDEPENDENT AUDITOR'S REPORT

To the Management of
Board of Directors
National Parks Company of Puerto Rico
San Juan, Puerto Rico

Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of National Parks Company of Puerto Rico, which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Basic Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 an opinion on these basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 basic 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 basic 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 basic financial statements.

Auditor's Responsibility (Continued)

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of National Parks Company of Puerto Rico as of June 30, 2013, and the results of its operations and its cash flows for the year then ended in conformity 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 requires that the management's discussion and analysis on pages 4 through 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Schedule of Expenditures of Federal Awards and related notes, on pages 29 and 31, as required by Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards we have also issued our report dated November 4, 2013, on our consideration of National Parks Company of Puerto Rico's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering National Parks Company of Puerto Rico's internal control over financial reporting and compliance.

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

November 4, 2013

Stamp #E23716 of the
College of CPA's of
Puerto Rico is affixed
to the original.

NATIONAL PARKS COMPANY OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the National Parks Company of Puerto Rico (from now on NPC) financial performance provides an overview of the NPC's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with NPC's audited basic financial statements, beginning on page 9.

FINANCIAL HIGHLIGHTS:

- Capital grants, contributions and governmental appropriations increased by approximately $7.5 millions,
- Charges from services for the operation of recreational facilities and park activities decreased by $144,240,
- Total operating expenses decreased by $8.6 millions, and
- Total assets decreased by approximately $8.6.

USING THE ANNUAL REPORT:

This annual report consists of a series of basic financial statements. The Statement of Net Position, the Statements of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities of NPC's as a whole and present a view of NPC finances. These statements show how these services were financed in the short-term as well as what remains for future activities.

OVERVIEW OF THE FINANCIAL STATEMENTS:

NPC is a component unit of the Commonwealth of Puerto Rico and is presented in the Commonwealth’s government wide financial statements as an enterprise fund.

Government-wide statements, consist of a statement of net position and a statement of activities prepared using the economic resources measurement focus and accrual basis of accounting. These statements will report all the assets, liabilities, revenues, and expenses of the government. Each statement will distinguish between the governmental and business-type activities of the primary government and between the total primary government and its discretely presented component units by reporting each in separate columns. Fiduciary activities, whose resources are not available to finance the government’s programs, will be excluded from the government-wide statements.

An enterprise fund essentially encompasses the same functions reported as business-type activities in the government-wide statements. Substantially all services are provided to customers not related to the Commonwealth of Puerto Rico.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED):

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED):

NPC's basic financial statements are presented attached to this document and are accompanied by notes to the basic financial statements, which provide information essential to their full understanding.

Statement of Net Position:

The Statement of Net Position presents NPC's statement of position as of June 30, 2013 and 2012, showing information that includes all of NPC's assets and liabilities, as well as the net position.

Statement of Revenues, Expenses and Changes in Net Position:

The statement of revenues, expenses and changes in net position shows how the NPC's net position changed during the fiscal year. All current fiscal year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of this statement is to show the financial reliance of NPC's functions on revenues earned.

Statement of Cash Flows:

The statement of cash flows presents the sources and uses of cash flows divided in four categories: operating activities, non-capital financing activities, capital and related financing activities and investing activities. The statement reconciles net cash and cash equivalents at the beginning and end of year and reconciles the net income (loss) with the cash used in operating activities to provide an explanation of cash and non-cash activities within the statement of revenues, expenses and changes in net position.

FINANCIAL ANALYSIS OF NPC AS A WHOLE:

NPC is a public Company and a governmental instrumentality of the Commonwealth of Puerto Rico, created by law No. 10 on April 8, 2001 as a result of a combination of two agencies, the Recreational Development Company of Puerto Rico, created by law No. 114 on 1961 as amended, and the Trust for the Conservation, Operation and Maintenance of Puerto Rico National Parks constituted by Public Deed No. 3 on December 1988.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED):

Our analysis shown below focuses on net position (Table 1) and change in net position (Table 2) for NPC's activities compared to prior year:

TABLE - 1 STATEMENT OF NET POSITION

	June 30, 2013	June 30, 2012	Total % Change
Assets:			
Current Assets	$ 1,405,975	$ 2,017,077	(0.30)%
Restricted Assets	11,524,965	17,000,047	(0.32)%
Capital Assets - Net	163,615,971	166,185,004	(0.02)%
Total Assets	$176,546,911	$185,202,128	(0.05)%
Liabilities:			
Current Liabilities	$ 21,029,211	$ 32,747,460	(0.36)%
Long-Term Debts	19,828,540	19,405,526	0.02 %
Total Liabilities	40,857,751	52,152,986	(0.22)%
Net Position:			
Invested in Capital Assets, Net of Debt	157,774,540	160,291,130	(0.02)%
Restricted	10,702,255	16,652,422	(0.36)%
Unrestricted	(32,787,635)	(43,894,410)	(0.25)%
Total Net Position	135,689,160	133,049,142	0.02 %
Total Liabilities and Net Position	$176,546,911	$185,202,128	(0.05)%

As observed from the table above, NPC's net position decrease from $185,202,128 to $176,546,911 , for a total decrease of $8,655,217 or 5%. The decrease in net position was primarily due to the net effect of decrease in net capital assets and deposit certificates cancellations.

Restricted assets decreased by $5,475,082 or 32%, due to deposit certificates cancellations, for which monies were used by NPC for payment of capital improvements.

Total liabilities of the NPC decreased by $(11,295,235) or 23%, due to payment of payables due to Puerto Rico Electric Power Authority, Employee Retirement System and Puerto Rico Aqueduct and Sewer Authority. Part of the monies to cover these payments were received from Central Government through contributions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED):

TABLE 2 - REVENUES, EXPENSES AND CHANGE IN NET POSITION

	June 30, 2013	June 30, 2012	Total % Change
Operating Revenues			
Charges for Services	$ 8,984,878	$ 9,129,118	(0.02)%
Total Operating Revenues	8,984,878	9,129,118	(0.02)%
Operating Expenses			
Salaries and Fringe Benefits	18,159,964	24,390,098	(0.26)%
Employee Future Benefits	625,074	1,139,483	(0.45)%
Depreciation and Amortization	6,295,597	6,628,772	(0.45)%
Utilities	3,430,592	3,225,896	0.06 %
Security	1,733,640	2,014,434	(0.14)%
Other Expenses	5,560,521	7,033,878	(0.21)%
Total Operating Expenses	35,805,388	44,432,561	(0.19)%
Operating Loss before Non-Operating Revenues (Expenses)	(26,820,510)	(35,303,443)	(0.24)%
Non-Operating Revenues (Expenses) and Capital Contributions/Transfers			
Interest Income	77,127	117,077	(0.34)%
Interest Expense `	(261,105)	(426,266)	(0.39)%
Sale of Land	-	632,000	(1.00)%
Other Income	39,301	55,382	- %
Capital Grants and Contributions	563,454	243,373	1.32 %
Capital Contributions from the Commonwealth of Puerto Rico	29,041,751	21,857,081	0.33 %
Transfer Out Capital Assets	-	(9,996,728)	(1.00)%
Total Non-Operating Revenues (Expenses) - Net	29,460,528	12,481,919	1.36 %
Change in Net Position	2,640,018	(22,821,524)	(1.12)%
Net Position, Beginning of Year, as Previously Presented	133,049,142	155,659,326	(0.15)%
Restatement of Net Position	-	211,340	(1.00)%
Net Position, Beginning of Year, as Adjusted	133,049,142	155,870,666	(0.15)%
Net Position, End of Year	$ 135,689,160	$ 133,049,142	0.02 %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED):

As observed from table in previous page, capital contributions from the Commonwealth of Puerto Rico increased by 33%, because during 2013 NPC received $5,724,000 to cover payment of utilities to the Puerto Rico Electric Power Authority and Puerto Rico Aqueduct and Sewer Authority.

CAPITAL ASSETS AND DEBT ADMINISTRATION:

Capital assets:

At the end of the year June 30, 2013, NPC had approximately $270 millions invested in total capital assets including land, buildings, parks, construction in progress, machinery, furniture and fixtures, computers and software, animals and automobiles. Accumulated depreciation and amortization amounted to $106 millions, for a net capital assets balance of $164 millions.

Debt

As of June 30, 2013 NPC had an outstanding balance of approximately $11.5 millions, including accrued interests, corresponding to three non-rotating credit lines of credit agreements with the Puerto Rico Governmental Development Bank (GDB). Credit lines are supported by legislative resolutions with certain restrictive covenants. Detailed information about these credit lines is presented in Note 5 to the basic financial statements.

Contingencies

NPC is a defendant in various lawsuits. NPC and its internal and external legal representatives are of the opinion that It is not possible to predict as of financial statement date the outcome of those lawsuits. NPC has an accrued litigation liability of $2,620,837.

CONTACTING THE ADMINISTRATION FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the NPC's finance and to show the NPC's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Finance Director at (787) 622-5200.

NATIONAL PARKS COMPANY OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION

JUNE 30, 2013

ASSETS:		
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS	$	756,888
ACCOUNTS RECEIVABLE (NET OF ALLOWANCE OF $202,246)		553,823
PREPAID EXPENSES		95,264
TOTAL CURRENT ASSETS		1,405,975
NON-CURRENT ASSETS		
RESTRICTED FUNDS:		
CASH AND CASH EQUIVALENTS		11,524,965
CAPITAL ASSETS, NET		163,615,971
TOTAL NON-CURRENT ASSETS		175,140,936
TOTAL ASSETS	$	176,546,911

See accompanying notes and auditor's report, which are an integral part of the Basic Financial Statements.

NATIONAL PARKS COMPANY OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION (CONTINUED)

JUNE 30, 2013

LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
EXCESS OF OUTSTANDING CHECKS OVER BANK BALANCE	$ 103,779
SHORT-TERM NOTES	11,250,816
INTEREST PAYABLE	261,104
ACCRUED COMPENSATED ABSENCES	237,514
ACCOUNTS PAYABLE:	
TRADE	676,951
RETAINAGE	515,565
ACCRUED LIABILITIES	28,831
DUE TO OTHER GOVERNMENTAL ENTITIES	7,743,732
TOTAL CURRENT LIABILITIES	20,818,292
NON-CURRENT LIABILITIES	
ACCRUED COMPENSATED ABSENCES	4,512,758
PENSION AND OTHER EMPLOYEE FUTURE BENEFITS	12,694,945
ACCRUED LITIGATIONS LIABILITY	2,620,837
TOTAL NON-CURRENT LIABILITIES	19,828,540
DEFERRED INFLOW OF RESOURCES	
DEFERRED REVENUE	210,919
TOTAL LIABILITIES	40,857,751
COMMITMENTS AND CONTINGENCIES	-
NET POSITION	
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	157,774,540
RESTRICTED FOR PROJECTS	10,702,255
UNRESTRICTED	(32,787,635)
TOTAL NET POSITION	135,689,160
TOTAL LIABILITIES AND NET POSITION	$ 176,546,911

See accompanying notes and auditor's report, which are an integral part of the Basic Financial Statements.

NATIONAL PARKS COMPANY OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

OPERATING REVENUES	
CHARGES FOR SERVICES	$ 8,984,878
TOTAL OPERATING REVENUES	8,984,878
OPERATING EXPENSES	
SALARIES AND FRINGE BENEFITS	18,159,964
EMPLOYEE FUTURE BENEFITS	625,074
DEPRECIATION AND AMORTIZATION	6,295,597
WASTE DISPOSAL	107,238
RENT	72,360
REPAIRS AND MAINTENANCE	1,750,057
INSURANCE	882,794
PROFESSIONAL SERVICES	334,939
GENERAL AND ADMINISTRATIVE	1,757,908
UTILITIES	3,430,592
MATERIALS AND SUPPLIES	344,017
SECURITY	1,733,640
BAD DEBT EXPENSE	178,536
BANK CHARGES	111,451
AUTO EXPENSES	21,221
TOTAL OPERATING EXPENSES	35,805,388
OPERATING LOSS BEFORE NON-OPERATING REVENUES (EXPENSES)	(26,820,510)
NON-OPERATING REVENUES (EXPENSES)	
INTEREST INCOME	77,127
INTEREST EXPENSE	(261,105)
OTHER INCOME	39,301
TOTAL NON-OPERATING REVENUES (EXPENSES) - NET	(144,677)
LOSS BEFORE CONTRIBUTIONS AND TRANSFERS	$ (26,965,187)

See accompanying notes and auditor's report, which are an integral part of the Basic Financial Statements.

NATIONAL PARKS COMPANY OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

CAPITAL CONTRIBUTIONS AND TRANSFERS	
CAPITAL CONTRIBUTIONS FROM THE COMMONWEALTH OF PUERTO RICO	$ 29,041,751
CAPITAL GRANTS AND CONTRIBUTIONS	563,454
TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS	29,605,205
CHANGE IN NET POSITION	2,640,018
NET POSITION, BEGINNING OF YEAR	133,049,142
NET POSITION, END OF YEAR	$ 135,689,160

See accompanying notes and auditor's report, which are an integral part of the Basic Financial Statements.

NATIONAL PARKS COMPANY OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2013

CASH FLOW FROM OPERATING ACTIVITIES:	
CASH RECEIVED FROM CHARGES FOR SERVICES	$ 9,053,218
CASH PAID TO SUPPLIERS AND GOVERNMENTAL UNITS	(21,589,316)
CASH PAID FOR SALARIES AND FRINGE BENEFITS	(18,372,658)
NET CASH USED IN OPERATING ACTIVITIES	(30,908,756)
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES:	
CONTRIBUTIONS FROM THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO	29,041,751
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	29,041,751
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
PURCHASE OF PROPERTY AND EQUIPMENT, AND CONSTRUCTION OF PROPERTY	(3,726,564)
CAPITAL GRANTS AND CONTRIBUTIONS	563,454
PAYMENTS OF CREDIT LINES AND OBLIGATIONS	(977,653)
OTHER INCOME	39,301
INTEREST PAID	(261,105)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(4,362,567)
CASH FLOW FROM INVESTING ACTIVITIES:	
INTEREST RECEIVED	77,127
NET INCREASE IN EXCESS OF OUTSTANDING CHECKS OVER CASH BALANCE	62,263
NET CASH PROVIDED BY INVESTING ACTIVITIES	139,390
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,090,182)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	18,372,035
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 12,281,853

See accompanying notes and auditor's report, which are an integral part of the Basic Financial Statements.

NATIONAL PARKS COMPANY OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
OPERATING LOSS BEFORE NON-OPERATING REVENUES AND CONTRIBUTIONS	$ (26,820,510)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
DEPRECIATION AND AMORTIZATION	6,295,597
BAD DEBT EXPENSE	178,536
CHANGE IN ASSETS AND LIABILITIES:	
INCREASE IN ACCOUNTS RECEIVABLE	(110,196)
INCREASE IN PREPAID EXPENSES	(72,338)
DECREASE IN ACCOUNTS PAYABLE	(399,173)
INCREASE IN PENSION AND OTHER EMPLOYEE FUTURE BENEFITS	625,074
INCREASE IN ACCOUNTS PAYABLE RETAINAGE	151,037
DECREASE IN ACCRUED COMPENSATED ABSENCES	(212,694)
INCREASE IN ACCRUED LIABILITIES	21,231
DECREASE IN DUE TO OTHER GOVERNMENTAL ENTITIES	(10,565,320)
NET CASH USED IN OPERATING ACTIVITIES	$ (30,908,756)
RECONCILIATION OF CASH AND CASH EQUIVALENTS WITH THE STATEMENT OF NET POSITION:	
CASH IN CURRENT ASSETS	$ 756,888
CASH RESTRICTED - NON CURRENT ASSETS	11,524,965
	$ 12,281,853

See accompanying notes and auditor's report, which are an integral part of the Basic Financial Statements.

NATIONAL PARKS COMPANY OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND ACTIVITY

The National Parks Company of Puerto Rico (From now on NPC) is a public corporation and an instrumentality of the Commonwealth of Puerto Rico. NPC was created by Law No. 10 on April 8, 2001 as a result of a combination of two agencies, the Recreational Development Company of Puerto Rico created by Law No. 114 on 1961 as amended, and the Trust for the Conservation, Operation and Maintenance of Puerto Rico National Parks constituted by Public Deed No. 3 on December 1988.

NPC has the obligation of protecting, operating and providing maintenance and conservation of all national parks established at the moment and those to be created in the future.

FINANCIAL REPORTING ENTITY

The financial reporting entity included in this report consists of the basic financial statements of the NPC (primary government). To fairly present the financial position and the results of operations of the financial reporting entity management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete. There are two methods of presentation of the component unit in the basic financial statements: (a) blending the financial data of the component units' balances and transactions in a manner similar to the presentation of NPC's balances and (b) discrete presentation of the component unit's financial data in columns separate from NPC's balances and transactions.

The basic criteria for deciding financial accountability are any one of the following:

- Financial dependency of the potential component unit on the primary government, or
- The primary government appoint a voting majority of the potential component unit's governing body and,
  1. The primary government can impose its will on the potential component unit and/or,
  2. A financial benefit/burden exists between the primary government and the potential component unit.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL REPORTING ENTITY (CONTINUED)

In addition, a legally separate, tax exempt organization should be discretely presented as a component unit of a reporting entity if all of the following criteria are met:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access a majority of the economic resources received or held by the separates organizations.
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Professional judgment is applied in determining whether the relationship between a primary government and other organizations for which the primary government is not accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

Based on the above criteria there are no potential component units which should be included as part of the basic financial statements.

BASIS OF FINANCIAL STATEMENT PRESENTATION

(A) METHOD OF ACCOUNTING FOR PROPRIETARY FUNDS

NPC reports its financial position and results of operations as an enterprise fund. Financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds are used to account for business - type activities, which are financed mainly by fees and charges to users of the services provided by the funds operations. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NPC adopted the Governmental Accounting Standards Board (GASB) Statement Number 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". Concepts Statement 4, for which GASB 63 provides guidance, identifies the term net position as the residual of all other elements presented in a statement of financial position and also amends the reporting requirements of GASB 34 "Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments", and other pronouncements by incorporating deferred inflows and outflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

(B) MANAGEMENT'S DISCUSSION AND ANALYSIS

This consist of a narrative introduction and analytical overview of NPC's financial activities. This analysis is similar to the analysis the private sector provides in their annual reports.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF FINANCIAL STATEMENT PRESENTATION (CONTINUED)

(C) USE OF ESTIMATES

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Where significant estimates have been made in preparing these financial statement, they are described in the applicable footnotes.

(D) STATEMENT OF CASH FLOWS

NPC prepares its statement of cash flows using the direct method. For the purpose of this statement NPC includes as cash equivalents all unrestricted and restricted highly liquid debt instruments with original maturities of three months or less at time of purchase.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding that the basic financial statements and notes are representations of management, who is responsible for their integrity and objectivity. These accounting policies conform to US GAAP.

(E) NON-EXCHANGE TRANSACTIONS

GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" establishes accounting and financial reporting standards for nonexchange transactions involving financial or capital resources (for example, most taxes, grants, and private donations). In non-exchange transactions, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. Under the provisions of this statement, the provider and the recipient should recognize the non-exchange transaction as an expense and revenue, respectively, when all eligibility requirements are satisfied.

(F) SOURCES OF INCOME

Charges for services on the vacation centers are the main source of income of NPC and allow the operation of other installations where their activities are free of charge to the public. Collections of the vacation centers is invested in maintaining and improving the structures and operation of the installations of the NPC.

Other sources of revenues consist primarily of legislative appropriations from the Commonwealth of Puerto Rico, capital grants and contributions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(G) ACCOUNTING FOR PENSION COSTS

NPC accounts for pension costs in accordance with provisions of GASB Statement No. 27, "Accounting for Pensions by States and Local Governmental Employers".

GASB Statement No. 27 establishes standards of accounting and financial reporting for pension expenditures/expenses and related pension liabilities, pension assets, note disclosures, and required supplementary information in the financial reports of state and local governmental employers. The statement defines that the pension expense is equal to the statutory required contribution to the employees' retirement system. A pension liability or asset is reported equal to the cumulative difference between statutory required and actual contributions.

(H) RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts is an amount that the NPC believes will be adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of their collectibility. Because of uncertainties inherent in the estimation process, the NPC's estimates of losses in the receivables outstanding and the related allowance may change.

(I) CAPITAL ASSETS AND DEPRECIATION AND AMORTIZATION POLICY

Capital assets are stated at cost. The costs of normal maintenance and repairs that do not add to the asset’s value or materially extend the asset’s useful life are not capitalized. NPC defines capital assets as assets with an individual cost of more than $100 and a useful life of three (3) years or more. Assets to be depreciated and amortized were assigned a residual value of between 5% to 10% of original cost. At the time capital assets are sold or otherwise disposed, the cost and related accumulated depreciation and amortization is removed from books and the resulting gain or loss, if any is credited or changed to operations.

Depreciation and amortization expense is computed using the straight-line method over the estimated useful lives of the respective assets, as follows:

Description	Estimated Useful Lives
Land	-
Construction in Progress	-
Building, Parks, Squares and Improvements	40
Machinery, Equipment and Others	5 - 15
Animals	15 - 70
Vehicles	5 - 15

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(J) ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS

NPC follows GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries". This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. During the year ended June 30, 2013, NPC evaluated its capital assets for impairment under the guidance of this Statement and determined that the possible impairment amount, if any, would not have a material impact in NPC's basic financial statements.

(K) COMPENSATED ABSENCES

NPC vacations policy generally provides for the accumulation of thirty (30) days of vacation and eighteen (18) days of sick leave annually. Vacation time is fully vested to the employees from the first day of work. In the event of resignation, an employee is reimbursed for accumulated vacations days up to the maximum allowed of sixty (60) days.

Separation of employment prior to the use of all or part of the sick leave terminates all rights for compensation except that, in the event of retirement, an employee is reimbursed for accumulated sick leave days up to the maximum allowed of ninety (90) days. A liability is reported for accrued but unused vacation and sick leave days.

Compensated absences, such as unpaid vacation and sick leave pay, are accrued when incurred using the pay salary rates in effect at the Statement of Net Position date. An additional amount is incurred for certain salary related benefits associated with the payment of compensated absences.

As per Law No. 156 of August 20, 1996, for fiscal years beginning on July 1, 1997, the employee has the right to accumulate the excess of 60 days of vacations and 90 days of sick leave until December 31st. of each year. Payment should be up to a maximum of 5 days in excess.

(L) NET POSITION CLASSIFICATION

Net position represent the difference between assets and liabilities and are presented in three components as follows:

- **Invested in capital assets, net of related debts** - consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Net position invested in capital assets, net of related debt, is composed of the following:

Capital Assets, Net of Accumulated Depreciation	$163,615,971
Outstanding Balance on Related Debt	(5,841,431)
Total Invested in Capital Assets, Net of Related Debt	$157,774,540

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(L) NET POSITION CLASSIFICATION (CONTINUED)

- **Restricted net position** - consist of net position with constraint placed on the use either by: (1) external groups such as creditors, grantors, contributions, or law or regulations of other government; (2) law through constitutional provisions or enabling legislation, and
- **Unrestricted net position** - consist of all other assets that do not meet the definitions of "restricted" or "invested in capital assets, net of related debts".

(M) RISK MANAGEMENT

NPC is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, errors and omissions, claims from employee injuries and illnesses, natural disasters, environmental and other losses. Commercial insurance coverage, obtained for claims arising from such matters, is negotiated by the Treasury Department of the Commonwealth of Puerto Rico, and the cost is paid by NPC.

(N) RESTRICTED ASSETS

Funds set aside mainly for improvements of capital assets are classified as restricted assets since their use is limited for this purpose by applicable agreements or required by law.

(O) FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

GASB has issued the following pronouncements that for NPC have an effective date after June 30, 2013:

GASB Statement Number 65, "Items Previously Reported as Assets and Liabilities" . The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These determination are based on the definition of those elements in Concepts Statement No. 4 Elements of Financial Statements.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012

GASB Statement Number 67, "Financial Reporting for Pensions Plans - an amendment of GASB Statement No. 25". The objective of this statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pension with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirement of Statement Number 25 "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" and Number 50 "Pension Disclosures—an amendment of GASB Statements No. 25 and Number 27", as they relate to pension plans that are administered though trust or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of both Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(O) FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013.

GASB Statement Number 68, "Accounting and Financial Reporting for Pensions - an amendment of GASB Statement Number 27". The principal objective of this Statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports (financial reports) of governments whose employees, both active employees and inactive employees, are provided with pensions. One aspect of that objective is to provide information about the effects of pension-related transactions and other events on the elements of the basic financial statements of state and local governmental employers. This information will assist users in assessing the relationship between a government's inflows of resources and its total cost (including pension expense) of providing government services each period. Another aspect of that objective is to provide users with information about the government's pension obligations and the resources available to satisfy those obligations.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2014.

NOTE 2 - CUSTODIAL CREDIT RISK - DEPOSITS

The information presented below discloses the level of custodial credit risk assumed by the NPC as of June 30, 2013. Custodial credit risk is the risk that in the event of a financial institution failure, NPC's deposits may not be returned to it.

The Commonwealth of Puerto Rico requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. Funds deposited with the Puerto Rico Governmental Development Bank (GDB) and the Economic Development Bank (EDB), components units of the Commonwealth of Puerto Rico, are not covered by this requirement.

NPC follows GDB's policies for deposits placed with banks, which establish maximum exposure limits for each institution based on the institution's capital, financial condition and credit rating assigned by nationally recognized rating agencies.

As of June 30, 2013, NPC had cash deposits with GDB with a bank balance of approximately $12 millions, which are unsecured and uncollateralized. The depository commercial bank balances as June 30, 2013 amounted to approximately $1.6 millions. The deposits in GDB are exempt from the collateral requirements established by the Commonwealth. In addition, deposits placed with government banks include certificate of deposits and banks accounts amounting to approximately $12 million.

NOTE 2 - CUSTODIAL CREDIT RISK - DEPOSITS (CONTINUED)

The following summarizes cash and cash equivalents as of June 30, 2013:

(A) Unrestricted Cash and Equivalents

Cash	$ 756,888
Excess of Outstanding Checks Over Bank Balance	(103,779)
	$ 653,109

(B) Restricted Cash

Cash in Banks	$ 822,710
Certificates of Deposit	10,702,255
	$ 11,524,965

NOTE 3 - ACCOUNTS RECEIVABLE

As of June 30, 2013 accounts receivable consisted of the following:

Governmental Agencies	$ 172,240
Municipalities	56,602
Other - Private Companies	527,227
	756,069
Less: Allowance for Bad Debt Expense	(202,246)
Accounts Receivable - Net	$ 553,823

NOTE 4 - CAPITAL ASSETS

As of June 30, 2013 major classes of capital assets consisted of the following:

	2012	Additions and Reclassifications	Retirements and Reclassifications	2013
Being Depreciated:				
Buildings and Parks	$ 182,720,096	$ -	$ -	$ 182,720,096
Building Improvements	49,644,217	2,853,841	-	52,498,058
Machinery and Equipment	6,813,568	78,246	-	6,891,814
Motor Vehicles	6,278,803	108,970	-	6,387,773
Animals	733,403	-	-	733,403
	246,190,087	3,041,057	-	249,231,144
Less Accumulated Depreciation and Amortization	(99,822,502)	(6,295,597)	-	(106,118,099)
	$ 146,367,585	$ (3,254,540)	$ -	$ 143,113,045

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	2012	Additions and Reclassifications	Retirements and Reclassifications	2013
Not Depreciated:				
Land	$ 18,557,801	$ -	$ -	$ 18,557,801
Construction in Progress	1,259,618	1,865,290	(1,179,783)	1,945,125
	19,817,419	1,865,290	(1,179,783)	20,502,926
Capital Assets, Net	$ 166,185,004	$ (1,389,250)	$ (1,179,783)	$ 163,615,971

NOTE 5 - SHORT - TERM NOTES

As of June 30, 2013 NPC has three credit line agreements with Governmental Development Bank (GDB) as follows:

- On August 17, 2007, NPC entered in a $10 million credit line agreement with GDB in order to finance an early retirement program in response to the Act No. 70 of June 30, 2007. Borrowings under this credit line agreement bear interest at a fixed rate of 7%. The principal and accrued interest are payable on October 31 of each year until December 31, 2018, the maturity date of the line. The source for the repayment of the principal and interest comes from the revenues collected by NPC during the first four months of the year and will be approximately $1,304,000 from 2010-2011 and thereafter until 2018. As part of the agreement, NPC also transferred two land lots to GDB for the amortization of this debt. The land lots were sold during 2008 and 2012 and the proceeds of the sales were applied to the balance of debt. As of June 30, 2013 this line of credit amounted to $5,409,385.

- On February 6, 2003, NPC entered into a $9,287,428 credit line agreement with GDB in order to finance the improvements to certain parks, seaside facilities and building of NPC. Borrowings under this line of credit bear interest at variable rates (7% as of June 30, 2013). The principal and interest are payable annually and the source of the repayment comes from annual legislative assignments from the "Fondo de Mejoras Publicas". The maturity date of the line is June 30, 2018. As of June 30, 2013 this credit line amounted to $1,117,152. On August 6, 2012 GDB and NPC amend the credit line terms and established the maturity date for June 30, 2040.

- In 2003 NPC entered into $12 million line of credit agreement with GDB in order to finance the acquisition of a land lot named "Parque Capuchino". Borrowings under this line of credit bear interest at variable rates (7% as of June 30, 2013). The principal and interest are payable annually and the source of the repayment comes from annual legislative assignments from the "Fondo de Mejoras Publicas". The maturity date of the line was June 30, 2018. As of June 30, 2013 this credit line amounted to $4,724,279. On August 6, 2012 GDB and NPC amend the credit line terms and established the maturity date for June 30, 2040.

NOTE 5 - SHORT - TERM NOTES (CONTINUED)

As of June 30, 2013, credit lines are summarized as follows:

Description	Balance June 30, 2012	Additions	Payments	Balance June 30, 2013
Credit Line ($12,000,000)	$ 4,766,692	$ -	$ (42,413)	$ 4,724,279
Credit Line ($9,287,428)	1,127,183	-	(10,031)	1,117,152
Credit Line ($10,000,000)	6,279,724	-	(870,339)	5,409,385
	12,173,599	$ -	$ (922,783)	11,250,816
Accrued Interests	315,974			261,104
	$ 12,489,573			$ 11,511,920

NOTE 6 - DUE TO OTHER GOVERNMENTAL ENTITIES

Amount due to the Sports and Recreational Department in the amount of $4,517,124 represents unpaid advances used for salaries and fringe benefits up to June 30, 1990, which is offset with an account receivable, net of an allowance. The accounts receivable is related to utilities paid by NPC on behalf of the Sports and Recreational Department during the years from 1977 through 1998.

Total due from (due to), net, to the Sports and Recreational Department, and to other governmental entities, as of June 30, 2013 is as follows:

Due From the Department	$ 10,037,493
Less: Allowance for Uncollectible Amount	(1,232,982)
	8,804,511
Due To the Department	(13,321,635)
Net Balance - Due to the Department	4,517,124
Other Entities:	
Employee Retirement System	471,742
Puerto Rico Electric Power Authority	2,578,973
Puerto Rico Aqueduct and Sewer Authority	175,893
Total Due to Governmental Entities	$ 7,743,732

NOTE 7 - CHARGES FOR SERVICES FROM THE OPERATION OF RECREATIONAL FACILITIES

The following summarizes charges for services from the operation of recreational facilities and other revenues for the year ended June 30, 2013:

Cabins Rental	$ 4,000,241
Parking	821,096
Sale of Tickets:	
Admission Fees	2,158,458
Lockers	222
Swimming Pool	40,517
Boat Ramp	30,750
Camping	212,714
Rent of Facilities	45,472
Conssecionaires	800,909
Trailers Income	535,951
Other Revenues	338,548
Total	$ 8,984,878

NOTE 8 - PENSION PLAN

(A) Plan Description and Funding Policy

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of NPC under age 55 at the date of employment become members of the System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to Act Number 447, approved on May 15, 1951 as amended, and became effective on January 1, 1952. Disability retirement benefits are available to members for occupational and non occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained age of at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amount of the annuity shall be one an one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case will the annuity be less than $200 per month.

Participants who have completed at least thirty years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability requirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service. No benefits are payable if participant receives a refund of his accumulated contributions.

NOTE 8 - PENSION PLAN (CONTINUED)

(A) Plan Description and Funding Policy (Continued)

Law Number 1 of February 16, 1990, made certain amendments applicable to new participants joining the System effective on April 1, 1990. Changes mainly consisted of an increase of the retirement age to 65 years, the elimination of the Merit Company and a reduction of the percentage for disability and death benefits.

Commonwealth legislation requires employees to contribute 5.775% for the first $6,600 of their annual gross salary ($550 monthly) and 8.275% for the annual salary in excess of $6,600 for the employees hired on or before March 31, 1990. For employees hired on or after April 1, 1990 the required contribution is 8.275% of gross salary. NPC's contributions are 10.275% of gross salary, starting on July 1, 2011 from Law Number 116 (before Law Number 116, contribution was 9.275%).

Law No. 305, that was enacted on September 24, 1999, amended Law Number 447 for the purpose of establishing a new program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system (ERS) as of December 31, 1999, may elect either to stay in the defined-benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, will only be allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan there will be a pool of pension assets, which will be invested by the System, together with those of the current defined-benefit plan. Benefits at retirement age will not be guaranteed by the Government. The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275% up to a maximum of 10%) of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employers' contributions (10.275% of the employees' salary) will be used to fund the current plan. Law Number 116 will require, from July 1, 2012 through June 30, 2016, annual increases in the employer contribution of 1%, and from July 1, 2016 through 2021, annual increases of 1.25%.

On August 12, 2000, the Legislature of Puerto Rico approved Law No. 174. The Act provides to certain employees of the Government of Puerto Rico the option for early retirement. To qualify, the employee should make an election between July 1, 2000 and September 30, 2000, and among other requirements, must have twenty five (25) years of creditable service.

(B) Annual Contributions

Total payroll covered for fiscal year 2013 was approximately $14,942,022. Total approximate employee and employer contributions for the years ended June 30, 2013 are as follows:

Description	Contribution
Employer	$ 1,244,947
Employee	$ 898,266

NOTE 8 - PENSION PLAN (CONTINUED)

(B) Annual Contributions (Continued)

NPC's actual contribution for the current and the previous two fiscal years, which is equal to the required contribution, follows:

Fiscal Years Ended June 30	Amount
2013	$ 1,244,947
2012	$ 1,217,933
2011	$ 859,417

Additional information on the Retirement System is provided in its stand-alone financial statements for the year ended June 30, 2013, a copy of which can be obtained from the Employees Retirement System of the Commonwealth of Puerto Rico and its instrumentalities, PO Box 42004, San Juan, PR 00940-2004.

NOTE 9 - POSTEMPLOYMENT BENEFITS

In addition to the pension benefit described in Note 8, NPC is required to cover annually the increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, NPC is required to finance costs related to the applications of certain "Special laws" issued by the Government of Puerto Rico. Those Special Laws granted increases in pensions and other benefits to retired employees of NPC such as medicines, bonus and death benefits.

NOTE 10 - CONTINGENCIES

(A) LITIGATIONS

NPC is a defendant or a co-defendant in various lawsuits and complaints. NPC's management, after consultation with legal counsel, has made a provision of $2,620,837 for losses on these litigations. However, the ultimate amount payable in excess of the amount provided, if any, cannot be determined.

(B) COMPTROLLER'S OFFICE OF PUERTO RICO REPORTS

NPC is also audited by the Comptroller's Office of Puerto Rico (COPR), who has issued several reports on audits over operations of NPC. The oversight entities, such as the Puerto Rico Department of Justice, are evaluating actions to be taken against NPC and its employees. The financial impact if any of the possible actions to be taken by the oversight entities can not be presently determined.

(C) FEDERAL AWARDS

During the normal course of its operations, NPC receives grants funds from the Department of the Interior, land and water conservation fund. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. As of the basic financial statements date, no audits have been conducted. Nevertheless, any liability for reimbursement which may arise as a result of the audits is not considered by management to have a significant effect in the accompanying financial statements.

NOTE 11 - COLLECTIVE BARGAINING AGREEMENT

The collective bargaining agreement of NPC covers 67.5% of total employees. The agreement entered into effect on September 1, 1997 until August 31, 2011. A new agreement was signed on August 13, 2012 an entered into effect on July 1, 2012 until June 30, 2015. It was stipulated in the bargaining agreement a monthly salary increase of $100 monthly per employee, effective September 1, 2008 and 2009, respectively. NPC guarantees $300 for cost of Medical Plan.

The bargaining agreement also stipulates that if the Commonwealth of Puerto Rico authorizes a higher salary increase, NPC will pay any difference.

NOTE 12 - POST - EMPLOYMENT BENEFITS AND TERMINATION BENEFITS

On July 2, 2010, the Commonwealth of Puerto Rico approved Act Number 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the NPC. Act Number 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of biweekly benefits ranging from 37.5% to 50 % of each employee' salary, as defined. In this early retirement benefits, the NPC will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of creditable services applicable to the Retirement System. Economic incentives are available to eligible employees that have less than 15 years of creditable services or that qualify for retirement benefits. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary. Additionally, eligible employees that choose to participate in this program, other than those who qualify for retirement benefits, are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the NPC's financial statements of a liability of $12,694,945 in the statement of net position as of June 30, 2013 and a charge of $625,074 as Employee Future Benefits in the statement of activities for the year ended June 30, 2013.

NOTE 13 - SUBSEQUENT EVENT

On April 4, 2013, the Legislature of the Commonwealth of Puerto Rico enacted Law Number 3 to amend Act Number 447 of 1951, the Retirement System Act and other Related Laws. The purpose of The Act is to significantly reduce the actuarial and cash deficit of the System. The Act freezes the accrual of benefits of active public employees participating in defined benefit plans under Law Number 447 and Law Number 1. It also increases the retirement age implementing it in a stepped manner. The Act provides for an increase in the employee contribution from 8.275% to at least 10% of their salary. Several special laws that granted additional benefits like summer, christmas and medicine bonuses were amended to eliminate such benefits to future retirees. It also converts the amount of contributions made by employees who participates in the System 2000 to annuity. The Act come into effect on July 1, 2013.

NATIONAL PARKS COMPANY OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

FEDERAL GRANTOR / PASS-THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF INTERIOR			
Land and Water Conservation Grant	15.916	Not Available	$ 1,207,675

See accompanying notes to the Schedule of Federal Awards.

NATIONAL PARKS COMPANY OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of National Parks Company of Puerto Rico, (NPC). The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. NPC reporting entity is defined in Note 1 in the Notes to the Financial Statements on pages 15 through 21. All federal awards received passed-through other government agencies, if any, are included on the Schedule.

NOTE (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This schedule is prepared from NPC's accounting records and is not intended to present financial position or the results of operations. The financial transactions are recorded by NPC in accordance with the terms and conditions of the grants, which are consistent with US GAAP. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE (3) CFDA NUMBER

The CFDA number included in this Schedule were determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogs of Federal Domestic Assistance.

NOTE (4) GENERAL OBJECTIVES

Department of Interior Land & Water Conservation (CFDA #15.916)

Federal Grantor / Pass-Through Grantor

U.S. Department of Interior.

Authorization

Land and Water Conservation Fund Act of 1965.

NATIONAL PARKS COMPANY OF PUERTO RICO

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

NOTE (4) GENERAL OBJECTIVES (Continued)

Objectives

To provide financial assistance to the States and their political subdivisions for the preparation of Statewide Comprehensive Outdoor Recreational Plan and acquisition and development of outdoor recreation areas and facilities for the general public to meet current and future needs.

Type of Assistance

Direct payments for specified use.

Uses and Use Restrictions

Land acquisition and development grants may be used for a wide range of outdoor recreation projects, such as picnic areas, inner city park, campgrounds, tennis courts and support facilities such as roads, water supply and others. Facilities must be open to the general public and not limited to special group.

NOTE (5) MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor Results Section of the Schedule of Findings and Questioned Costs on Pages 37 to 42.

NOTE (6) RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Total Expenditures of Federal Awards (As per Schedule)	$ 1,207,675
Less Amount Reported in the Accompanying Schedule and Not Reported in the Statement of Revenues, Expenses and Changes in Net Position:	
Construction in Progress as Part of Capital Assets	(902,683)
Buildings Improvements as Part of Capital Assets	(113,386)
Plus Amounts Not Reported in the Accompanying Schedule and Reported in the Statement of Activities:	
Repairs and Maintenance Expense incurred with State Funds	1,558,451
Total Repairs and Maintenance Expense As per Statement of Revenues, Expenses and Changes in Net Position:	$ 1,750,057

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

INDEPENDENT AUDITOR'S REPORT

Executive Director
National Parks Company of Puerto Rico
San Juan, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the National Parks Company of Puerto Rico, (from now on NPC) as of and for the year ended June 30, 2013, and the related statements of revenues, expense and change in net position, cash flows and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated November 4, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s basic financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as items #13-02 and #13-03 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as items #13-01, #13-02 and #13-03, to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NPC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs, as item #13-01, #13-02 and #13-03.

NPC's Response to Findings

NPC's response to findings identified in our audit are described in the accompanying schedule of findings and questioned costs, on pages 37 to 42. We did not audit NPC's response and, accordingly, we express no opinion on it.

Purpose of this Report

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

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

November 4, 2013

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

Executive Director
National Parks Company of Puerto Rico
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the National Parks Company of Puerto Rico, (from now on NPC) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of NPC's major federal programs for the year ended June 30, 2013. NPC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Major Federal Program

In our opinion, NPC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

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

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

November 4, 2013

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NATIONAL PARKS COMPANY OF PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2013

Part I - Summary of Audit Results:

Financial Statements

- The independent auditor's report on the basic financial statements expressed an unmodified opinion.
- Control deficiencies in internal control over financial reporting were noted during the audit.
- Instances of noncompliance considered material to the basic financial statements were disclosed by the audit.

Federal Awards

- No control deficiency in internal control over compliance with requirements applicable to major federal awards was identified.
- The independent auditor's report on compliance with requirements applicable to major federal award programs expressed an unmodified opinion.
- The audit disclosed no findings to be reported by OMB Circular A-133, Section 510(a).
- NPC's major award during this year was:

  U.S. Department of the Interior - Land and Water Conservation Fund - CFDA # 15.916

- A threshold of $300,000 was used to distinguish between type A and type B programs, as those terms are defined in OMB Circular A-133, Section 520 (a).
- NPC does not qualify as a low risk auditee, as that term is defined in OMB Circular A-133, Section 530.

Part II - Findings Related to the Financial Statements:

Finding Number 13-01: Recording and Accountability for Capital Assets

CONDITION: As of financial statement date, there is no procedure for reconciling detailed fixed asset records to the general ledger on a regular basis. The lack of such procedures has led to inaccurate reporting of fixed asset cost and depreciation expenses in prior years financial statements. Capital assets, particularly land lots and the amount of construction in progress for the buildings and facilities in construction stages and improvements and their related accumulated depreciation, are not

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Part II - Findings Related to the Financial Statements: (Continued)

Finding Number 13-01: Recording and Accountability for Capital Assets (Continued)

accurately maintained. Also, NPC does not maintain a specific capital assets subsidiary for land, for which as of financial statement date presents a balance of $18,557,801.

Criteria: Management of NPC should maintain effective control and accountability for all capital assets of the entity. As an appropriate internal control procedure a complete set of records should be maintained in order to assure all balances are correct, properly recorded and depreciated.

Cause: We believe the main reason contributing to this condition is the lack of reconciliation. This lack of reconciliation led to the inability to determine accurate capital assets balances and their related accumulated depreciation. We strongly suggest that procedures be established to ensure that capital assets accounts are reconciled between the General Ledger and the subsidiaries on a consistent and timely basis.

Effect: Accurate and complete financial information of capital assets is not available, unless obtained or recomputed using alternate methods. This resulted in an overstatement in capital assets accounts.

Recommendation: To prevent the need for major adjustments to the property accounts at the end of each fiscal year, we suggest that the general ledger capital assets asset accounts be reconciled to the detailed records on a monthly basis, or at any other specified time frame. For the 2009 audit, alternate procedures were performed to recompute, restore and correct capital assets balances, and their related accumulated depreciations.

Management Response: Management agrees with the finding. They will implement a procedure for the reconciliation of fixed asset records to the general ledger on a monthly basis, including the amount of construction in progress for the buildings and facilities in construction stages and improvements and their related accumulated depreciation. Also, they will maintain a specific capital assets subsidiary for land. The person in charge of these procedures will be NPC's Director of Administration.

Finding Number 13-02: Accounts Receivable Reconciliation with General Ledger

Condition: We noted that the accounts receivable subsidiary of NPC is not routinely reconciled to the general ledger. This procedure serves as a check on the accuracy of the record keeping process and maintains the accounts receivable on a more timely and accurate basis. The detail listing of accounts receivable should be reconciled to the general ledger control accounts at the end of each month, or at any other specified time frame. Any differences should be investigated and resolved as soon as possible.

Criteria: Sound management procedures requires that all accounts be verified against their monthly subsidiaries and general ledger, when performing monthly accounting procedures.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Part II - Findings Related to the Financial Statements: (Continued)

Finding Number 13-02: Accounts Receivable Reconciliation with General Ledger (Continued)

Cause: We believe the main reason contributing to this condition is the lack of reconciliation. This lack of reconciliation led to the inability to determine precise accounts receivable balances and to assess accounts aging.

Effect: Complete and accurate financial information on accounts receivables is not available unless obtained or recomputed using alternate methods.

Recommendation: We suggest that the accounts receivable subsidiary be reconciled to the general ledger on a monthly basis to prevent this type of discrepancies in the future. Monthly aging of accounts receivable should be prepared as well to facilitate follow-up on old, uncollected accounts, for proper adjustment of allowances.

Management Response: Management agrees with the finding. They will implement an accounts receivable subsidiary and will be reconciled to the general ledger on a monthly basis to prevent and timely correct type any discrepancies. Monthly aging of accounts receivable will be be prepared as well to follow-up on uncollected accounts, and to take immediate action. The person in charge of these procedures will be the accounting manager of NPC.

Finding Number 13-03: Documents Not Available on Employee Files

Condition: We selected 25 employee files for examination. We noted the following documents were either not included or not appropriately filed:

1. Form I-9 "Employment Eligibility Verification" from the Department of Homeland Security, U.S. Citizenship and Immigration Services was not complete in all parts (for 12 employee files),
2. Documentation in employee file incomplete for one or more of the following:
    a. Physical examination or health certificate (for 6 employee files)
    b. New certificate of exemptions from Treasury Department revised as of 6/30/2011 (for 3 employee files), and
    c. Beneficiary designation for retirement (6 employee files)

Criteria: To comply with NPC's internal controls related to required documents to be included on employee files and with applicable laws and regulations.

For Form I-9, employers must complete it for all newly hired employees to verify their identity and authorization to work in the United States, including a list of approved documents that employees can present to verify their identity and employment authorization.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Part II - Findings Related to the Financial Statements: (Continued)

Finding Number 13-03: Documents Not Available on Employee Files (Continued)

For form 499 R-4.1 "Withholding Exemption Certificate" the employee must complete this form and submit it to the employer. Otherwise, the employer is required to withhold income taxes without taking into consideration the employees personal exemption, exemption for dependents and allowance based on deductions, pursuant to the Internal Revenue Code of Puerto Rico (Code). In addition, with the approval of the new Internal Revenue Code on January 31, 2011, form 499 R-4.1 was revised to adjust it to the changes brought by the new code.

Cause: NPC does not have in operation an appropriate internal control procedure to assure that all these forms are properly completed and included in employee files, and updated periodically.

Effect: For Form I-9 the U.S. Citizenship and Immigration Services could perform random inspections and fine from $100 to $1,100 per missing I-9 forms and documents and, if the problem is persistent, the fine could increase up to $11,000 per employee. For form 499 R-4.1 "Withholding Exemption Certificate TD could impose penalties for each employee for which withholdings are being made and for whom the form was not prepared and included in their file.

Recommendation: The implementation of an internal control procedure requiring a checklist to be reviewed each time an employee is hired, and when an employee file is updated, to assure all required documents are available. Also, to schedule reviews of employee files for updating purposes.

Management Response: Management agrees with the finding. They will implement an internal control procedures in order to review the employees files and update the employee files.

Part III - Findings and Questioned Costs Related to Federal Awards:

Presentation follows compliance requirements included in the Compliance Supplement of OMB Circular A-133 "Audits of States, Local Governments, and Non-profit Organizations".

A - Activities Allowed or Unallowed

None.

B - Allowable Costs/Costs Principles

None.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Part III - Findings and Questioned Costs Related to Federal Awards (Continued):

C - Cash Management

Not applicable

D - Davis - Bacon Act

Not applicable

E - Eligibility

Not applicable

F - Equipment and Real Property Management

None.

G - Matching, Level of Effort and Earmarking

Not applicable.

H - Period of Availability of Federal Funds

None.

I - Procurement and Suspension and Debarment

None.

J - Program Income

None.

K - Real Property Acquisition and Relocation Assistance

Not Applicable.

L - Reporting

None.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Part III - Findings and Questioned Costs Related to Federal Awards: (Continued)

M - Subrecipient Monitoring

Not Applicable.

N - Special Test and Provisions

None.

COMMONWEALTH OF PUERTO RICO

NATIONAL PARKS COMPANY OF PUERTO RICO

SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2013

Accounting Records (Condition and criteria as presented in Financial Statements as of June 30, 2012)

FINDING NUMBER 12-01: Recording and Accountability for Capital Assets (also included as finding 11-01 and 9-01)

CONDITION: As of financial statement date, there is no procedure for reconciling detailed fixed asset records to the general ledger on a regular basis. The lack of such procedures has led to inaccurate reporting of fixed asset cost and depreciation expenses in prior years financial statements. Capital assets, particularly land lots and the amount of construction in progress for the buildings and facilities in construction stages and improvements and their related accumulated depreciation are not accurately maintained. Also, NPC does not maintain a specific capital assets subsidiary for land, for which as of financial statement date presents a balance of $18,557,801.

Criteria: Sound management procedures requires that all accounts be verified against their monthly subsidiaries and general ledger, when performing monthly accounting procedures.

STATUS: Condition Continued.

Finding Number 12-02: Accounts Receivable Reconciliation with General Ledger (also included as finding 11-02 and 9-02)

Condition: We noted that the accounts receivable subsidiary of NPC is not routinely reconciled to the general ledger. This procedure serves as a check on the accuracy of the record keeping process and maintains the accounts receivable on a more timely and accurate basis. The detail listing of accounts receivable should be reconciled to the general ledger control accounts at the end of each month, or at any other specified time frame. Any differences should be investigated and resolved as soon as possible.

Criteria: Sound management procedures requires that all accounts be verified against their monthly subsidiaries and general ledger, when performing monthly accounting procedures.

STATUS: Condition Continued.