

**COMPAÑIA PARA EL DESARROLLO INTEGRAL  
DE LA PENINSULA DE CANTERA  
(A Component Unit of the Commonwealth of Puerto Rico)**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

**COMPAÑIA PARA EL DESARROLLO INTEGRAL  
PARA LA PENINSULA DE CANTERA  
(A Component Unit of the Commonwealth of Puerto Rico)**

**JUNE 30, 2012**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Compañía para el Desarrollo Integral  
de la Península de Cantera  
San Juan, Puerto Rico

We have audited the accompanying statement of net assets of **COMPAÑIA PARA EL DESARROLLO INTEGRAL DE LA PENINSULA DE CANTERA** (a component unit of the Commonwealth of Puerto Rico) as of June 30, 2012 and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

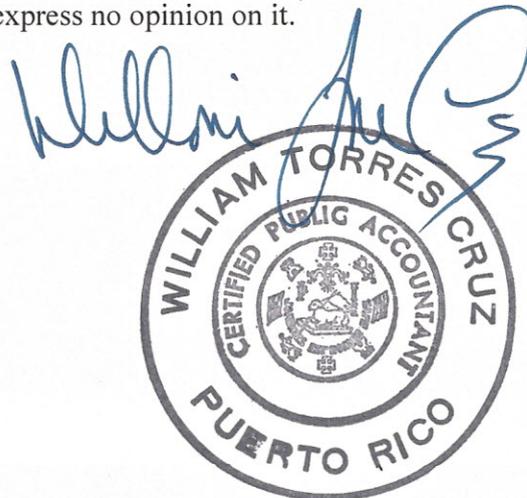
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration 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 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 financial statements, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Compañía para el Desarrollo Integral de la Península de Cantera as of June 30, 2012, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, included in pages 2 through 6, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United State of America. We have applied certain limited procedures, which consisted principally of inquires to management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

October 4, 2012

Stamp No. E42501 of the Puerto Rico  
Society of Certified Public  
Accountant was affixed to the  
original of this report.



**COMPAÑIA PARA EL DESARROLLO INTEGRAL DE  
LA PENINSULA DE CANTERA  
(A Component Unit of the Commonwealth of Puerto Rico)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2012**

Our discussion and analysis of the Compañía para el Desarrollo Integral de la Península de Cantera (The Company) financial performance provides an overview of the Company's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the Company's audited financial statements, beginning on page 7.

The Company is a public corporation and a governmental instrumentality of the Commonwealth of Puerto Rico, created by Act No. 20 of July 10, 1992, as amended. The main purpose of the Company is to establish and implement a comprehensive development plan for the Península of Cantera area. The main function of the Company is to supervise and coordinate governmental effort and also promote and manage private sector initiatives.

**FINANCIAL HIGHLIGHTS:**

1. Total assets of the Company as of June 30, 2012 were \$32,204,808, compared to \$32,198,343 at June 30, 2011. The net change, amounting to \$6,465, is mostly related to:
  - the increase in accounts receivable from Government totaling \$2,975,349 for contributions receivable for the repayment of the debt with the Government Development Bank;
  - a decrease in cash by \$2,431,842, due to acquisition, relocation and development costs for the year 2012 and,
  - a decrease of \$421,115 in account receivable from a related entity.
2. The Company's assets exceed liabilities by \$5,151,512 as of June 30, 2012.
3. Total expenses decreased by \$1,935,284, basically due to the decrease in improvements and development costs and other program expenses.

**USING THE ANNUAL REPORT:**

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

**COMPAÑIA PARA EL DESARROLLO INTEGRAL DE  
LA PENINSULA DE CANTERA  
(A Component Unit of the Commonwealth of Puerto Rico)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2012**

**OVERVIEW OF THE FINANCIAL STATEMENTS:**

The Company is a component unit of the Commonwealth of Puerto Rico and is presented in the Commonwealth's government wide financial statements as a public corporation.

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

**Statement of Net Assets:**

The statement of net assets presents the Company's financial position as of June 30, 2012, showing information that includes all of the Company's assets and liabilities, as well as the net assets.

**Statement of Activities and Changes in Net Assets:**

The statement of activities and changes in net assets shows how the Company's net assets changed during the fiscal year. All current fiscal year revenues and expenses are included regardless of when cash is received or paid.

**Statement of Cash Flow:**

The statement of cash flows presents the sources and uses of cash divided in three categories: operating activities, capital and related financial activities and investing activities. The statement reconciles net cash equivalents at the beginning and end of year and reconciles the change in net assets with the cash provided by operating activities to provide an explanation of cash and non-cash activities within the statement of activities.

A summary of the Company's cash flows is as follows:

	<b><u>2011</u></b>
Net cash used in operating activities	\$ (5,730,362)
Net cash provided by investing activities	371,455
Net cash provided by financing activities	<u>2,927,066</u>
Net decrease in cash and cash equivalents	(2,431,841)
Cash and cash equivalents at beginning of year	<u>3,511,542</u>
Cash and cash equivalents at end of year	<u>\$ 1,079,701</u>

**COMPAÑIA PARA EL DESARROLLO INTEGRAL DE  
LA PENINSULA DE CANTERA  
(A Component Unit of the Commonwealth of Puerto Rico)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2012**

The cash provided by investing activities is related to the decrease of \$421,115 in account receivable from a related entity. On the other hand, the cash provided by financing activities is related to the borrowings from the Government Development Bank.

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

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

**STATEMENTS OF NET ASSETS**

	<u>June 30,</u>		
	<u>2012</u>	<u>2011</u>	<u>Change</u>
Assets:			
Current assets	\$ 24,739,887	24,346,856	\$ 393,031
Non current assets	<u>7,464,921</u>	<u>7,851,487</u>	<u>(386,566)</u>
Total assets	<u>\$ 32,204,808</u>	<u>32,198,343</u>	<u>6,465</u>
Liabilities:			
Current liabilities	<u>\$ 27,053,296</u>	<u>23,893,714</u>	<u>3,159,582</u>
Net Assets:			
Invested in capital assets	\$ 162,487	145,291	17,196
Restricted	497,338	497,338	-
Unrestricted	<u>4,491,687</u>	<u>7,662,000</u>	<u>(3,170,313)</u>
Total net assets	<u>5,151,512</u>	<u>8,304,629</u>	<u>(3,153,117)</u>
Total liabilities and net assets	<u>\$ 32,204,808</u>	<u>32,198,343</u>	<u>\$ 6,465</u>

As observed from the table above, the Company has experienced an increase in its current assets and an increase in its current liabilities of \$393,032 and \$3,159,582, respectively. This change was primarily due to an increase in accounts receivable, as more fully explained in the Financial Highlights section, and the borrowings obtained from the lines of credit with the Government Development Bank.

**COMPAÑIA PARA EL DESARROLLO INTEGRAL DE  
LA PENINSULA DE CANTERA  
(A Component Unit of the Commonwealth of Puerto Rico)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2012**

The decrease in net assets (total expenses over total revenues) of \$3,153,117 is directly related to the decrease in program revenues and the increase in other program expenses.

During the year ended June 30, 2012 the Company received from the Municipality of San Juan the amount of \$400,000 corresponding to contributions pursuant to the provision of Act. No. 20 of July 10, 1992.

**TABLE 2 – STATEMENTS OF ACTIVITIES**

	<u>June 30,</u>		
	<u>2012</u>	<u>2011</u>	<u>Change</u>
Expenses:			
Salaries, wages and benefits	\$ 1,548,114	946,527	601,587
Improvements and development costs	4,730,379	5,889,300	(1,158,921)
Other program expenses	1,195,840	3,014,503	(1,818,663)
Depreciation	32,464	81,226	(48,762)
Interest on debt	<u>1,545,135</u>	<u>1,055,660</u>	<u>489,475</u>
	9,051,932	10,987,216	(1,935,284)
Program revenues:			
Operating grants and contributions	<u>5,770,928</u>	<u>11,565,623</u>	<u>(5,794,695)</u>
Net programs revenues (expenses)	(3,281,004)	578,407	(3,859,411)
General revenues	<u>127,887</u>	<u>112,266</u>	<u>15,621</u>
Change in net assets	<u>\$ (3,153,117)</u>	<u>690,673</u>	<u>(3,843,790)</u>

**CAPITAL ASSETS**

Capital assets consist mostly of land and structures, which were used to establish the Company's premises. Other capital assets include equipment and vehicles.

**COMPAÑIA PARA EL DESARROLLO INTEGRAL DE  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2012**

**CURRENT AND NEXT YEAR BUDGET**

During the fiscal year ended June 30, 2012 the Company's budget was \$2,416,711. Also, the Company has two credit lines with the Government Development Bank of Puerto Rico up to the maximum amounts of \$38 million and \$40 million.

For the fiscal year 2012-2013 a budget of \$2,978,402 was assigned to the Company.

**CONTACTING THE ADMINISTRATION AND FINANCE DEPARTMENT**

The financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Company's finance and to show the Company's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Administration and Finance Director at (787) 268-3138.

**COMPAÑIA PARA EL DESARROLLO INTEGRAL DE  
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**STATEMENT OF NET ASSETS**

**JUNE 30, 2012**

**Assets**

***Current assets:***

Cash (notes 1 and 2)	\$ 1,079,701
Accounts receivable (notes 1 and 3)	
Commonwealth of Puerto Rico	23,192,369
Grant receivable	382,592
Others	25,670
Notes receivable other, current portion (note 4)	9,000
Prepaid expenses	<u>50,555</u>
Total current assets	24,739,887

***Noncurrent assets:***

Note receivable related party (note 4 and 6)	5,081,928
Notes receivable other, long-term (note 4)	565,153
Account receivable related party (net) (notes 1 and 6)	310,853
Property held for development and rehabilitation (note 8)	847,162
Capital assets, net ( notes 2 and 7)	162,487
Donated land (note 11)	<u>497,338</u>
Total assets	<u>\$ 32,204,808</u>

**Liabilities and Net Assets**

***Current liabilities:***

Lines of credit (note 9)	23,102,526
Accounts payable	3,700,835
Accrued expenses	<u>249,935</u>
Total current liabilities	<u>27,053,296</u>

***Commitments and Contingencies (notes 10 and 12)***

***Net assets (notes 1, 11, 12 and 13):***

Invested in capital assets	162,487
Restricted	497,338
Unrestricted	<u>4,491,687</u>
Total nets assets	<u>5,151,512</u>
Total liabilities and net assets	<u>\$ 32,204,808</u>

***The accompanying notes are an integral part of these financial statements.***

**COMPAÑIA PARA EL DESARROLLO INTEGRAL DE  
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**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Administration</u>	<u>Improvement and Development</u>	<u>Debt Service</u>	<u>Total</u>
Expenses: (notes 1 and 2):				
Salaries, wages and benefits	\$ 1,164,657	383,457	-	\$ 1,548,114
Improvements and development costs	-	4,730,379	-	4,730,379
Other program expenses	453,377	742,463	-	1,195,840
Depreciation	32,464	-	-	32,464
Interest on debt	-	-	1,545,135	1,545,135
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	1,650,498	5,856,299	1,545,135	9,051,932
Program revenues (notes 1 and 2):				
Operating grants and contributions	<u>1,027,931</u>	<u>3,197,862</u>	<u>1,545,135</u>	<u>5,770,928</u>
Net program expenses	<u>\$ (622,567)</u>	<u>(2,658,437)</u>	<u>-</u>	<u>(3,281,004)</u>
General revenues (notes 1 and 2):				
Grants and contributions not restricted to specific programs				44,337
Interest income				<u>83,550</u>
Total general revenues				<u>127,887</u>
Change in net assets				(3,153,117)
Net assets, beginning of year				<u>8,304,629</u>
Net assets, end of year				<u>\$ 5,151,512</u>

*The accompanying notes are an integral part of these financial statements.*

**COMPAÑIA PARA EL DESARROLLO INTEGRAL DE  
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**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED JUNE 30, 2012**

***Cash flows from operating activities:***

Cash received from grantors and contributors	\$ 1,199,927
Interest received	46,493
Interest paid	(1,496,852)
Cash paid to suppliers	(4,534,530)
Cash paid to employees	<u>(945,400)</u>
Net cash used in operating activities	<u>(5,730,362)</u>

***Cash flows from investing activities:***

Proceeds from notes receivable	421,115
Capital expenditures	<u>(49,660)</u>
Net cash provided by investing activities	<u>371,455</u>

***Cash flows from financing activities:***

Proceeds from short-term borrowings	3,197,967
Repayments of short-term borrowings	<u>(270,901)</u>
Net cash provided by financing activities	<u>2,927,066</u>

***Net decrease in cash and cash equivalents*** **(2,431,841)**

***Cash and cash equivalents at beginning of year*** **3,511,542**

***Cash and cash equivalents at end of year*** **\$ 1,079,701**

***Reconciliation of changes in net assets to net cash used in operating activities:***

Change in net assets	\$ (3,153,117)
Adjustment to reconcile changes in net assets to net cash used in operating activities:	
Depreciation expense	32,464
Change in assets and liabilities:	
Increase in receivables	(2,838,944)
Increase in prepaid expenses	(8,282)
Decrease in other assets	5,000
Decrease in accounts payable and accrued expenses	<u>232,517</u>
Net cash used in operating activities	<u>\$ (5,730,362)</u>

***The accompanying notes are an integral part of these financial statements.***

**COMPAÑIA PARA EL DESARROLLO INTEGRAL DE  
LA PENINSULA DE CANTERA  
(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES**

**Nature of the Organization**

Compañía para el Desarrollo Integral de la Península de Cantera (the “Company”) is a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico (the Commonwealth) created on July 10, 1992 pursuant to Act. No. 20 of the Legislature of Puerto Rico (the Act). The Company will exist during a period of 20 years, with a possible extension of 5 additional years by executive order of the Governor of Puerto Rico. The Company was created to establish and implement a comprehensive development plan for the Peninsula de Cantera area. Its main function is to supervise and coordinate governmental efforts and also promote and manage private sector initiatives for the improvement and rehabilitation of the aforementioned area. Under the entity concept, the Company is a component unit of the Commonwealth’s financial statements. On July 3, 2012, the Governor of Puerto Rico issued an executive order extending the life of the Company for one (1) year.

**Basis of Accounting**

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America. The financial statements have been prepared on the accrual method of accounting. The following is a description of the more significant accounting policies followed by the Company:

**Revenues Recognition**

Operating Purposes

Funds restricted by the government, donor, grantor, or other outside party for particular operating purposes are deemed to be earned and reported as revenues when the Company has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as restricted deferred revenues. Unrestricted donations subject to matching requirements are deemed earned when the matching requirements are met.

Capital Expenditures

Donations received to finance capital projects are recorded as contributed capital and not as revenues.

**COMPAÑIA PARA EL DESARROLLO INTEGRAL DE  
LA PENINSULA DE CANTERA  
(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO FINANCIAL STATEMENTS**

**1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICES (continued)**

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Company considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**Receivables**

Future donations are recorded as revenues when the written commitment from the donor is received. The notes and accounts receivable are stated at net realizable value.

**Disclosure About Fair Value of Financial Instruments**

The carrying amount of cash approximates fair values due to the short term maturities of these instruments. The carrying amount of the pledges and accounts receivables, accounts payable and accrued liabilities approximate fair market values based on similar instruments negotiated in the marketplace.

**Capital Assets**

All capital assets are carried at cost. Provision for depreciation and amortization is computed on the straight-line method based on the estimated useful lives of the respective assets. Maintenance and repair expenses are charged to operations in the year in which they are incurred. Expenditures which result in the enhancement of the value of the facilities involved are capitalized. Upon retirement or other disposition of property, cost and the related allowances for depreciation and amortization are removed from the accounts and any gains or losses are included in income. Depreciation and amortization is provided using the straight-line method over their estimated useful life as follows:

	<b><u>Useful Life</u></b>
Building	10 years
Equipment	5 years
Furniture and fixtures	5 years
Vehicles	5 years
Leasehold improvements	5 years

**COMPañIA PARA EL DESARROLLO INTEGRAL DE  
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**NOTES TO FINANCIAL STATEMENTS**

**1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICES *(continued)***

The Company's capital assets are reviewed for impairment in accordance with FASB ASC 360 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", (formerly SFAS No. 144), whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. There were no impairment losses for the year ended June 30, 2012.

**Liabilities for Compensated Absences**

The employees of the Corporation are entitled to 2.5 days per month for vacation and 1.5 days per month for sick leave. Vacation and sick leave can be accumulated up to a maximum of 60 and 90 days, respectively. Any excess over these amounts is paid to the employees during March of the next fiscal year and accrued as a current liability and expenditure in the financial statements as of June 30, 2012. Sick leave is payable to employees upon retirement.

**Employees' Retirement Benefits**

The employees of the Corporation are not entitled to participate in the Commonwealth's retirement plan, but any employee transferred to the Company from another government entity who is covered by the Commonwealth's plan will retain all benefits vested until that moment and may continue participating in the Commonwealth's retirement plan while in the service of the Company. On September 20, 2011, the Company adopted a bonus plan for the retirement and retention of its employees (note 12).

**Pervasiveness of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could significantly differ from those estimates.

**COMPAÑIA PARA EL DESARROLLO INTEGRAL DE  
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(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO FINANCIAL STATEMENTS**

**2. RISK CONCENTRATION**

Financial instruments that potentially expose the Company to certain concentration of credit include cash in bank accounts. The Company maintains cash on deposit with higher rated financial institutions. While the Company attempts to limit any financial exposure, its deposits balances may, at time, exceed federally insured limits. The Company has not experienced any losses on such account.

**3. ACCOUNT RECEIVABLE**

At June 30, 2012 the receivable from Government consist of contributions receivable from the Public Improvement Fund of the Commonwealth of Puerto Rico, to repay the outstanding balances of the non revolving lines of credit with the Government Development Bank. At June 30, 2012, the accounts receivable balance from Government amounted to \$23,192,369.

**4. NOTES RECEIVABLE**

**Related Party**

Effective on July 5, 2007 the Company subscribed a promissory note in the amount of \$5,711,935 due from a related party, Peninsula Housing Investment Associates, SE (the Partnership), to formalize the outstanding balances of receivables and accrued interests. The note shall be collected in one installment, not later than July 12, 2032. The note bears interest at 5% per annum compounded semi-annually. The accrued interest shall be paid by the partnership within seventy-five (75) days of the close of each calendar year. In connection with this transaction the Company entered into a Deed of Second Mortgage with the Partnership, to create a mortgage on the Partnership's property to guarantee and secure the full and complete payment of the principal and interest on the note. As of June 30, 2012 the balance of the note amounted to \$5,081,928, including accrued interests amounting to \$26,368.

**Other**

During the year 2010, the Company entered into financing agreements with residents of housing units granted by the Company. The notes bear interest at 7% and are guaranteed by real properties, located in Condominium Paseo del Conde. Interests and principal payments on notes are due monthly until maturity at June 1, 2035.

**COMPAÑIA PARA EL DESARROLLO INTEGRAL DE  
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**NOTES TO FINANCIAL STATEMENTS**

**5. ACCOUNTS RECEIVABLE FROM RELATED PARTY**

At June 30, 2012 accounts receivable from related party consist of advances or payments made by the Company on behalf of Apoyo Empresarial para la Península de Cantera, Inc. (related party) in the ordinary course of business. As of June 30, 2012 the net balance of the accounts receivable amounted to \$310,853 (\$972,821 less allowance for doubtful account amounted to \$661,968).

**6. RELATED PARTIES TRANSACTIONS**

**Apoyo Empresarial para la Península de Cantera**

Apoyo Empresarial para la Península de Cantera, Inc. (Apoyo) a not-for-profit corporation incorporated in April 1992, is dedicated to promoting programs and projects to improve the quality of life of the Península de Cantera area. Its main function is to bring resources, support and funding available to the area and complement the work of the Company in this area.

**Península Housing Investment Associates, S.E.**

Peninsula Housing Investment Associates, S.E. (the "Partnership") is a limited partnership organized on December 15, 1998 as a real estate development partnership, to develop and manage a low income housing tax credit development located in San Juan, Puerto Rico, known as Parque Victoria (the "Project"). The Project consists of six multi-story building containing one hundred and two (102) residential apartment units and provides affordable housing to eligible low income tenants. The units are rented to residents of the area where the Project is located.

Costs incurred for the development and construction of the housing project have been financed principally through advances from the Company. On December 20, 2001, the Corporation entered into an agreement with the Partnership to make advances from time to time in aggregate amount not to exceed \$11.5 millions.

Approximately \$9 million of this loan will be repaid from capital contributions to be made by limited investors once the construction of the project is completed and certain conditions are met. The remaining balance of the loan, (expected to reach approximately \$2.5 million at project completion) plus accrued interest at the rate of one half percent (.005) per year starting January 1, 2002 shall be payable in one installments thirty years from the date of receipt of a certificate of occupancy from the Regulations and Permits Administration, but in no event later than December 31, 2032. This loan is also secured by a mortgage over the rental units.

**COMPAÑIA PARA EL DESARROLLO INTEGRAL DE  
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(A Component Unit of the Commonwealth of Puerto Rico)**

**NOTES TO FINANCIAL STATEMENTS**

**6. RELATED PARTIES TRANSACTIONS** *(continued)*

The original partners of the entity were Peninsula Housing, Inc, (the Managing Partner), a corporation organized under the laws of the Commonwealth of Puerto Rico (with .01% ownership), as managing general partner and Apoyo as limited partner (with 99.99% ownership). The Company's actual Executive Director is also the President of the Board of Directors of the Managing Partner.

Effective December 20, 2011 the partnership agreement was amended to go into effect the admission of ESIC Citigroup CCDE Investment Fund LP as limited partnership, and the withdrawal of Apoyo as limited partner, and set forth more fully the rights and obligations of the general and limited partners. Apoyo became the developer, administrator and social services providers of the projects.

**7. CAPITAL ASSETS**

The following schedule summarizes capital assets held by the Corporation at June 30, 2012.

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements Adjustments</u>	<u>Ending Balance</u>
Land	\$ 80,300	-	-	80,300
Buildings	1,229,041	-	-	1,229,041
Furnitures and fixtures	211,802	-	-	211,802
Equipment	300,840	28,045	-	328,885
Software	52,937	-	-	52,937
Motor vehicles	305,865	21,615	-	327,480
Leasehold improvements	2,649	-	-	2,649
Total capital assets	<u>\$ 2,183,434</u>	<u>49,660</u>	<u>-</u>	<u>2,233,094</u>
Less accumulated depreciation:				
Building	1,229,041	-	-	1,229,041
Furniture and fixtures	202,317	4,135	-	206,452
Equipment	284,316	11,651	-	295,967
Software	48,595	3,308	-	51,903
Motor vehicles	271,225	13,370	-	284,595
Leasehold improvements	2,649	-	-	2,649
Total accumulated depreciation	<u>2,038,143</u>	<u>32,464</u>	<u>-</u>	<u>2,070,607</u>
Capital assets, net	<u>\$ 145,291</u>			<u>162,487</u>

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**7. CAPITAL ASSETS** *(continued)*

The Company has active construction projects as of June 30, 2012. Total accumulated commitments for ongoing capital projects are comprised as follows:

Constructions of new housing units	\$ 2,968,000
Acquisition, improvements and demolition of old housing units	4,715,000
Rehabilitation of housing units	1,253,000
General infrastructure projects	2,925,000
Social and economic development	6,680,000
Conservation and maintenance projects	<u>2,381,000</u>
	<u>\$ 20,922,000</u>

**8. PROPERTY HELD FOR DEVELOPMENT AND REHABILITATION**

Property held for development and rehabilitation as of June 30, 2012 is summarized as follows:

Land	\$ 399,225
Housing units	<u>447,937</u>
	<u>\$ 847,162</u>

**9. NOTE PAYABLE**

On December 26, 2000, the Company entered into a non revolving line of credit agreement with the Government Development Bank (GDB), as authorized by the Joint Resolution No. 20 approved on February 16, 2000 by the Legislature of the Commonwealth of Puerto Rico, to finance the development and construction of low cost residential housing projects at the Peninsula de Cantera area. The loan agreement provides for borrowings through July 31, 2012 up to the amount of \$38,000,000.

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**9. NOTE PAYABLE** *(continued)*

On October 12, 2004 the Legislature of the Commonwealth of Puerto Rico approved Joint Resolution No. 2199 to authorized the Company to incur obligations in an amount not to exceed \$40,000,000 for the payment of costs incurred or to be incurred for the permanent improvements projects in the communities and sectors that constitute the Community of the Cantera Peninsula. As a result the Company entered into an additional non revolving line of credit agreement with GDB. The agreement provides for borrowings through the maturity date, December 31, 2012, up to a maximum amount of \$40,000,000.

Under both agreements, borrowings bear interest at a variable rate and will be repaid, including the outstanding balance of borrowings, from appropriations from the Public Improvements Fund of the Commonwealth of Puerto Rico and as agreed by GDB and the Office of Management Budget. The interest rate was 7% during the year ended June 30, 2012. The changes in notes payable were as follows:

	<b><u>Beginning Balance</u></b>	<b><u>Borrowings</u></b>	<b><u>Repayments</u></b>	<b><u>Ending Balance</u></b>
\$38 million line of credit	\$ 9,358,162	-	(108,450)	9,249,712
\$40 million line of credit	<u>10,817,298</u>	<u>3,197,967</u>	<u>(162,451)</u>	<u>13,852,814</u>
	<u>\$ 20,175,460</u>	<u>3,197,967</u>	<u>(270,901)</u>	<u>23,102,526</u>

**10. CONTINGENCIES**

The Company is the defendant in a case that is in the Puerto Rico Court in San Juan. The case arose from claims by a former employee alleging that she was subjected to a hostile work environment and that she was discriminated against for being a woman. She also sustains that she was dismissed without just cause from her employment and requests the severance provided by Act No. 80. The suit seeks damage totaling \$4,021,0000, approximately. The Company believes that the claims are without merit and intends to vigorously defend its position. The ultimate outcome of this litigation cannot presently be determined. However, in management's opinion, the likelihood of the material adverse outcome is remote. Accordingly, adjustments, if any, that might result from the resolution of this matter, have not been reflected in the financial statements.

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**NOTES TO FINANCIAL STATEMENTS**

**11. CONTRIBUTED CAPITAL**

In 1999 the Company received grants from the Commonwealth of Puerto Rico for the development of low cost residential housing projects in the Península de Cantera area, San Juan, Puerto Rico. The grants were in cash (\$2,000,000) and various tracts of land (\$591,890). The Company did not consider practical it to perform an appraisal of the land. The land value was estimated at \$15.52 per square meter based on a potential transaction for real estate in a tract of land close to the site of the donated land. Approximately \$589,000 of the funds received were used to complete the "Centro Comunitario" including the acquisition of office equipment and other payments. This amount will be reimbursed from future unrestricted funds.

**12. COMPTRROLLER'S AUDIT**

The Company is being examined for the first time by the Comptroller's Office of the Government of Puerto Rico. The final effects, if any, of the outcome from such audit is not presently determinable.

**13. SUBSEQUENT EVENTS**

Management of the Company has evaluated subsequent events through October 4, 2012, the date which the financial statements were available to be issued. No material subsequent events requiring further disclosure have been identified.

**14. BONUS PLAN FOR RETIREMENT AND RETENTION OF EMPLOYEES**

On September 20, 2011 the Company adopted a Bonus Plan for the Retirement and Retention of Employees (The Plan). The purpose of the Plan is to act as an incentive for the employees to stay with the Company until the end of its legal life span or cease of operations. To be eligible to participate in the Plan, employees must be working for the Company as of September 20, 2011, and remain working for same until the end of its legal life and cease of operations, as stated by the Act.

Those employees that resign voluntarily or that are terminated for reasons established in the Plan will not be eligible to participate. Employees that start working for the Company after September 20, 2011 will also be ineligible.

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**14. BONUS PLAN FOR RETIREMENT AND RETENTION OF EMPLOYEE *(continued)***

Eligible employees will receive the following benefits, among others:

- (a) The Company's initial contribution to establish a defined contribution plan (1165 (e)), which is equivalent to 9.275% of the eligible employees' salary over the years of service in the Company. Additionally, beginning on July 1, 2012, employees shall receive a Company contribution of a maximum of 3% of their annual salary up to \$ 10,000, while the Company exists.

Eligible executive and management employees shall receive a discretionary bonus according to the defined contribution plan approved by the Board of Directors, which is equivalent to 8.275% of the total compensation paid over the eligible employees' years of service in the Company from July 2002 to July 10, 2012.

The Company's total contribution to the defined contribution plan amounted to approximately \$483,200 in 2012.

- (b) At the time to complete and terminate their functions, those eligible employees shall receive a bonus equivalent to one month salary plus one week for each full year of service, not to exceed three months' salary.

Eligible employees that perform essential functions in the Company shall receive a discretionary bonus in accordance to the parameters established in Sections 8.2 (4) (b) and 8.3 under Act No. 184, of August 3, 2004, as amended, not to exceed 25% of their salary.

- (c) Other benefits such as Christmas bonus and the contribution to a health insurance plan for one year.