CORPORACÍON DEL PROYECTO ENLACE
DEL CAÑO MARTÍN PEÑA
(A COMPONENT UNIT OF THE
COMMONWEALTH OF PUERTO RICO)

FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Llavona - Casas, CPA PSC

Certified Public Accountants and Consultants

CORPORACÍON DEL PROYECTO ENLACE DEL CAÑO MARTÍN PEÑA
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

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Certified Public Accountants and Consultants

Members of:
Puerto Rico Society of Certified Public Accountants
American Institute of Certified Public Accountants
Association of Certified Fraud Examiners

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Corporación del Proyecto Enlace del Caño Martin Peña

We have audited the accompanying financial statements of the governmental activities of the Corporación del Proyecto Enlace del Caño Martin Peña ("the Corporation"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2012, which collectively comprise the Corporation basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Corporation. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Corporation as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 8 and is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

San Juan, Puerto Rico
September 27, 2012

LLAVONA - CASAS, CPA PSC
Licencia Número. 226
Expira el 31 de diciembre de 2012

The stamp number E35805
was affixed to the
original report.

LLAVONA-CASAS CPA, P.S.C.
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CORPORACÍON DEL PROYECTO ENLACE DEL CAÑO MARTÍN PEÑA
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

MANAGEMENT DISCUSSION AND ANALYSIS[1]
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The management of the Corporación del Proyecto Enlace del Caño Martin Peña ("the Corporation") provides this Management's Discussion and Analysis ("MD&A") for the readers of the Corporation's basic financial statements. This MD&A provides a narrative overview and analysis of the financial activities of the Corporation for the fiscal year ended June 30, 2012, and is intended to serve as an introduction to the basic financial statements, which have the following components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. The MD&A is designed to: (a) assist the reader in focusing on significant financial matters; (b) provide an overview of the Corporation's financial activities; (c) identify any material changes from the original budget; and (d) highlight individual fund matters. We encourage readers to review this information together with the Corporation's basic financial statements that follow.

FINANCIAL HIGHLIGHTS

General Fund Highlights

- Total General Fund actual revenues on a budget basis (excluding other financing sources) for fiscal year 2012 amounted to $1,026,546, representing an increase of $346 from original budgeted revenues.

- Total expenditures of $1,215,894 represented an increase of $108,114 or 9.8% from 2011 actual expenditures on a budget basis.

- The General Fund balance for fiscal year 2012 was reduced by $189,348, a 16% reduction in the General Fund when compared to fiscal year 2011.

Government-Wide Highlights

- The Corporation reported net assets at year-end of $6,163,206, comprised of $6,356,228 in total assets offset by $191,022 in total liabilities.

- The Corporation's net assets at year end increased by $907,347 as a result of this year's operations.

- Total liabilities at year end were $191,022 in governmental activities.

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[1] The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Corporation's management. The independent auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. Therefore, the independent auditors did not audit such information and did not express an opinion on it.

- The Corporation's governmental activities had total revenues of $5,806,186, which were more than total expenses of $4,898,838.

General Fund Budgetary Highlights

The Corporation's budget is approved by its Board of Directors. The only budgeted fund is the General Fund which budget was established and amended during the year to recognize the planned expenditures and additional information became known during the fiscal year.

MAJOR FINANCIAL ELEMENTS

Revenues

The General Fund is the primary operating fund of the Corporation. General Fund revenues are broadly based on appropriations from the Commonwealth of Puerto Rico's general fund and proceeds from joint resolutions for capital improvements.

Expenditures

Expenditures consist principally of grants and subsidies, personal services, other services, materials and supplies, equipment purchases, capital outlays, debt service and transfers.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's basic financial statements comprise three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains additional required supplementary information in addition to the basic financial statements themselves. These components are described below.

The basic financial statements include two kinds of financial statements that present different views of the Corporation, the government-wide financial statements and the fund financial statements. These financial statements also include the notes to the basic financial statements that explain some of the information in the financial statements and provide more detail.

Government-wide Financial Statements

The government-wide financial statements provide a broad view of the Corporation's operations in a manner similar to a private sector business. The statements provide both short and long-term information about the Corporation's financial position, which assists in assessing the Corporation's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting.

This basically means they follow methods that are similar to those used by most businesses. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

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

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related governmental requirements. The fund financial statements focus on individual parts of the Corporation government, reporting the Corporation's operations in more detail than the government-wide financial statements. All of the funds of the Corporation are classified as governmental funds.

The services provided by the Corporation are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short term view of the Corporation's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Corporation. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities.

These reconciliations are presented on the page immediately following each governmental fund financial statement.

The Corporation has two major governmental funds. That is, each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances (deficit). The Corporation's two major governmental funds are the General Fund and the Capital Improvement Fund. The remaining nonmajor governmental funds are grouped and presented in a single column in the governmental funds financial statements. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

The Corporation adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The statement of revenue and expenditures - budget and actual - budget basis - general fund only presents the information for the general fund for which there is a legally adopted budget, as required by GAAP. See note A to the Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - General Fund for a reconciliation of the statement of revenue and expenditures - budget and actual - budget basis - general fund with the statement of revenues, expenditures, and changes in fund balance (deficit) for the general fund.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following Reconciliation of Revenues, Expenditures and Fund Balances of Governmental Funds to the Statement of Activities.

Required Supplementary Information

The basic financial statements include a section of required supplementary information immediately following its notes. This section includes a supplemental schedule of expenditures by budget and actual budget basis-general fund.

GENERAL FUND FINANCIAL ANALYSIS

Total General Fund revenues for fiscal year 2012 were $1,026,546, which was in line with actual revenues for fiscal year 2011 and the estimated revenues for fiscal year 2012. Total expenditures for fiscal year 2012 were approximately $1,215,894 and represented a decrease of approximately $569,491 or 32% of original budgeted expenditures and exceeded total General Fund revenues by $189,348, or 18%.

The difference between total expenditures and total General Fund revenues is referred to herein as "excess of expenditures over revenues". For fiscal year 2012, the excess of expenditures over revenues of $189,348 represents an increase of 2.28 times of the excess of expenditures over revenues for fiscal year 2011.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. Total assets and total liabilities of the Corporation at June 30, 2012 amounted to $6,354,228 and $191,022, respectively, for net assets of $6,163,206, compared to net assets of $5,255,859 at the beginning of the current year.

A portion of the Corporation's net assets reflects its investment in capital assets such as land, buildings, and equipment. The Corporation uses these capital assets to provide services to the residents; consequentially, these assets are not available for future spending.

Total assets increased by $877,122 during fiscal year 2012 when compared to the prior fiscal year. This decrease is mainly to the increase in land and relocation properties of $391,483 and $790,177, respectively. Total liabilities decreased by $30,225 during the current fiscal year when compared to the prior fiscal year.

Summary of Net Assets

	2012	2011
Assets		
Current assets	$ 1,084,665	$ 1,339,180
Capital assets, net of accumulated depreciation	5,268,914	4,128,674
Prepaid assets	649	9,252
Total assets	$ 6,354,228	$ 5,477,106
Liabilities and Net Assets		
Current liabilities	$ 191,022	$ 221,247
Invested in capital assets	5,268,914	4,128,674
Net Assets - restricted	34,750	34,750
Net Assets - unrestricted	859,542	1,092,345
Total liabilities and net assets	$ 6,354,228	$ 5,477,016

Changes in Net Assets

The Corporation's net assets increased by $907,347 or 17% from last year's total net assets. Approximately 18% of the Corporation's total revenue came from legislative appropriations, while the remaining 82% resulted from joint resolutions for capital improvements.

The Corporation's largest expenses were for salaries, professional services, and acquisition and relocation, which presented a combined increase of 29% when compared with prior fiscal year.

Changes in of Net Assets

	2012	2011
Program Revenues - General Fund	$ 1,019,000	$ 1,019,000
Program Revenues - Capital Improvement Fund	4,779,640	7,659,671
Other Revenues	7,546	5,866
Total Revenues	5,806,186	8,684,537
Expenses	4,898,839	6,127,077
Changes in Net Assets	$ 907,347	$ 2,557,460

GOVERNMENTAL FUNDS

The focus of the Corporation's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Corporation's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of fiscal year 2012, the Corporation's governmental funds reported combined ending fund balance of $996,595. The expenditures exceeded the revenues by $189,348. This year, the excess of expenditures over revenue increased by $106,434 compared with the prior year.

There is a restricted fund balance of $34,750, which indicates that it is not available for new spending because it has already been committed for loans to small businesses.

The general fund is the chief operating fund of the Corporation. At the end of the current fiscal year, the total unassigned fund balance of the general fund was $803,774. The fund balance of the Corporation's general fund decreased by $189,348 as a result of the current fiscal year's change in financial position. This is a 16% decrease when compared to total general fund balance reported in fiscal year 2011.

CAPITAL ASSETS

The Corporation's investment in capital assets for its governmental activities as of June 30, 2012 amounts to $5,561,265, less accumulated depreciation and amortization of $242,351, leaving a book value of $5,268,914. This investment in capital assets includes land, construction in progress, buildings, building improvements and equipment as infrastructure.

Depreciation Expense

This expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with generally accepted accounting principles (GAAP), depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2012, $66,451 was recorded for depreciation expense in the statement of activities.

Capital Outlay Acquisitions

For the fiscal year ended June 30, 2012, expenditures totaling $1,206,691 were capitalized and recorded as assets of the Corporation. These additions to the Corporation's capital assets will be depreciated over time as described above. The net effect of the new capital assets and the current year's depreciation is an increase to capital assets in the amount of $1,140,240 for the fiscal year ended June 30, 2012.

Additional information on the Corporation's capital assets can be found in note A to the basic financial statements that accompany this report.

Requests for Information

This financial report is designed to provide a general overview of the Corporation's finances for all those with an interest in the Corporation's finances. If you have questions about this report, please contact, Corporación del Proyecto Enlace del Caño Martín Peña to the following address:

Physical Address:

Avenida Ponce de León No. 1957
San Juan, Puerto Rico

Postal Address:

Apartado Postal 41308
San Juan, PR 00940-1308

CORPORACÍON DEL PROYECTO ENLACE DEL CAÑO MARTÍN PEÑA
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
ASSETS	
Cash	$ 359,350
Accounts receivable	725,315
Prepaid expenses	649
Capital assets:	
Land	3,774,291
Building	397,893
Relocation properties	990,601
Office equipment and furniture	104,480
Computer and communication equipment	72,154
Computer programs	128,762
Vehicles	43,083
Less: accumulated depreciation	(242,350)
Net capital assets	5,268,914
Total Assets	$ 6,354,228
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	14,390
Accrued liabilities	74,329
Long term liabilities - compensated absences	
Due within one year	63,489
Due in more than one year	38,814
Total Liabilities	191,022
Net assets:	
Invested in capital assets	5,268,914
Restricted	34,750
Unrestricted	859,542
Total Net Assets	6,163,206
TOTAL LIABILITIES AND NET ASSETS	$ 6,354,228

The accompanying notes are an integral part of the basic financial statements.

CORPORACÍON DEL PROYECTO ENLACE DEL CAÑO MARTÍN PEÑA
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

		Program Revenues		Net (expenses) revenues and changes in net assets
Activities:	Expenses	Operating Grants	Capital Grants	Governmental Activities
Governmental:				
Legislative appropriations	$ 1,291,882	$ 1,019,000	$ -	$ (272,882)
Joint resolutions for capital improvements	3,606,957	-	4,779,640	1,172,683
	$ 4,898,839	$ 1,019,000	$ 4,779,640	899,801
General revenues:				
Interest				6,591
Other				955
Change in net assets				907,347
Net assets - beginning				5,255,859
Net assets - ending				$ 6,163,206

The accompanying notes are an integral part of the basic financial statements.

CORPORACÍON DEL PROYECTO ENLACE DEL CAÑO MARTÍN PEÑA
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2012

	General Fund	Capital Improvements Fund	Other Funds	Total Governmental Funds
ASSETS				
Cash	$ 324,231	$ -	$ 35,119	$ 359,350
Accounts receivable	725,315	-	-	725,315
Prepaid expenses	649	-	-	649
Total Assets	$ 1,050,195	$ -	$ 35,119	$ 1,085,314
LIABILITIES				
Accounts payable	$ 14,390	$ -	$ -	$ 14,390
Accrued liabilities	74,329	-	-	74,329
Total Liabilities	88,719	-	-	88,719
FUND EQUITY				
Fund balance:				
Assigned	157,702	-	-	157,702
Restricted	-	-	34,750	34,750
Unassigned	803,774	-	369	804,143
Total fund balance	961,476	-	35,119	996,595
Total Liabilities and Fund Balance	$ 1,050,195	$ -	$ 35,119	$ 1,085,314

The accompanying notes are an integral part of the basic financial statements.

CORPORACÍON DEL PROYECTO ENLACE DEL CAÑO MARTÍN PEÑA
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

RECONCILIATION OF GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2012

Total Governmental Fund Balance		$ 996,595
Amounts reported for governmental activities in the Statements of Net Assets are different because:		
Capital assets and unamortized expenses used in governmental activities are not financial resources and are not reported in the governmental funds balance sheet:		
Cost of capital assets	$ 5,511,264	
Accumulated depreciation	(242,350)	5,268,914
Long term liabilities are not due and in the current period and, therefore, are not reported in the funds:		
Compensated absences are included as a liability		(102,303)
Net Assets of Governmental Activities		$ 6,163,206

The following notes are an integral part of the financial statements.

CORPORACÍON DEL PROYECTO ENLACE DEL CAÑO MARTÍN PEÑA
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Capital Improvements Fund	Other Funds	Total Governmental Fund
REVENUES				
Legislative appropriations	$ 1,019,000	$ -	$ -	$ 1,019,000
Joint resolutions for capital improvements	-	4,779,640	-	4,779,640
Interests	6,591	-	-	6,591
Other	955	-	-	955
Total Revenues	1,026,546	4,779,640	-	5,806,186
EXPENDITURES				
Salaries	553,343	-	-	553,343
Professional services	292,174	1,344,630	-	1,636,804
Insurance	34,666	-	-	34,666
Community development activities	40,030	-	-	40,030
Payroll taxes	54,238	-	-	54,238
Benefits	65,971	-	-	65,971
Supplies	7,382	-	-	7,382
Auto	5,565	-	-	5,565
Utilities	49,110	-	-	49,110
Rent of office equipment	8,657	-	-	8,657
Repairs and maintenance	24,234	-	-	24,234
Acquisition and relocation	-	2,253,350	-	2,253,350
Capital outlays	25,031	1,181,660	-	1,206,691
Other	55,493	-	-	55,493
Total Expenditures	1,215,894	4,779,640	-	5,995,534
Excess of expenditures over revenues	(189,348)	-	-	(189,348)
Fund balance - beginning of year	1,150,824	-	35,119	1,185,943
Fund balance - ending of year	$ 961,476	$ -	$ 35,119	$ 996,595

The accompanying notes are an integral part of the basic financial statements.

CORPORACÍON DEL PROYECTO ENLACE DEL CAÑO MARTÍN PEÑA
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Excess of expenditures over revenues - total governmental funds	$ (189,348)
Amounts reported for governmental activities in the Statement of activities are different because:	
Governmental funds reports capital assets outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Capital outlays	1,206,691
Current year depreciation	(66,451)
	1,140,240
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:	
Compensated absences	(43,545)
Change in net assets of governmental activities	$ 907,347

The accompanying notes are an integral part of the basic financial statements.

CORPORACÍON DEL PROYECTO ENLACE DEL CAÑO MARTÍN PEÑA
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2012

Description	Original Budget	Final Budget	Actual	Variance
Fund balance, July 1, 2011	$ 1,150,824	$ 1,150,824	$ 1,150,824	$ -
Revenues:				
Legislative appropriations	1,019,000	1,019,000	1,019,000	-
Earnings on deposits	7,200	7,200	6,591	(609)
Other	-	-	955	955
Total Revenues	1,026,200	1,026,200	1,026,546	346
Total Available Resources	2,177,024	2,177,024	2,177,370	346
Expenditures:				
Salaries	549,883	549,403	553,343	(3,940)
Professional services	667,192	639,701	392,446	247,255
Insurance	28,350	27,590	35,467	(7,877)
Payroll taxes	61,140	61,513	54,238	7,275
Benefits	81,081	79,646	65,971	13,675
Supplies	13,811	12,561	19,234	(6,673)
Auto	4,438	538	6,324	(5,786)
Utilities	60,480	64,380	52,760	11,620
Repairs and maintenance	61,705	46,397	28,337	18,060
Capital outlays	11,200	79,849	25,031	54,818
Other	47,555	252,042	75,673	176,369
Special projects	198,550	246,244	64,772	181,472
Total expenditures	1,785,385	2,059,864	1,373,596	686,268
Fund balance, June 30, 2012	$ 391,639	$ 117,160	$ 803,774	$ 686,614

The accompanying notes are an integral part of the basic financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Corporación del Proyecto Enlace del Caño Martín Peña (the "Corporation") was created under Law No. 489 of September 24, 2004 ("Ley para el Desarrollo Integral del Distrito de Planificación Especial del Caño Martin Peña"). The Corporation's Board of Directors consists of thirteen members, seven (7) appointed by the Governor of Puerto Rico and six (6) appointed by the Mayor of the Municipality of San Juan. The Corporation's reporting entity does not contain any component units as defined in Governmental Accounting Standard Board No. 14.

The financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

In June 1999, the GASB issued Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments" which affects the way the Corporation prepares and presents financial information. This Statement, which establishes new requirements and a new reporting model for the annual reports of state and local governments, was developed to make annual reports easier to understand and more useful to the people who use the governmental financial information to make decisions.

The Corporation has prepared required supplementary information titled Management's Discussion and Analysis, which precedes the basic financial statements.

Other GASB Statements are required to be implemented in conjunction with GASB 34. Therefore, the Corporation has implemented in the current fiscal year GASB Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions"*.

Financial Reporting Entity

The accompanying financial statement includes the organization units governed by the Executive officers of the Corporation. In evaluating the Corporation as a reporting entity, management has addressed the entire potential component unit.

The basic criteria for including a potential component unit within the reporting entity is if potential component unit are financially accountable and other organization for which the nature and significance of their relationship with the entity are that exclusion would cause the Corporation's Financial Statement to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

These criteria include appointing a voting majority of an organization's governing body and (1) ability to the Corporation to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Corporation.

The relative importance of each criteria must be evaluate in light of specific circumstances in order to determine which components unit are to be included as part of the reporting entity. Our specific evaluation of the criteria applicable to the Corporation indicates that no organization meet the criteria to be included as component units. Accordingly, these basic financial statements present only the Corporation as the reporting entity.

Basis of presentation, measurement focus and basis of accounting

The financial report of the Corporation consists of a Management Discussion and Analysis (MD&A), basic financial statements, notes to the financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus:

Management Discussion and Analysis

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

Basic Financial Statements

Basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type.

Government-Wide tatements

The government wide financial statements (the statement of net assets and the statement of activities) report information of all of the nonfiduciary activities of the Corporation and its component units. For the most part, the effect of interfund activity has been removed from these government wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable. The statement of net assets presents the reporting entities' nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in Capital Assets, Net of Related Debt - These consist of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

- Restricted Net Assets - These result when constraints placed on the net 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 Assets - These consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

When both restricted and unrestricted resources are available for use, generally, it is the Corporation's policy to use restricted resources first, then the unrestricted resources as they are needed. The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenue includes grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The appropriations from the Legislature of Puerto Rico are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- Employees' vested annual vacation and sick leave are recorded as expenditures when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2012 has been reported only in the government wide financial statements.

- Executory purchase orders and contracts are recorded as a reservation of fund balance.

Fund Accounting

The Corporation reports its financial position and results of operations in funds, which are considered separate accounting entities, and discrete presentations of those component units, which are not required to be blended. The operations of each fund are accounted for within a set of self balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. Major funds are determined using a predefined percentage of the assets, liabilities, revenue, or expenditures/expenses of either the fund category or the governmental and enterprise funds combined. The nonmajor funds are combined in a single column in the fund financial statements. The Corporation reports the following major governmental funds:

General Fund - Accounts for all financial resources except those required in another funds.

Capital Improvements Fund - Accounts for the funds received in accordance with the joint resolution number 379 of December 21, 2005 and joint resolution number 116 of July 23, 2007 for the development of construction and canalization projects in the Caño Martín Peña area.

Other Funds - Accounts for two donations received in prior years in the amounts of $12,000 and $22,750 plus interests earned. The first donation was received with the purpose of being used for loans to community business. The second donation is to be used in establishing a directory of community business.

Deposits

Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. As of June 30, 2012 a total amount of $772,119 is deposited in excess of federal deposit insurance.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

Receivables are recorded in the General Fund and are considered collectible; accordingly, no provision for doubtful account has been established.

Inventories

Generally, inventories are valued at cost and predominantly on the first in, first out basis. Governmental fund inventories are recorded as expenditures when purchased rather than capitalized as an asset. Only significant amounts of inventory at the end of the year are capitalized in the governmental funds. However, inventories are always capitalized in the statement of net assets of governmental activities.

Capital Assets

Property and equipment purchased or acquires is carried at historical cost or estimated historical cost. The Corporation's capitalization policy is to capitalize individual amounts exceeding $500. Other cost incurred for repair and maintenance is expensed as incurred.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government wide financial statements. Depreciation on all assets is provided on the straight-line basis over the assets' estimated useful life. There is no depreciation recorded for land and construction in progress. The estimated useful life of capital assets is as follows:

Building	33 years
Office equipment	10 years
Vehicles	3 years
Computer programs	6 years
Computer equipment	6 years

Compensated Absences

The Corporation accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Corporation's employees are granted vacations and sick leave as follows:

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED)

Vacations

Period of Service	Monthly Accrual	Maximum Annual Balance
One or less	1.25 days	15 days
More than one, less than four	1.75 days	42 days
Four and over	2.00 days	48 days

Accrued days in excess of 60 days are paid.

Sick Leave

The employee accrue one point twenty five (1.25) days monthly, equivalent to fifteen (15) days annually. The excess of 48 accrued days is paid to the employee. The excess of 60 days is paid to the employee.

Separation from the employment prior to the use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of services who are entitled to sick leave pay up to the maximum allowed. The Corporation accrues a liability for compensated absences which meet the following criteria:

1. The Corporation's obligations relating to employee's rights to receive compensation for future absences are attributable to employee's services already rendered.

2. The obligation relates to right that vest or accumulate.

3. Payment of the compensation is probable.

4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASB No. 16; the Corporation has accrued a liability for compensated absences, which has been earned but not taken by Corporation's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following years. For the governmental funds statements, the current portion for compensated absences is only considered and represents a reconciling item between the fund level and government-wide presentation. Accrued compensated absences for the fiscal year ended June 30, 2012 amounted to $102,303.

Reclassifications

Certain reclassifications have been made to the information presented in the financial statements in conformity with GAAP.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Encumbrances

Encumbrance accounting is employed in the governmental fund types. Under the encumbrance system all purchases orders, contracts and other commitments issued for goods and services not received at the year-end are recorded in order to reserve that portion of the applicable appropriation.

Net Assets and Reservations of Fund Balance

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislations of other governments that relate to specific projects of the Corporation. Net assets not reported as invested in capital assets, net of related debt or as restricted, are reported as unrestricted.

Fund Balance Categories

The GASB Statement No, 54 "Fund Balance Reporting and Governmental Fund Type Definitions" establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources in governmental fund. The fund balance categories are the following: Non-Spendable - are balances in permanent funds and inventories that are permanently precluded from conversion to cash.

Restricted - requires that inflows and outflows of resources and balances be constrained to specific purpose by enabling legislation, external parties or constitutional provisions.

Committed - are those balances with constraints imposed by the government using the highest level of decision-making authority. The constraint can only be removed or changed by the same decision-making authority taking the same type of action.

Assigned - are amounts intended for a specific purpose by a government's management (department/agency heads and other signatory authorities) and are also appropriations of existing fund balances.

Unassigned - are amounts available for any purpose. They are not precluded by a management decision, law or constitutional provision in the general fund.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of the financial statements in conformity with accounting principle generally accepted in the United States of America requires management to make estimates and assumption that affect the reported amounts of assets and liabilities at the date of the basis financial statements and the reported amounts of revenues and expenses during the reporting period. Actual result count differs from those estimates.

Future Adoption of Accounting Pronouncements

The GASB has issued the following accounting standards that have effective dates after June 30, 2012:

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. This statement is effective for periods beginning after June 15, 2012.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The requirements of this Statement are effective for periods beginning after December 15, 2011.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This statement is effective for periods beginning after December 15, 2011.

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. This statement is effective for periods beginning after June 15, 2012.

- GASB Statement No. 65, *Items Previously Reported As Assets and Liabilities*. This statement is effective for periods beginning after December 15, 2012.

- GASB Statement No. 66, *Technical Corrections 2012 - an Amendment of GASB Statements No. 10 and No. 62*. This statement is effective for periods beginning after December 15, 2012.

The impact of these statements on the Corporation's basic financial statements has not yet been determined.

NOTE B - BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The statement of revenue and expenditures - budget and actual - budget basis - general fund only presents the information for the general fund for which there is a legally adopted budget, as required by GAAP. It presents comparisons of the legally adopted budget with actual data on a budget basis.

The Corporation's budget is prepared for the Governmental Fund following state requirements. Budget amendments are approved by the Board of Directors. The budget is prepared on a budgetary (statutory) basis of accounting which is different from GAAP. Revenues include amounts classified by GAAP as other financing sources and is generally recognized when cash is received. Expenditures include encumbrances and amounts classified by GAAP as other financing uses and are generally recorded when the related expenditure is incurred or encumbered. The unencumbered balance of any appropriation of the general fund at the end of the fiscal year lapses immediately. Appropriations, other than in the general fund, are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

On a GAAP basis, encumbrances outstanding at year end are reported in the governmental funds statements as a reservation of fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of current year. On the other hand, under the statutory basis of accounting, the Corporation uses encumbrance accounting to record the full amount of purchase orders, contracts, and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control.

The presentation of the budgetary data excludes long-term obligations such as compensated absents and depreciation charges for capital assets. Historically, those obligations have been budgeted on a pay as you go basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity, timing, and basis differences in the excess (deficiency) of revenue and other financing sources over expenditures and other financing uses for the year ended June 30, 2012 is presented below for the general fund:

Budgetary basis fund balance	$ 803,774
Encumbrances	157,702
GAAP basis fund balance	$ 961,476

NOTE C - ACCOUNTS RECEIVABLE

Accounts receivable consists of interest receivable resulting from an agreement with the Puerto Rico Highways and Transportation and Authority (PRHTA) and relocation expenses to be reimbursed by the Puerto Rico Treasury Department in the amount of $200,031 and $525,824, respectively.

NOTE D - CAPITAL ASSETS

The capital assets activity for the year ended June 30, 2012 was as follows:

Description	Beginning Balance	Additions	Ending Balance
Land	$ 3,382,808	$ 391,483	3,774,291
Building	397,893	-	397,893
Relocation properties	200,424	790,177	990,601
Office equipment and furniture	96,064	8,416	104,480
Computer and communication equipment	63,398	8,756	72,154
Computer programs	120,903	7,859	128,762
Vehicles	43,083	-	43,083
Total Historical Cost	4,304,573	1,206,691	5,511,264
Less: Accumulated Depreciation	(175,899)	(66,451)	(242,350)
Net Capital Assets	$ 4,128,674	$ 1,140,240	$ 5,268,914

Depreciation expense was charged to governmental administration function as an administrative expenditure for a total amount of $66,451.

NOTE E - RETIREMENT PLAN

Plan Description

Regular employees of the Corporation contribute to a cost sharing multiple employer defined benefit retirement plan, administered by the Employee's Retirement System of the Government of Puerto Rico an its Instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement system. The system provides retirement pensions, death and disability benefits.

Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members of occupational and no occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952.

NOTE E - RETIREMENT PLAN (CONTINUED)

Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation.

Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of $200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Law No. 305 of September 24, 1999 amended the Act No. 447 of 1951 and was enacted with the purpose of establishing a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the current system 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 the new program.

System 2000 is a hybrid defined contribution plan, also known as a cash balance 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 State government and will be subjected to the total accumulated balance of the savings account.

The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 90% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives.

If savings accounts balance is $10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not been granted under the new program. The employer contributions (10.275% of the employee's salary) will be used to increase the system's level of assets, reduce the actuarial deficit and improve the system's capacity to comply with future obligations. Under System 2000 the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April.

Funding Policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. Plan members are required to contribute 8.275% up to 10% of gross salary. The Corporation is required to contribute 10.275% of gross salary. During this year of operation the plan benefit contribution from the corporation amounted to $53,062.

NOTE F - CONTINGENCIES

The Puerto Rico Highways and Transportation Authority (PRHTA) transferred to the Corporation the programs, funds, assets, liabilities and files corresponding to the functions for the development of the Caño Martin Peña Special Planning District; except the amount of $200,031. After several collection efforts, the corporation filed a claim at the Department of Justice's commission for Solving Controversies over Payments and Debts between Governmental agencies. A hearing was conducted on September 12th, 2012 where documentation exchange took place. PRHTA alleges the defense of compensation based on the allegation that the corporation owes it a smaller amount of money. Documents provided by the PRHTA are under evaluation by the correspondent functionaries of the Corporation. A period of ninety days was conceded to the parties to evaluate the documentation, consider a possible transaction of the continuation of the proceedings.

NOTE G - SUBSEQUENT EVENTS

In accordance with FASB ASC 855, the Corporation evaluated its subsequent events until September 27, 2012, date on which the financial statements were ready for issuance. The Corporation's management understands that no material events occurred subsequent to June 30, 2012 that requires being recorded or required additional disclosures in the financial statements.