

**NATIONAL PARKS COMPANY OF PUERTO RICO**  
**(A component unit of the Government of Puerto Rico)**

**BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2010**  
**(WITH INDEPENDENT AUDITORS' REPORT THEREON)**

NATIONAL PARKS COMPANY OF PUERTO RICO  
(A component unit of the Government of Puerto Rico)

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the National Parks Company of Puerto Rico (the Company), a component unit of the Government of Puerto Rico, as of June 30, 2010 and for the year then ended, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these basic 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, all material respects, the financial position of the Company 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such Information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*One, Two, Three + Meeting UP*

San Juan, Puerto Rico  
October 22, 2010

Stamp 2566398 was affixed  
to the original.

NATIONAL PARKS COMPANY OF PUERTO RICO  
(a component unit of the Government of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010

Our discussion and analysis of the National Parks Company of Puerto Rico (the Company) financial performance provides an overview of the Company's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with Company's audited basic financial statements and disclosures, which follow this section.

**FINANCIAL HIGHLIGHTS**

- Total assets decreased by approximately \$6.8 million
- Total liabilities increased by approximately \$12.7 million
- Capital grants and other contributions and capital contributions from the Government of Puerto Rico decreased by approximately \$9 million
- Charges from services for the operation of recreational facilities and park activities decreased by approximately \$920,000
- Other revenues, excluding capital grants and other contributions and capital contributions, decreased by approximately \$1.4 million
- Total operating expenses decreased by approximately \$5.3 million

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

The Company's basic financial statements comprise two components: (1) the management's discussion and analysis (presented here) and (2) the basic financial statements. The basic financial statements provide both long-term and short-term information about the Company's overall financial status.

The Company is a component unit of the Government of Puerto Rico and its operation is presented in the government's wide financial statements as an enterprise fund. The first of the basic financial statements is the Statement of Net Assets. This statement presents information on all of the Company's net assets and liabilities, with the difference reported as net assets. It is prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Over time, increases or decreases in the Company's net assets are an indicator of whether its financial health is improving or deteriorating. The second statement, the Statement of Revenues, Expenses and Change in Net Assets, presents information showing

(Continues)

NATIONAL PARKS COMPANY OF PUERTO RICO  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

showing how the net assets changed during the year. All of the current year revenues and expenses are taken into account in this statement regardless of when the cash is received or paid. The Statement of Cash Flows presents the sources and uses of cash flows divided in four categories: operating activities, non-capital financing activities, capital and related financing activities and investing activities. The statement reconciles net cash and cash equivalents at the beginning and end of year and reconciles the net income (loss) with the cash used in operating activities to provide an explanation of cash and non-cash activities within the statement of revenues, expenses and change in net assets. The basic financial statements also include notes to explain information in the basic financial statements and provide more detailed data.

**FINANCIAL ANALYSIS OF THE COMPANY AS A WHOLE**

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

NATIONAL PARKS COMPANY OF PUERTO RICO  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010

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

TABLE 1 - STATEMENT OF NET ASSETS

|  | June 30,              |                       | Total % Change  |
|--|-----------------------|-----------------------|-----------------|
|  | 2010                  | 2009                  |                 |
| <b>Assets:</b>                             |                       |                       |                 |
| Current Assets                             | \$ 1,979,911          | \$ 4,906,644          | (59.65%)        |
| Restricted Assets                          | 26,008,204            | 26,465,670            | (1.73%)         |
| Capital Assets - Net                       | <u>201,055,789</u>    | <u>204,469,307</u>    | <u>(1.67%)</u>  |
| <b>Total Assets</b>                        | <u>\$ 229,043,904</u> | <u>\$ 235,841,621</u> | <u>(2.88%)</u>  |
| <b>Liabilities:</b>                        |                       |                       |                 |
| Current Liabilities                        | \$ 34,122,502         | \$ 18,803,522         | 81.47%          |
| Non-Current Liabilities                    | <u>7,264,038</u>      | <u>9,919,151</u>      | <u>(26.77%)</u> |
| <b>Total Liabilities</b>                   | <u>41,386,540</u>     | <u>28,722,673</u>     | <u>44.09%</u>   |
| <b>Net Assets:</b>                         |                       |                       |                 |
| Invested in Capital Assets,<br>Net of Debt | 194,948,685           | 204,469,307           | (4.66%)         |
| Restricted                                 | 26,008,204            | 26,465,670            | (1.73%)         |
| Unrestricted                               | <u>(33,299,525)</u>   | <u>(23,816,029)</u>   | <u>39.82%</u>   |
| <b>Total Net Assets</b>                    | <u>187,657,364</u>    | <u>207,118,948</u>    | <u>(9.40%)</u>  |
| <b>Total Liabilities and Net Assets</b>    | <u>\$ 229,043,904</u> | <u>\$ 235,841,621</u> | <u>(2.88%)</u>  |

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Net assets for the year decreased 9.4% with respect to prior year. A large portion of the Company's net assets reflects its investment in capital assets less accumulated depreciation and less any related outstanding debt used to acquire those assets. The Company uses these assets for its operations. Restricted net assets represent resources that are subject to external restrictions on how they must be used. Unrestricted net assets are that part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements. As of June 30, 2010, the Company presented a deficit of \$33,299,525.

NATIONAL PARKS COMPANY OF PUERTO RICO  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010

**Change in net assets**

The following table summarizes the change in net assets for the years ended June 30, 2010 and 2009:

TABLE 2 REVENUES, EXPENSES AND CHANGE IN NET ASSETS

|   | <u>June 30,</u>       |                       | <u>Total %</u>  |
|---|-----------------------|-----------------------|-----------------|
|   | <u>2010</u>           | <u>2009</u>           | <u>Change</u>   |
| Operating revenues  |                       |                       |                 |
| Charges for Services  | \$ 10,294,677         | \$ 11,214,784         | (8.20%)         |
| Total Operating Revenues                                    | <u>\$ 10,294,677</u>  | <u>\$ 11,214,784</u>  | <u>(8.20%)</u>  |
| Operating Expenses  |                       |                       |                 |
| Salaries and Fringe Benefits                                | 21,994,272            | 28,264,989            | (22.19%)        |
| Depreciation and Amortization                               | 7,411,574             | 7,277,493             | 1.84%           |
| Utilities   | 4,570,229             | 4,147,958             | 10.18%          |
| Security  | 2,190,746             | 2,437,400             | (10.12%)        |
| Other expenses  | 7,883,155             | 7,199,278             | 10.00%          |
| Total Operating Expenses                                    | <u>44,049,976</u>     | <u>49,327,118</u>     | <u>(10.70%)</u> |
| Operating Loss before                                       |                       |                       |                 |
| Non-Operating Revenues (Expenses)                           | <u>(33,755,299)</u>   | <u>(38,112,334)</u>   | <u>(11.43%)</u> |
| Non-Operating Revenues (Expenses)                           |                       |                       |                 |
| Interest Income   | 326,478               | 694,071               | (52.96%)        |
| Interest Expense  | (1,277,702)           | (384,060)             | 232.68%         |
| Sale of Land  | -                     | 300,000               | (100.00%)       |
| Other Income  | 293,599               | 470,596               | (37.61%)        |
| Capital Grants and other Contributions                      | 2,335,946             | 3,469,511             | (32.67%)        |
| Capital Contributions from the<br>Government of Puerto Rico | <u>13,406,824</u>     | <u>21,321,344</u>     | <u>(37.12%)</u> |
| Total Non-Operating<br>Revenues (Expenses) - Net            | <u>15,085,145</u>     | <u>25,871,462</u>     | <u>(41.69%)</u> |
| Change in Net Assets  | <u>(18,670,154)</u>   | <u>(12,240,872)</u>   | <u>52.52%</u>   |
| Net Assets at Beginning of Year, as<br>previously reported  | 207,118,948           | 245,810,458           | (15.74%)        |
| Restatement of Net Assets                                   | <u>(791,430)</u>      | <u>(26,450,638)</u>   | <u>(97.01%)</u> |
| Net Assets at Beginning of Year, as restated                | <u>206,327,518</u>    | <u>219,359,820</u>    | <u>(5.94%)</u>  |
| Net Assets at End of Year                                   | <u>\$ 187,657,364</u> | <u>\$ 207,118,948</u> | <u>(9.40%)</u>  |

NATIONAL PARKS COMPANY OF PUERTO RICO  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010

As observed from the table above, charges for services revenues decreased 8.2% and capital contributions from the Government of Puerto Rico decreased by 37.1% due to an adjustment from the legislature assignments, which in 2009 amounted to \$21,321,344 and in 2010 \$13,406,824 for a total reduction of \$7,914,520. Other revenues decreased 58% due principally to a decrease in interest income from certificates of deposits.

Also, salaries and fringe benefits decreased due mainly to a reduction of one day in the working week to all employees during part of the year.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital assets**

At the end of the year June 30, 2010, the Company had approximately \$302.4 million invested in total capital assets including land, buildings, parks, construction in progress, machinery, furniture and fixtures, computers and software, animals and automobiles. Accumulated depreciation amounted to \$101.3 million, for a net capital assets balance of \$201.1 million. This represents a net decrease of \$3.4 million over the last year. The reduction was due to an increase in accumulated depreciation of approximately \$7.4 million minus property additions of approximately \$4 million.

**Non-Current Liabilities**

At year-end the Company had \$7,264,038 in long-term debt. This amount consists of \$4,885,960, net of current portion of \$279,555 of accrued compensated absences, and \$2,378,078, net of current portion of \$5,986,067 of accrued litigations liability. The Company is a defendant in various lawsuits. The Company and its internal and external legal representatives are of the opinion that it is not possible to predict as of the financial statements date the outcome of those lawsuits.

**CONTACTING THE COMPANY'S FINANCIAL MANAGEMENT**

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

NATIONAL PARKS COMPANY OF PUERTO RICO  
(a component unit of the Government of Puerto Rico)

STATEMENT OF NET ASSETS  
JUNE 30, 2010

ASSETS

CURRENT ASSETS

|                           |               |
|---------------------------|---------------|
| Cash and cash equivalents | \$ 1,205,643  |
| Accounts receivable       | 761,272       |
| Prepaid expenses          | <u>12,996</u> |

|                      |                  |
|----------------------|------------------|
| Total current assets | <u>1,979,911</u> |
|----------------------|------------------|

NON-CURRENT ASSETS

|  |                    |
|--|--------------------|
| Cash and cash equivalents - restricted | 26,008,204         |
| Capital assets, net                    | <u>201,055,789</u> |

|                          |                    |
|--------------------------|--------------------|
| Total non-current assets | <u>227,063,993</u> |
|--------------------------|--------------------|

|              |                       |
|--------------|-----------------------|
| Total assets | <u>\$ 229,043,904</u> |
|--------------|-----------------------|

(Continues)

See accompanying notes to basic financial statements.

NATIONAL PARKS COMPANY OF PUERTO RICO  
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STATEMENT OF NET ASSETS (CONTINUED)  
JUNE 30, 2010

LIABILITIES AND NET ASSETS

|  |                       |
|--|-----------------------|
| CURRENT LIABILITIES                                    |                       |
| Lines of credit  | \$ 14,339,190         |
| Current portion of:                                    |                       |
| Accrued compensated absences                           | 279,555               |
| Accrued litigations liability                          | 5,986,067             |
| Accounts payable                                       |                       |
| Trade  | 7,428,341             |
| Retainage  | 217,605               |
| Due to other governmental entities                     | <u>5,871,744</u>      |
| Total current liabilities                              | <u>34,122,502</u>     |
| NON-CURRENT LIABILITIES                                |                       |
| Accrued compensated absences - net of current portion  | 4,885,960             |
| Accrued litigations liability - net of current portion | <u>2,378,078</u>      |
| Total non-current liabilities                          | <u>7,264,038</u>      |
| Total liabilities                                      | <u>41,386,540</u>     |
| COMMITMENTS AND CONTINGENCIES                          | <u>-</u>              |
| NET ASSETS   |                       |
| Invested in capital assets, net of related debt        | 194,948,685           |
| Restricted for projects                                | 26,008,204            |
| Unrestricted deficit                                   | <u>(33,299,525)</u>   |
| Total net assets                                       | <u>187,657,364</u>    |
| Total liabilities and net assets                       | <u>\$ 229,043,904</u> |

See accompanying notes to basic financial statements.

NATIONAL PARKS COMPANY OF PUERTO RICO  
(a component unit of the Government of Puerto Rico)

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2010

|   |                       |
|---|-----------------------|
| OPERATING REVENUES  |                       |
| Charges for services  | \$ <u>10,294,677</u>  |
| OPERATING EXPENSES  |                       |
| Salaries and fringe benefits                                | 21,994,272            |
| Depreciation and amortization                               | 7,411,574             |
| Waste disposal  | 144,659               |
| Rent  | 55,655                |
| Repairs and maintenance                                     | 1,083,430             |
| Insurance   | 935,775               |
| Professional services                                       | 129,333               |
| Utilities   | 4,570,229             |
| Materials and supplies                                      | 229,923               |
| Security  | 2,190,746             |
| Bank charges  | 122,200               |
| Auto expenses   | 138,776               |
| Other expenses  | <u>5,043,404</u>      |
| Total operating expenses                                    | <u>44,049,976</u>     |
| Operating loss before non-<br>operating revenues (expenses) | <u>(33,755,299)</u>   |
| NON-OPERATING REVENUES (EXPENSES)                           |                       |
| Interest income   | 326,478               |
| Interest expense  | (1,277,702)           |
| Other income  | 293,599               |
| Capital grants and other contributions                      | 2,335,946             |
| Capital contributions from the<br>Government of Puerto Rico | <u>13,406,824</u>     |
| Total non-operating revenues<br>(expenses) - net            | <u>15,085,145</u>     |
| Change in net assets  | <u>(18,670,154)</u>   |
| Net assets at beginning of year, as previously reported     | 207,118,948           |
| Restatement of net assets                                   | <u>(791,430)</u>      |
| Net assets at beginning of year, as restated                | <u>206,327,518</u>    |
| Net assets at end of year                                   | <u>\$ 187,657,364</u> |

See accompanying notes to basic financial statements.

NATIONAL PARKS COMPANY OF PUERTO RICO  
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STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2010

|   |                      |
|---|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES:                               |                      |
| Cash received from customers  | \$ 10,304,060        |
| Cash paid to suppliers  | (6,851,077)          |
| Cash paid to employees  | <u>(18,797,925)</u>  |
| Net cash used in operating activities                               | <u>(15,344,942)</u>  |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:                   |                      |
| Capital grants and other contributions                              | 66,510               |
| Contributions from the Government of<br>Puerto Rico                 | <u>13,406,824</u>    |
| Net cash provided by non-capital financing activities               | <u>13,473,334</u>    |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:           |                      |
| Proceeds from credit lines  | 3,870,892            |
| Purchase of property and equipment,<br>and construction of property | (3,998,056)          |
| Payments of credit lines  | (730,115)            |
| Interest paid   | (814,004)            |
| Capital grants and other income                                     | <u>498,387</u>       |
| Net cash used in capital and related financing activities           | <u>(1,172,896)</u>   |
| CASH FLOW AND NET CASH FLOW FROM INVESTING ACTIVITY:                |                      |
| Interest from certificates of deposit                               | <u>361,031</u>       |
| Net decrease in cash and cash equivalents                           | (2,683,473)          |
| Cash and cash equivalents at beginning of year                      | <u>29,897,320</u>    |
| Cash and cash equivalents at end of year                            | <u>\$ 27,213,847</u> |

(Continues)

See accompanying notes to basic financial statements.

NATIONAL PARKS COMPANY OF PUERTO RICO  
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STATEMENT OF CASH FLOWS  
(CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2010

Reconciliation of operating loss to net cash used  
in operating activities:

|  |                        |
|--|------------------------|
| Operating loss before non-operating<br>revenues and contributions                    | \$ (33,755,299)        |
| Adjustments to reconcile operating loss to<br>net cash used in operating activities: |                        |
| Depreciation and amortization  | 7,411,574              |
| Changes in assets and liabilities  |                        |
| Decrease in accounts receivable  | 9,383                  |
| Decrease in prepaid expenses   | 65,508                 |
| Increase in accounts payable   | 7,610,229              |
| Decrease in accrued liabilities  | (771,412)              |
| Increase in accrued litigations liability  | <u>4,085,075</u>       |
| Net cash used in operating activities  | <u>\$ (15,344,942)</u> |
| Reconciliation of cash and cash equivalents<br>with the Statement of Net Assets:     |                        |
| Cash in current assets   | \$ 1,205,643           |
| Cash restricted - non-current assets   | <u>26,008,204</u>      |
|  | <u>\$ 27,213,847</u>   |

Noncash non-capital and capital activities:

During 2010 the Sales Tax Financing Corporation paid on behalf other Company interest of two lines of credit in the amount of \$376,720. During 2010 the Office of Budget and Management of the Government of Puerto Rico paid the amount of \$1,687,928 to a public corporation on behalf of the Company for a debt related with utility expenses.

See accompanying notes to basic financial statements.

NATIONAL PARKS COMPANY OF PUERTO RICO  
(a component unit of the Government of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

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

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

FINANCIAL REPORTING ENTITY

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

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

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

(Continues)

NATIONAL PARKS COMPANY OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

BASIS OF PRESENTATION, MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial report of the Company consists of the Management's Discussion and Analysis (MD&A), the basic financial statements and notes to the basic financial statements. 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 the measurement focus.

(Continues)

NATIONAL PARKS COMPANY OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of presentation

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

Pursuant to the Governmental Accounting Standards Board (GASB Statement) No. 20 "Accounting and Financial Reporting for Proprietary funds and other Governmental Entities that Use Proprietary Accounting", the Company has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standard Board (FASB), including those issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Management's Discussion and Analysis

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

Basic financial statements

The basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Change in Net Assets and the Statement of Cash Flows. The Statement of Net Assets presents information on all of the Company's assets and liabilities, with the difference reported as net assets. It is prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The Statement of Revenues, Expenses and Change in Net Assets presents information showing how the net assets changed during the year. The revenues are recognized in the period earned and expenses in the period in which the associated liability is incurred. The Statement of Cash Flows presents the sources and uses of cash flows divided in four categories: operating activities, non-capital financing activities, capital and related financing activities and investing activities. The statement reconciles net cash and cash equivalents at the beginning and end of year and reconciles the net income (loss) with the cash used in operating activities to provide an explanation of cash and non-cash activities within the Statement of Revenues, Expenses and Change in Net Assets. It was prepared using the direct method. For the purpose of this statement, the Company includes as cash equivalents all unrestricted and restricted highly liquid debt instruments with original maturities of three months or less at time of purchase.

(Continues)

NATIONAL PARKS COMPANY OF PUERTO RICO  
(a component unit of the Government of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Notes to Basic Financial Statements

The notes to basic financial statements provide information that is essential to a user's understanding of the basic financial statements.

Sources of Income

Charges for services of the vacation centers are the main source of income of the Company and allow the operation of other installations where their activities are free of charge to the public. Collections of the vacation centers is invested in maintaining and improving the structures and operation of the installations of the Company. Other sources of revenues consist primarily of legislative appropriations from the Government of Puerto Rico, capital grants and other contributions.

Accounting for pension costs

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

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

Restricted assets

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

Capital assets and depreciation and amortization policy

Capital assets are stated at historical cost. Donated assets are recorded as capital assets at their estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend the asset's useful life are not capitalized. The Company defines capital assets as assets with an individual cost of more than \$500 and a useful life of three (3) years or more. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Assets to be depreciated and amortized were assigned a residual value of between 5% to 10% of original cost. At the time capital assets are sold or otherwise disposed, the cost and related accumulated depreciation and amortization is removed from books and the resulting gain or loss, if any, is credited or charged to operations.

(Continues)

NATIONAL PARKS COMPANY OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

| <u>Description</u>                | <u>Estimated Useful lives</u> |
|-----------------------------------|-------------------------------|
| Building, Parks, and Improvements | 40                            |
| Machinery, Equipment and Others   | 5 - 15                        |
| Animals                           | 15 - 70                       |
| Motor Vehicles                    | 5 - 15                        |

Accounting for the impairment or disposal of long-lived assets

The Company follows GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries". This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. During the year ended June 30, 2010, the Company evaluated its capital assets for impairment under the guidance of this Statement and determined that the possible impairment amount, if any, would not have a material impact in the Company's basic financial statements.

Compensated absences

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

Separation of employment prior to the use of all or part of the sick leave terminates all rights for compensation except that, in the event of retirement and having ten (10) or more years of service, an employee is reimbursed for accumulated sick leave days up to the maximum allowed or ninety (90) days.

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

(Continues)

NATIONAL PARKS COMPANY OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As per Law No. 156 of August 20, 1996, for fiscal years beginning on July 1, 1997, the employee has the right to accumulate the excess of 60 days of vacations and 90 days of sick leave until December 31<sup>st</sup> of each year. The excess should be paid to the employee before March 31<sup>st</sup> of the following year.

Net assets

Net assets represent the difference between assets and liabilities and are presented into three categories as follows:

- Invested in capital assets, net of related debt - consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted net assets - consist of net assets with constraint placed on the use either by: (1) external groups such as creditors, grantors, contributors, or by laws or regulations of other government (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets - consist of all other assets that do not meet the definitions of "restricted" or "invested in capital assets, net of related debt".

Risk management

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

Use of estimates

The preparation of the basic 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 and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(Continues)

NATIONAL PARKS COMPANY OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Future adoption of accounting pronouncements

The GASB has issued the following statements, which the Company has not yet adopted:

| <u>Statement</u>  | <u>To be adopted in<br/>Fiscal year ended</u> |
|---|---|
| 54      Fund Balance Reporting and Governmental Fund<br>Type Definitions          | June 30, 2011                                 |
| 57      OPEB Measurements by Agent Employers and<br>Agent Multiple-Employer Plans | June 30, 2012                                 |
| 59      Financial Instruments Omnibus   | June 30, 2011                                 |

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

NOTE 2 CUSTODIAL CREDIT RISKS - DEPOSITS

Custodial credit risk is the risk that in the event of a financial institution's failure, the Company's deposits may not be returned to it. The Company maintains cash deposits in commercial and governmental banks.

Under the Government of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico in the Company's name. At year-end the Company's bank balance in commercial banks amounted to \$16,706,454 (including \$15,631,352 of certificates of deposit). Deposits in governmental banks (all of which are uninsured and uncollateralized) are exposed to custodial risks. As of June 30, 2010, the Company had cash balances with governmental banks amounting to \$10,832,308. In addition, deposits placed with governmental banks include certificates of deposit issued by the Economic Development Bank amounting to approximately \$10.1 million.

The following summarizes cash and cash equivalents as of June 30, 2010:

|                         |                     |
|-------------------------|---------------------|
| (A) Unrestricted        |                     |
| Cash                    | <u>\$ 1,205,643</u> |
| (B) Restricted          |                     |
| Cash in banks           | \$ 699,022          |
| Certificates of deposit | <u>25,309,182</u>   |
|                         | <u>\$26,008,204</u> |

NATIONAL PARKS COMPANY OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 3 ACCOUNTS RECEIVABLE

As of June 30, 2010 accounts receivable consisted of the following:

|                       |                   |
|-----------------------|-------------------|
| Governmental agencies | \$ 250,162        |
| Municipalities        | 57,687            |
| Private companies     | 436,565           |
| Interest and other    | <u>16,858</u>     |
| Accounts receivable   | <u>\$ 761,272</u> |

NOTE 4 CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2010 are as follows:

|  | <u>Balance<br/>July 1, 2009</u> | <u>Additions</u>     | <u>Retirements</u> | <u>Balance<br/>June 30, 2010</u> |
|--|---------------------------------|----------------------|--------------------|----------------------------------|
| Capital assets being depreciated:              |                                 |                      |                    |                                  |
| Buildings and parks                            | \$211,027,673                   | \$ -                 | \$ -               | \$211,027,673                    |
| Buildings and improvements                     | 57,427,062                      | 664,250              | -                  | 58,091,312                       |
| Machinery and equipment                        | 6,403,094                       | 113,562              | -                  | 6,516,656                        |
| Motor vehicles                                 | 5,733,173                       | -                    | -                  | 5,733,173                        |
| Animals  | <u>726,995</u>                  | <u>-</u>             | <u>-</u>           | <u>726,995</u>                   |
|  | 281,317,997                     | 777,812              | -                  | 282,095,809                      |
| Less accumulated depreciation and amortization | <u>(93,901,883)</u>             | <u>(7,411,574)</u>   | <u>-</u>           | <u>(101,313,457)</u>             |
| Total capital assets being depreciated, net    | <u>187,416,114</u>              | <u>(6,633,762)</u>   | <u>-</u>           | <u>180,782,352</u>               |
| Capital assets not being depreciated:          |                                 |                      |                    |                                  |
| Land   | 15,337,557                      | 3,220,244            | -                  | 18,557,801                       |
| Construction in progress                       | <u>1,715,636</u>                | <u>-</u>             | <u>-</u>           | <u>1,715,636</u>                 |
| Capital assets not being depreciated           | <u>17,053,193</u>               | <u>3,220,244</u>     | <u>-</u>           | <u>20,273,437</u>                |
| Capital assets, net                            | <u>\$204,469,307</u>            | <u>\$(3,413,518)</u> | <u>\$ -</u>        | <u>\$201,055,789</u>             |

NATIONAL PARKS COMPANY OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5 LINES OF CREDIT

As of June 30, 2010 the Company has three credit lines agreements with Governmental Development Bank (GDB) as follows:

- a. On August 17, 2007, the Company entered into a \$10 million line of credit agreement with GDB in order to finance an early retirement program in response to the Act No. 70 of June 13, 2007. Borrowings under this line of credit agreement bear interest at a fixed rate of 7%. The principal and accrued interest are payable on October 31 of each year until December 31, 2018, the maturity date of the line. The source for the repayment of the principal and interest comes from the revenues collected by the Company during the first four months of the fiscal year and will be approximately \$1,304,000 from 2010-2011 and thereafter until 2018. As part of the agreement, the Company also transferred two land lots to GDB for the amortization of this debt. One of the land lots was sold during 2008 and the proceeds of the sale was applied to the balance of the debt. At June 30, 2010 this line of credit amounted to \$7,841,413.
- b. On February 6, 2003, the Company entered into a \$9,287,428 line of credit agreement with GDB in order to finance the improvements to certain parks, seaside facilities and buildings of the Company. Borrowings under this line of credit bear interest at variable rates (7% as of June 30, 2010). The principal and interest are payable annually and the source of the repayment comes from annual legislative assignments from the "Fondo de Mejoras Públicas". The maturity date of the line is June 30, 2018. At June 30, 2010 this line of credit amounted to \$1,165,101. The Company received contributions from the Puerto Rico Sales Tax Financing Corporation (by its Spanish acronym, COFINA) in the amount of \$73,412 for the payment of interest of this line for the year ended June 30, 2010.
- c. In 2003 the Company entered into a \$12 million line of credit agreement with GDB in order to finance the acquisition of a land lot named "Parque Capuchino". Borrowings under this line of credit bear interest at variable rates (6.35% as of June 30, 2010). The principal and interest are payable annually and the source of the repayment comes from annual legislative assignments from the "Fondo de Mejoras Públicas". The maturity date of the line is September 30, 2010. At June 30, 2010 this line of credit amounted to \$4,942,003. The Company received contributions from COFINA in the amount of \$303,308 for the payment of interest of this line for the year ended June 30, 2010.

The credit lines activity during 2010 are summarized as follows:

| <u>Description</u>         | <u>Balance</u><br><u>June 30, 2009</u> | <u>Proceeds</u>    | <u>Payments</u>  | <u>Balance</u><br><u>June 30, 2010</u> |
|----------------------------|--|--------------------|------------------|--|
| Credit line (\$12,000,000) | \$ 1,446,919                           | \$3,495,084        | \$ -             | \$ 4,942,003                           |
| Credit line (\$9,287,428)  | 1,165,101                              | -                  | -                | 1,165,101                              |
| Credit line (\$10,000,000) | <u>8,195,720</u>                       | <u>375,808</u>     | <u>730,115</u>   | <u>7,841,413</u>                       |
|                            | 10,807,740                             | <u>\$3,870,892</u> | <u>\$730,115</u> | 13,948,517                             |
| Accrued interest           | <u>384,060</u>                         |                    |                  | <u>390,673</u>                         |
|                            | <u>\$11,191,800</u>                    |                    |                  | <u>\$14,339,190</u>                    |

NATIONAL PARKS COMPANY OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 6 DUE TO OTHER GOVERNMENTAL ENTITIES - NET

Total due to other governmental entities - net as of June 30, 2010 is as follows:

|  |                     |
|--|---------------------|
| Due from the Sports and Recreational Department            | \$10,037,493        |
| Less: allowance for uncollectible amount                   | <u>(1,232,982)</u>  |
|  | 8,804,511           |
| Due to the Sports and Recreational Department              | <u>10,734,156</u>   |
| Net balance - due to the Sport and Recreational Department | 1,929,645           |
| Employee Retirement System (Early Retirement Plan)         | <u>3,942,099</u>    |
|  | <u>\$ 5,871,744</u> |

The amount due to the Sports and Recreational Department in the amount of \$10,734,156 represents unpaid advances used for salaries and fringe benefits up to June 30, 1990, which is offset with an account receivable, net of an allowance. The accounts receivable is related to utilities paid by the Company on behalf of the Sports and Recreational Department during the years from 1977 through 1998.

NOTE 7 CHARGES FOR SERVICES FROM THE OPERATION OF RECREATIONAL FACILITIES

The following summarizes charges for services from the operation of recreational facilities and other revenues for the year ended June 30, 2010:

|                    |                         |
|--------------------|-------------------------|
| Cabins Rental      | \$4,338,085             |
| Parking            | 1,719,143               |
| Sale of tickets:   |                         |
| Admission fees     | 2,369,021               |
| Lockers            | 15,755                  |
| Swimming pool      | 34,439                  |
| Boat ramp          | 58,830                  |
| Camping            | 311,258                 |
| Rent of facilities | 95,240                  |
| Rent of theaters   | 31,500                  |
| Restaurant income  | 594,223                 |
| Trailers income    | 517,695                 |
| Permits            | 167,606                 |
| Other revenues     | <u>41,882</u>           |
| <br>Total          | <br><u>\$10,294,677</u> |

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NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 8 RETIREMENT PLAN

1. Plan description

Regular employees of the Company contribute to a cost-sharing multiple employer defined benefit retirement plan, administered by the Employee's Retirement System of the Government of Puerto Rico and 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 systems. 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 non 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. 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 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 75% of the return of the System's Investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the 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 (9.275% of the employee's salary) will be used to fund the current plan. 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 1, 1990.

(Continues)

NATIONAL PARKS COMPANY OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 8 RETIREMENT PLAN (CONTINUED)

2. Funding policy

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 5.775% of gross salary up to \$6,600 plus 8.27% of gross salary in excess of \$6,600 except for employees under a supplementation plan, which contributes 8.275% of gross salary. The Company is required to contribute 9.275% of gross salary.

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

| <u>Fiscal year ended</u><br><u>June 30,</u> | <u>Amount</u> |
|---|---------------|
| 2010  | \$1,177,018   |
| 2009  | \$1,169,807   |
| 2008  | \$1,458,427   |

NOTE 9 POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8, the Company is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Company is required to finance costs related to the application of certain "Special laws" issued by the Government of Puerto Rico. Those Special Laws granted increases in pensions and other benefits to retired employees of the Company such as medicines, bonus, Christmas bonus and death benefits. Costs related to these post employment benefits amounted to \$649,276 for the year ended June 30, 2010.

NOTE 10 CONTINGENCIES

(A) LITIGATIONS

The Company is a defendant or a co-defendant in various lawsuits and complaints. The management of the Company, after consultation with legal counsel, has made a provision of \$8,364,145 for losses on these litigations. However, the ultimate amount payable in excess of the amount provided, if any, cannot be determined.

(Continues)

NATIONAL PARKS COMPANY OF PUERTO RICO  
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NOTES TO FINANCIAL STATEMENTS

NOTE 10 CONTINGENCIES (CONTINUED)

(B) COMPTROLLER'S OFFICE OF PUERTO RICO REPORTS

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

C) FEDERAL AWARDS

During the normal course of its operations, the Company receives grants funds from the Department of the Interior and the Water Conservation Fund. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of the audits is not considered by management to have a significant effect in the accompanying basic financial statements.

NOTE 11 COLLECTIVE BARGAINING AGREEMENT

The collective bargaining agreement of the Company covers 67.5% of total employees. The agreement entered into effect on September 1, 2007 until August 31, 2011.

It is stipulated in the bargaining agreement an increase of salary of \$100 monthly per employee effective September 1, 2008 and 2009, respectively. The Company guarantees the total cost of the Medical Plan.

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

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NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 12 RESTATEMENT OF NET ASSETS

During the year ended June 30, 2010, the Company identified certain accounting errors belonging to prior years. The effect of these prior period adjustments on the net assets of the Company as of July 1, 2009 are as follows:

|  |                      |
|--|----------------------|
| Net assets at beginning of year, as previously reported                | <u>\$207,118,948</u> |
| Correction of errors:  |                      |
| Overstatement of accounts receivable - federal grants<br>and customers | (538,171)            |
| Understatement of bonds payable  | (267,460)            |
| Write-off of retainage payable   | 67,312               |
| Adjustments to prepaids, accruals and<br>other accounts                | <u>(53,111)</u>      |
|  | <u>(791,430)</u>     |
| Net assets at beginning of year, as restated                           | <u>\$206,327,518</u> |