

PUERTO RICO LAND ADMINISTRATION
(a component unit of the Commonwealth of Puerto Rico)
Audited Financial Statements
June 30, 2010

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Lutgardo Acevedo López, CPA, CMA, JID

CERTIFIED PUBLIC ACCOUNTANT • CERTIFIED MANAGEMENT ACCOUNTANT

Independent Auditors' Report

To the Board of Directors of
Puerto Rico Land Administration;

I have audited the accompanying balance sheet of the Puerto Rico Land Administration (the Administration) (a component unit of the Commonwealth of Puerto Rico), as of June 30, 2010 and the related statements of revenues and expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Administration's management. My responsibility is to express an opinion on these financial statements based on our audit.

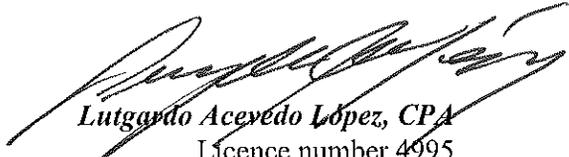
I conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining,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

In my opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Puerto Rico Land Administration as of June 30, 2010 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.

Information on the balance sheet, the statement of revenues and expenses and changes in net assets as of and for the year ended June 30, 2009 is presented for comparative purposes only and was extracted from the financial statements for that year, which were audited by other independent auditors whose report dated September 21, 2009 expressed an unqualified opinion.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

September 24, 2010



Lutgardo Acevedo López, CPA
Licence number 4995
Expires December 1st, 2010

Stamp number 2414423 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
June 30, 2010 and 2009

This section of the Puerto Rico Land Administration's (the Administration) annual financial report presents our discussion and analysis of the Administration's performance during the fiscal year ended June 30, 2010. Please read it in conjunction with the Administration's financial statements and accompanying notes.

Financial Highlights

- The Administration's net assets increased by \$639,427.

Overview of the Financial Statements

This annual financial report consists of two parts: the Management Discussion and Analysis (this section) and the basic financial statements. The Administration is a self-supporting entity and follows the enterprise fund reporting. Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the activities and the operations of the Administration. These statements are presented in a manner similar to a private business, such as real estate developer, and commercial institution.

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Financial Analysis of the Administration

Net assets: The following table summarizes the changes in the Net Assets between June 30, 2010 and 2009 (in thousands):

	<u>2010</u>	<u>2009</u>	<u>Variance</u>
<u>Assets:</u>			
Cash, cash equivalents and investments in debt securities	\$ 89,989	94,083	(4,094)
Current receivables	4,624	2,605	2,019
Non-current receivables	0	1,884	(1,884)
Property and equipment			
Non-depreciable	9,863	5,005	4,858
Depreciable	9,121	9,777	(656)
Other capital assets	186,591	186,673	(82)
Other assets	<u>507</u>	<u>500</u>	<u>7</u>
Total Assets	<u>\$ 300,695</u>	<u>300,527</u>	<u>168</u>
<u>Liabilities:</u>			
Deposits on sales of land	34,664	34,664	0
Other liabilities	<u>13,747</u>	<u>14,218</u>	<u>(471)</u>
Total liabilities	<u>48,411</u>	<u>48,882</u>	<u>(471)</u>
Net Assets	<u>\$ 252,284</u>	<u>\$ 251,645</u>	<u>\$ 639</u>

The Administration's total assets and liabilities do not present material changes for the year ended June 30, 2010, other than the normal operating increase in net assets.

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Operating Activities: The Administration enters into lease agreements on the land and properties they own with government and private entities. The agreements vary in prices and terms dependent on the intended public use and benefits to the Commonwealth of Puerto Rico residents. The Administration also acquires and sells to other government agencies and instrumentalities or private entities, land and property that have been determined to be used or developed for the public interest. Operating expenses comprising principally of administration expenses, are mostly payroll and payment of real property taxes to which certain land and property are subject.

The following table summarizes the results of operations and the variance between fiscal years ended June 30, 2010 and 2009 (in thousands):

	<u>2010</u>	<u>2009</u>	<u>Variance</u>
<u>Revenues:</u>			
Rental Income	\$ 8,966	7,363	1,603
Investment Income	<u>878</u>	<u>2,045</u>	<u>(1,167)</u>
Total	9,844	9,408	436
General and Administrative Expenses	(9,221)	(9,764)	(543)
Other Income, Net	<u>16</u>	<u>1,526</u>	<u>(1,510)</u>
Change in Net Assets	\$ <u>639</u>	\$ <u>1,170</u>	\$ <u>(531)</u>

Capital Assets

The Administration acquires and or develops existing facilities, vacant business sites, unimproved land and other real estate for future development by the government or private entities. Site developed and buildings, along with land held for lease, sale or future use, are segregated from the capital assets being used in the Administration's operations as it is customary in the real estate industry.

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The following table summarizes the capital assets used by the Administration during the years ended June 30, 2010 and 2009 (in thousands):

	<u>2010</u>	<u>2009</u>	<u>Variance</u>
<u>Non-depreciable:</u>			
Land	\$ 106	106	0
Construction in progress	<u>9,756</u>	<u>4,898</u>	<u>4,858</u>
Total non-depreciable	9,862	5,004	4,858
<u>Depreciable:</u>			
Building	13,717	13,717	0
Furniture and equipment	1,267	1,241	26
Vehicles	<u>204</u>	<u>204</u>	<u>0</u>
Total depreciable	<u>15,188</u>	<u>15,162</u>	<u>26</u>
Less: accumulated depreciation and amortization	<u>(6,067)</u>	<u>(5,385)</u>	<u>(682)</u>
Net capital assets	<u>\$ 9,121</u>	<u>9,777</u>	<u>(656)</u>
Depreciation and amortization expense	<u>\$ 699</u>	<u>704</u>	<u>(5)</u>

Other capital assets, as stated above are summarized as follows (in thousands):

	<u>2010</u>	<u>2009</u>	<u>Variance</u>
<u>Other capital assets:</u>			
Real estate held for sale	\$ 150,725	104,167	46,558
Land under long-term lease	17,604	24,738	(7,134)
Real estate held for future use	<u>18,262</u>	<u>57,768</u>	<u>(39,506)</u>
Total other capital assets	<u>\$ 186,591</u>	<u>186,673</u>	<u>(82)</u>

Other capital assets have been reclassified to reflect the accounts in which they are account for in the accounting records of the Administration. The decrease in other capital assets was due to a sale transaction.

PUERTO RICO LAND ADMINISTRATION
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Management's Discussion and Analysis
June 30, 2010 and 2009

Contacting the Administration's Financial Management:

The financial report has the purpose of informing the Commonwealth of Puerto Rico residents and taxpayers, and our clients with a general financial overview of the Administration's accountability of the assets, funds and appropriations it holds and receives. If you have any questions about this report or need additional information, contact Ms. Nurys Paniagua Charles, CPA, Acting Budget and Finance Director, at Puerto Rico Land Administration, 171 Carlos Chardón Avenue, Suite 101, San Juan, Puerto Rico. You may also visit our website at: www.terrenos.gobierno.pr.

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Balance Sheets
June 30, 2010 and 2009

<u>Assets</u>	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents (note 2)	\$ 73,378,255	80,571,579
Investment in debt securities (note 3)	16,610,548	13,511,271
Interest receivable (note 4)	444,136	438,821
Rent receivable, net of allowance (note 4)	2,125,123	796,751
Notes receivable from government agencies (note 4)	1,305,617	1,305,617
Other current receivable, net of allowance (note 4)	749,378	64,362
Prepaid expenses	106,705	99,782
Total current assets	<u>94,719,762</u>	<u>96,788,183</u>
Non-current assets:		
Restricted cash (note 1)	400,000	400,000
Other non-current receivable from governmental entities (note 4)	-	1,883,902
Capital assets:		
Property and equipment (note 5):		
Non-depreciable:		
Land	106,429	106,429
Construction in progress	9,756,319	4,898,452
Total non-depreciable	<u>9,862,748</u>	<u>5,004,881</u>
Depreciable	9,121,299	9,777,037
Other capital assets (note 8):		
Real estate held for sale	150,725,304	104,167,134
Land under long-term lease	17,603,865	24,737,507
Real estate held for future use	18,261,629	57,767,879
Total other capital assets	<u>186,590,798</u>	<u>186,672,520</u>
Total non-current assets	<u>205,974,845</u>	<u>203,738,340</u>
Total assets	<u>\$ 300,694,607</u>	<u>300,526,523</u>

Continues

PUERTO RICO LAND ADMINISTRATION
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Balance Sheets
June 30, 2010 and 2009

<u>Liabilities and Net Assets</u>	<u>2010</u>	<u>2009</u>
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,375,982	3,814,126
Rent collected in advance - current	2,329,691	2,369,712
Total current liabilities	<u>6,705,673</u>	<u>6,183,838</u>
Non-current liabilities:		
Guaranty rent deposits	290,976	284,153
Rent collected in advance - non-current	6,750,000	7,750,000
Deposits on sales of land and properties held for sale (note 8)	34,663,746	34,663,746
Total non-current liabilities	<u>41,704,722</u>	<u>42,697,899</u>
Total liabilities	48,410,395	48,881,737
Contingencies (note 7)		
Net assets:		
Invested in capital assets	9,121,299	9,777,037
Unrestricted	243,162,913	241,867,749
Total net assets	<u>252,284,212</u>	<u>251,644,786</u>
Total liabilities and net assets	<u>\$ 300,694,607</u>	<u>300,526,523</u>

See accompanying independent auditor's report and notes to financial statements.

PUERTO RICO LAND ADMINISTRATION
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Statements of Revenues, Expenditures and Changes in Net Assets
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenues:		
Rental income (note 8)	\$ 8,966,325	7,362,689
Investment income (note 3)	878,435	2,045,226
Total revenues	<u>9,844,760</u>	<u>9,407,915</u>
Expenses:		
Payroll and personnel costs	5,334,318	5,420,473
Property taxes	1,218,337	883,535
Contracted services	924,210	957,433
Depreciation and amortization (note 5)	698,939	703,592
Insurance	223,803	243,741
Utilities	343,250	390,600
Repairs and maintenance	85,625	164,625
Contributions to other governmental entities	-	80,000
Other general and administrative	392,861	919,779
Total expenses	<u>9,221,343</u>	<u>9,763,778</u>
Net income (loss)	<u>623,417</u>	<u>(355,863)</u>
Other income/(expenses)		
Sale of land held for sale	174,710	6,187,623
Cost of property sold	(43,167)	(2,768,760)
Cost of donated property	-	(1,923,782)
Realized loss on investments	(8,152)	(11,737)
Change in unrealized gain/(loss) on investments	11,608	22,776
Legal settlements	(122,584)	-
Other miscellaneous	3,594	19,480
	<u>16,009</u>	<u>1,525,600</u>
Change in net assets	639,427	1,169,737
Net assets, at beginning of year	<u>251,644,785</u>	<u>250,475,048</u>
Net assets, at end of year	<u>\$ 252,284,212</u>	<u>251,644,785</u>

See accompanying independent auditor's report and notes to financial statements.

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows
June 30, 2010

Cash flows from operating activities:	
Collection of rent, including advanced	\$ 8,206,944
Interest collected on investment in Debt-securities and other	873,121
Payments to employees and related payroll costs	(5,189,590)
Payments for goods and services	<u>(3,188,085)</u>
Net cash provided by operating activities	702,390
Cash flows used in capital and related financial activities:	
Capital expenditures	<u>-</u>
Net cash provided (used) in capital and related financial activities	<u>-</u>
Cash flows from investing activities:	
Proceeds from sale and disposition of real estate	131,543
Payments for construction in progress	(4,857,867)
Purchase of investment in debt-securities	(9,853,929)
Proceeds from sales and redemption of investments	6,766,261
Proceeds from other miscellaneous	<u>(81,721)</u>
Net cash used in investing activities	(7,895,713)
Net change in cash and cash equivalents	(7,193,323)
Cash and cash equivalents, beginning of year	<u>80,571,579</u>
Cash and cash equivalents, end of year	<u><u>73,378,255</u></u>

Continues

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows
June 30, 2010

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	623,417
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	698,939
Changes in operating assets and liabilities:	
(Increase) Decrease in interest receivable	(5,314)
(Increase) Decrease in rent receivable	(1,328,449)
(Increase) Decrease in other receivables	(685,016)
(Increase) Decrease in prepaid expenses	(6,923)
(Increase) Decrease in other non-current receivable	1,883,902
Increase (Decrease) in accounts payable	561,855
Increase (Decrease) in rent collected in advance	<u>(1,040,021)</u>
Net Cash Used by Operating Activities	<u>\$ 702,390</u>
Supplemental Information on Non-cash Investing Activities	
Cash paid for interests	<u>\$ -</u>
Cash paid for income taxes	<u>\$ -</u>

See accompanying independent auditor's report and notes to financial statements.

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2010 and 2009

(1) Organization, Nature of Business and Summary of Significant Accounting Policies

Reporting Entity

The Puerto Rico Land Administration (the Administration), is a public corporation and a component unit of the Commonwealth of Puerto Rico (the Commonwealth). The Administration was created to promote the welfare of the community through efforts and programs designed for the efficient utilization of public land in Puerto Rico. Among its programs, the Administration acquires, through negotiation or expropriation, parcels of land, on behalf of government entities, for future development or for reserve. The Administration is also dedicated to the rental of certain tracts of land through lease contracts for public and private use.

Significant Accounting Policies

The significant accounting policies adopted by the Administration follows:

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The basic 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.

(Continued)

PUERTO RICO LAND ADMINISTRATION
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Notes to Financial Statements
June 30, 2010 and 2009

(1) Organization, Nature of Business and Summary of Significant Accounting Policies, continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation, continued

The net assets are classified into three components: invested in capital assets, net of related debt, restricted and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds. As of June 30, 2010, there was no debt on the invested capital assets.

Restricted – This component of net assets consists of constraints placed on net assets use, imposed by creditors (such as through covenants), contributors, or law regulations of other governments or constraints imposed by law through constitutional provision or enabling legislation. As of June 30, 2010, there was restricted cash amounting to \$400,000.

Unrestricted – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

As permitted by Government Accounting Standards Board (GASB) Statement No. 20, “Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting”, the Administration has elected to apply all Financial Accounting Standards (FASB) Statements and Interpretations, issued after November 30, 1989 that do not conflict with those issued by GASB.

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
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- (1) Organization, Nature of Business and Summary of Significant Accounting Policies, continued

Accounting estimates

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

Land and Properties

Land and properties are recorded at cost, plus allocable interest, costs of appraisals, related acquisition studies and improvements, and other costs able to be capitalized or market value, whichever is lower. Donated land properties are stated at fair market value at date of donation. The GASB has issued Statement No. 42 "Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries", which requires the Administration to report the effects of capital asset impairments in its financial statements when they occur rather than as a part of on-going depreciation expense for the capital assets or upon disposal of the capital asset. Impairment will be measured using methods that are designed to isolate the cost of the capital asset's service capacity that has been rendered unusable by impairment. The statement requires several disclosure requirements to assist users in understanding the nature and impact of the impairment. Management of the Administration is of the opinion that the cost to appraise all land and property would represent a significant unwarranted expense. Appraisals of certain properties made during the past years, as well as current market value information of certain land and properties obtained from sales transactions carried out in 2010, and from other sources, reflected that market values are generally in excess of carrying values.

Management of the Administration understands there are no indications of impairments on its capital assets as of June 30, 2010.

(Continued)

PUERTO RICO LAND ADMINISTRATION
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- (1) Organization, Nature of Business and Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and short-term investments with maturities of three months or less.

Investments

Investments in debt securities are reported at fair value based on quoted market prices.

Allowance for Doubtful Accounts

The allowance for uncollectible notes and other receivables is an amount that management believes will be adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of the collection potential of the receivables and prior credit loss experience. Because of uncertainties inherent in the estimation process, the related allowance may change in the future.

Property and Equipment

The Administration defines capital assets as assets with an individual cost of more than \$500 and a useful life of five (5) years or more. Capital assets are stated at cost. Depreciation expense is computed using the straight-line method over the estimated useful lives of the respective assets, as follows:

<u>Description</u>	<u>Useful Life (in years)</u>
Building	30
Structures and improvements	10 - 30
Furniture and equipment	5 - 15
Vehicles	5

(Continued)

PUERTO RICO LAND ADMINISTRATION
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Notes to Financial Statements
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- (1) Organization, Nature of Business and Summary of Significant Accounting Policies, continued

Property and Equipment, continued

At the time capital assets are sold or otherwise disposed, the cost and related accumulated depreciation is removed from books and the resulting gain or loss, if any, is credited or charged to operations.

Land and Properties Sales

Land and properties sales are recognized when title to the land and property is conveyed to the buyer. When portions of land parcels are sold, the cost of land is determined by computing an average area unit cost at the date of sale, which is then applied to the total area sold. Sale of air and surface rights to land is recognized as sale of land under the full accrual method.

Rental Income

Consists principally of the leasing of the Cataño Fuel Storage Facilities and land parcels subject to lease contracts at varying terms. All leases have been classified as operating leases.

Taxes

The Administration is exempt from the payment of Puerto Rico taxes, except real property taxes, and excise taxes on certain purchases.

Risk Financing

The Administration carries commercial insurance to cover for casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Administration also pays premiums for workmen compensation insurance to another component unit of the Commonwealth.

(Continued)

PUERTO RICO LAND ADMINISTRATION
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Notes to Financial Statements
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- (1) Organization, Nature of Business and Summary of Significant Accounting Policies, continued

Non-exchange Transactions

GASB Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions", establishes accounting and financial reporting standards for non-exchange 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.

- (2) Cash and Cash Equivalents

As of June 30, 2010 the Administration had cash deposits with Government Development Bank for Puerto Rico (GDB) of approximately \$73,385,226. The deposits bear interest at various rates ranging from 0.1% to 5.0% in 2010. The remaining balances were maintained in a commercial bank. The depository commercial bank balances at June 30, 2010, amounted to approximately \$804,355 of which \$250,000 were covered by the Federal Deposit Insurance Corporation.

(Continued)

PUERTO RICO LAND ADMINISTRATION
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Notes to Financial Statements
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(2) Cash and Cash Equivalents, continued

The cash deposits held at financial institutions can be categorized according to three levels of risk. These levels of risk are as follows:

Category 1 Deposits which are insured or collateralized with securities held by the Administration or by its agent in the Administration's name (or in the name of the Commonwealth of Puerto Rico).

Category 2 Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Administration's name (or in the name of the Commonwealth of Puerto Rico).

Category 3 Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the Administration's cash deposits with a private financial institution \$804,355 are classified as category 1. Such deposits have a book balance of \$391,529.

The amounts deposited with the GDB \$73,385,226 are classified in Category 3. The book balance is the same.

(Continued)

PUERTO RICO LAND ADMINISTRATION
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Notes to Financial Statements
June 30, 2010 and 2009

(3) Investment in Debt Securities

The following tables summarize the Administration's investments at June 30, 2010 and 2009:

<u>Description</u>	<u>Fair Value</u>	June 30, 2010			
		<u>Investments Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More than 10</u>
FHMLC participation certificates	\$ 943,095	-	143,148	799,947	-
FNMA pass-through certificates	370,619	-	112,369	258,250	-
Federal Farm Credit Bks	427,379	-	427,379	-	-
Corporate Bonds	6,856,575	4,044,385	2,812,190	-	-
Federal Agency Note	<u>8,012,880</u>	<u>-</u>	<u>8,012,880</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 16,610,548</u>	<u>4,044,385</u>	<u>11,507,966</u>	<u>1,058,197</u>	<u>-</u>

<u>Description</u>	<u>Fair Value</u>	June 30, 2009			
		<u>Investments Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More than 10</u>
FHMLC participation certificates	\$ 2,933,939	-	-	1,385,993	1,547,946
FNMA pass-through certificates	608,443	-	-	131,726	476,717
Asset Backed Securities	1,498,740	-	-	1,498,740	-
Federal Agency Note	1,148,764	-	-	1,148,764	-
Corporate Bonds	<u>7,321,385</u>	<u>-</u>	<u>6,329,585</u>	<u>991,800</u>	<u>-</u>
Total Investments	<u>\$ 13,511,271</u>	<u>-</u>	<u>6,329,585</u>	<u>5,157,023</u>	<u>2,024,663</u>

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2010 and 2009

(3) Investment in Debt Securities, continued

The Administration's investments are exposed to credit, custodial credit, concentration of credit and interest rate risks. Following is a description of these risks at June 30, 2010:

Credit Risk

The Administration is authorized to invest in Puerto Rico and U.S. government obligations or in obligations guaranteed by the Puerto Rico or U.S. governments or its agencies or instrumentalities, including mortgage loans secured or guaranteed under federal housing laws. It can also invest in corporate debt classified in the highest categories of at least two of the principal rating services. As of June 30, 2010 and 2009, the Administration's credit rating of investments subject to credit risk were as follows on the next page:

(Continued)

PUERTO RICO LAND ADMINISTRATION
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(3) Investment in Debt Securities, continued

June 30, 2010

<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>	<u>Total</u>	<u>Credit Risk Rating</u>	
				<u>S&P</u>	<u>Moody's</u>
FHLMC Remic Series 2677	FHLMC participation certificates	\$ 143,148	—	AAA	Aaa
FHLMC Remic Series	FHLMC participation certificates	799,947	943,095	AAA	Aaa
FNMA Remic Trust 2003-25	FNMA pass-through certificates	258,250	—	AAA	Aaa
FNMA Pool C1-541714 Reg.	FNMA pass-through certificates	112,369	370,619	AAA	Aaa
Federal Farm Credit Bks.	Mortgage Backed Securities	427,379	427,379	—	Aaa
General Electric	Corporate Bonds	723,100	—	AAA	Aaa
General Electric	Corporate Bonds	516,710	—	AA+	Aa2
General Electric	Corporate Bonds	500,045	—	AA+	Aa2
JP Morgan Chase & Co.	Corporate Bonds	3,027,630	—	AAA	Aaa
Wal-mart Stores, Inc.	Corporate Bonds	1,054,190	—	AA	Aa2
Sherwin-Williams	Corporate Bonds	1,034,900	6,856,575	A-	A3
Federal Home Ln Mtg.	US Agencies	3,008,190	—	AAA	Aaa
Federal Home Ln Bk	US Agencies	2,005,620	—	AAA	Aaa
Federal Home Ln Bk	US Agencies	<u>2,999,070</u>	<u>8,012,880</u>	AAA	Aaa
		<u>\$ 16,610,548</u>	<u>16,610,548</u>		

(Continued)

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(3) Investment in Debt Securities, continued

June 30, 2009

<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>	<u>Total</u>	<u>Credit Risk Rating</u>	
				<u>S&P</u>	<u>Moody's</u>
FHLMC Remic Series 2677	FHLMC participation certificates	\$ 1,385,993	—	AAA	Aaa
FHLMC Remic Series	FHLMC participation certificates	1,547,946	2,933,939	AAA	Aaa
FNMA Remic Trust 2003-25	FNMA pass-through certificates	476,717	—	AAA	Aaa
FNMA Pool C1-541714 Reg.	FNMA pass-through certificates	131,726	608,443	AAA	Aaa
American Express Master	Asset Backed Securities	1,498,740	1,498,740	AAA	Aaa
Federal Farm Credit Bks	Mortgage Backed Securities	1,148,764	1,148,764	AAA	Aaa
JP Morgan Chase & Co.	Corporate Bonds	3,072,780	—	AAA	Aaa
Wal-Mart Stores, Inc.	Corporate Bonds	1,526,025	—	AA	Aa2
Wal-Mart Stores, Inc.	Corporate Bonds	991,800	—	AA	Aa2
General Electric Corp.	Corporate Bonds	517,580	—	AA+	Aa2
General Electric Corp.	Corporate Bonds	491,045	—	AA+	Aa2
General Electric Corp.	Corporate Bonds	<u>722,155</u>	<u>7,321,385</u>	AAA	Aaa
		<u>\$ 13,511,271</u>	<u>13,511,271</u>		

(Continued)

PUERTO RICO LAND ADMINISTRATION
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(3) Investment in Debt Securities, continued

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Administration will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Administration has bank investment contracts with the GDB. As of June 30, 2010 all the investments in debt securities are in custody with another financial institution. These may be classified in one of the following three categories:

Category A: Uninsured and unregistered investments held by the governmental entity or held by the governmental entity's agent in the name of the governmental entity.

Category B: Uninsured or unregistered investments held in the name of the governmental entity, but held by the counterparty's trust department or the counterparty's agent.

Category C: Uninsured and unregistered investments held by the counterparty, the counterparty's trust department, or the counterparty's agent, but not held in the governmental entity's name.

As of June 30, 2010, the investments held by financial institutions were exposed to custodial risk as follows:

Uninsured and unregistered investments held by the governmental entity or held by the governmental entity's agent in the name of the governmental entity.	\$ <u>16,610,548</u>
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(Continued)

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(3) Investment in Debt Securities, continued

Concentration of Credit Risk

The Administration places limits on the amounts that may be invested in and on the issuer. Investments on Governmental and U.S. instruments have no limit. Financial and corporate limits fluctuate based on the instrument classification. The Administration's investments in the following instruments represent a concentration of credit risk as each of these are at least 5% of the total investments at June 30, 2010:

<u>Issuer</u>	<u>Amount</u>
FHLMC	\$ 3,008,190
FHLB	2,005,620
FHLB	2,999,070
JP Morgan Chase & Co.	3,027,630
Sherwin-Williams Co.	1,034,900
Wal-Mart Stores, Inc.	1,054,190
General Electric Corp. (various)	1,739,855

Interest Rate Risk

The Administration holds approximately \$1.7 million in mortgage-backed securities, as part of its normal operations. These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgages, which may result from a decline in interest rates. The collateralized mortgage obligations consisted of Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC) certificates restricted for the payment of bonds.

(Continued)

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(4) Notes, Interest and Other Receivables, Net

As of June 30, 2010 and 2009, notes, interest and other receivables were as follows:

	<u>2010</u>	<u>2009</u>
Notes receivable from government entities:		
Current portion	\$ <u>1,305,617</u>	<u>1,305,617</u>
Non-current portion	\$ <u>—</u>	<u>—</u>
Other:		
Other receivables	—	193,947
Less: Allowance for doubtful accounts	<u>—</u>	<u>(188,574)</u>
Other receivables, net	\$ <u>—</u>	<u>5,373</u>
Interest receivable	\$ <u>444,136</u>	<u>438,821</u>
Rent and land leases	3,985,769	2,580,489
Less: Allowance for doubtful accounts	<u>(1,860,646)</u>	<u>(1,783,738)</u>
Total rent and land leases, net	\$ <u>2,125,123</u>	<u>796,751</u>
Other Non-current Receivables from Governmental Entities:		
Rent receivable from government entities	—	1,525,736
Other receivables from government entities	—	906,838
Less: Allowance for doubtful accounts	<u>—</u>	<u>(548,672)</u>
Total other non-current receivables from Governmental entities	\$ <u>—</u>	<u>1,883,902</u>

(Continued)

PUERTO RICO LAND ADMINISTRATION
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(4) Notes, Interest and Other Receivables, Net, continued

Interest receivable includes interest amount of \$378,406 on a note receivable from the Puerto Rico Industrial Development Corporation (PRIDCO). The payment of interest on this note was due on December 23, 2009. As of the date of these financial statements interests have not been settled or paid by PRIDCO.

(5) Property and Equipment

As of June 30, 2010 and 2009, property and equipment consist of the following:

<u>Description</u>	<u>June 30, 2009 Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2010 Ending Balance</u>
Property and equipment not being depreciated:				
Land	\$ 106,429	-	-	106,429
Construction in progress	<u>4,898,452</u>	<u>5,148,553</u>	<u>(290,686)</u>	<u>9,756,319</u>
Total property and equipment not being depreciated	<u>\$ 5,004,881</u>	<u>5,148,553</u>	<u>(290,686)</u>	<u>9,862,748</u>
Property and equipment being depreciated:				
Buildings, structures and improvements	\$ 13,717,233	-	-	13,717,233
Furniture and equipment	1,241,125	43,331	(17,141)	1,267,315
Vehicles	<u>204,003</u>	<u>-</u>	<u>-</u>	<u>204,003</u>
	\$ 15,162,361	43,331	(17,141)	15,188,551
Less: accumulated depreciation	<u>(5,385,323)</u>	<u>(698,939)</u>	<u>17,010</u>	<u>(6,067,252)</u>
Total property and equipment being depreciated, net	<u>\$ 9,777,038</u>	<u>\$ (655,608)</u>	<u>\$ (131)</u>	<u>\$ 9,121,299</u>

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(6) Pension Plan

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

The System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least ten (10) years of service to receive non-occupational disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten (10) years of plan participation.

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

In no case will the annuity be less than \$300 per month. Participants who have completed at least thirty (30) 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, otherwise they will receive 75% of the average compensation. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess of \$550 of monthly salary. The Administration is required by the same statute to contribute 9.275% of the participant's salary. Total payroll covered for 2010 was approximately \$4,192,714. Total employee and employer contributions (rounded) for the years ended June 30, 2010, 2009 and 2008 are as follows in the next page:

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PUERTO RICO LAND ADMINISTRATION
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(6) Pension Plan, continued

<u>Description</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Employer	\$ 316,611	365,776	320,022
Employee	\$ 238,753	268,097	281,003

There are certain special laws providing additional economic benefits to retired persons. The subject laws provide that such benefits will be billed by the Retirement System to the Administration. During the years 2010 and 2009 the Administration was billed in the amount of approximately \$117,305 and \$105,718, respectively in relation to current and prior year charges under special laws.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension program (System 2000). System 2000 is a hybrid defined contribution plan, also know 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 Commonwealth. 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 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives.

Participants will receive periodic account statements, similar to those of defined contribution plans, showing their accrued balances. Disability pensions will not be granted under System 2000. The employers' contribution (9.275% of the employee's salary) will be used to fund the current plan. System 2000 reduced the retirement age from 65 to 60 for those employees who joined the current plan on or after April 1, 1990. Additional information on the System will be provided in its financial statements for the year ended June 30, 2010, a copy of which may be obtained directly form the System.

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(7) Contingencies

The Administration was notified in 1992 by the Environmental Protection Agency (EPA) that it was a Potential Responsible Party (PRP) under the provisions of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). The EPA also named other private and governmental sector PRP's. The public sector PRP's are the Municipality of Juncos and the Puerto Rico Housing Administration.

EPA alleged that the private PRP's deposited and/or arranged for disposal of hazardous substances at the Juncos Landfill. EPA also alleged that the governmental PRP's were either owners of the land and/or operators, and therefore were responsible for part of the liability associated to the disposal of hazardous substances at the site.

According to the case file, the governmental PRP's must enter into an interagency agreement to allocate to each governmental PRP responsibility and duties, which currently include monthly maintenance activities. It was preliminary agreed that the governmental PRP's will pay \$2,000 monthly for one year to the Municipality of Juncos for the acquisition of equipment to be used in maintenance activities. The Administration argues that its share of responsibility is 10% of said amount. It should be noted however, that the maintenance activities would be in effect for at least 25 years. The governmental PRP's have been negotiating each one's share of liability in order to contribute accordingly. As of the date of these financial statements, the governmental PRP's have not reached an agreement on each party's allocation of liability.

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(7) Contingencies, continued

In addition to the foregoing, the EPA was claiming \$645,758 from the governmental PRP's as alleged costs incurred in the relocation of nearby residents of the condemned site. The governmental PRP's and the EPA reached an agreement on June 22, 2010 to settle the EPA's claim for \$367,753. While the governmental PRP's reached jointly that agreement with the EPA, they were supposed to reach an internal agreement to allocate each other's liability in order to pay its share of the agreed amount to the EPA. The governmental PRP's were not able to reach an internal agreement on to allocate each one's liability. The Administration decided it would pay one third (\$122,584) of the amount owed to the EPA as its share, in order to bring the case to an end and to avoid potential future litigation costs and additional efforts. Since the agreement with the EPA was made jointly by the governmental PRPs, in the event that there be an outstanding balance not satisfied by any of the other governmental PRPs, the EPA may still come after the Administration for collection of such balance.

(8) Other Capital Assets

The Administration's other capital assets are segregated into the following programs:

Land under Long-term Leases

Represents the investment in land and properties subject to lease contracts for varying terms. Long-term lease agreements cover initial periods of five (5) to thirty (30) years with renewal option periods of up to ten (10) years. Real estate taxes, insurance and maintenance expenses are usually obligations of the lessees. Contracts provide, in certain cases, for rent increases during renewal periods to be based on fixed percentages of land market values at dates of renewal. Information regarding the minimum expected annual rentals for leases under long-term contracts for the next five (5) fiscal years is not readily available.

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PUERTO RICO LAND ADMINISTRATION
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(8) Other Capital Assets, continued

Cataño Fuel Storage Facilities

The Administration owns certain fuel storage and pier facilities in Cataño, Puerto Rico. The net book value of the subject facilities corresponds to the portion of land. Accordingly, the amount of \$2,817,919 shown below is included as part of land under long-term leases. The following summarizes the Administration's investment in these facilities at June 30, 2010:

<u>Description</u>	<u>Useful life (in years)</u>	<u>Amount</u>
Land	-	\$ 2,817,919
Structures and improvements	10 - 15	3,603,578
Machinery, equipment and tanks	25	<u>12,295,933</u>
		18,717,430
Less: accumulated depreciation and amortization		<u>(15,899,511)</u>
		<u>\$ 2,817,919</u>

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(8) Other Capital Assets, continued

These facilities are leased to several companies engaged in the fuel distribution industry. Lease agreements establish a minimum annual lease payment or a "thruput" fee based on a U.S. gallon of bulk petroleum products at 60°F, passing through the facilities, whichever is greater. The leases contain renewal options for two (2) additional five (5) year periods. The original 10-year term lease agreement and the contractual negotiation period of 18 months expired on September 30, 1994, and March 31, 1996, respectively. New terms, as approved during December 31, 1996, were retroactively applied as of October 1, 1994, and remained in effect until September 30, 2004. The leases contain renewal options for one additional 10-year period.

As of June 30, 2008 a new contract agreement with a new lessee was entered for a 10 year term lease. As part of agreement, the lessees paid the minimum annual lease payments in advance. The rent collected in advance amounted to \$8,750,000 and 7,750,000 at June 30, 2010 and 2009, respectively.

As of June 30, 2010, net rental income under these agreements is as follows:

Gross rental income	\$ 6,054,415
Less direct expenses:	
Depreciation and amortization	-
Property taxes	<u>249,888</u>
	<u>\$ 5,804,527</u>

Minimum expected annual rentals under these contracts for the year ending June 30, 2011 are approximately \$ 4,738,943.

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(8) Other Capital Assets, continued

Real Estate Held for Sale

Land and properties held for sale (principally to other governmental entities) include land purchased by the Administration on behalf of other governmental entities. Land, which is acquired on behalf of other governmental entities, generally, includes certain holding costs which are subject to reimbursement by the acquiring entity. Funds received under this program from the acquiring governmental entities are classified as deposits on sales of land and properties held for sale in the accompanying balance sheet until title is transferred to the buyer. Deposits received for optioned land and properties amounted to \$34,663,746 and \$34,663,746 at June 30, 2010 and 2009, respectively.

Real Estate Held for Future Use

Included in this program are undeveloped lots of land, some of which are designated for possible sale to third parties, and properties under development and or held for sale to third parties.