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Lutgardo Acevedo López, CPA, CMA, JD

CERTIFIED PUBLIC ACCOUNTANT • CERTIFIED MANAGEMENT ACCOUNTANT

PUERTO RICO LAND ADMINISTRATION
(a component unit of the Government of Puerto Rico)

Annual Financial Report
(Including the Auditor's Report on the Financial Statements)

June 30, 2012 and 2011

PUERTO RICO LAND ADMINISTRATION
(a component unit of the Commonwealth of Puerto Rico)
Audited Financial Statements
June 30, 2012 and 2011

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	2
Financial Statements	
Balance Sheet	7
Statement of Revenues, Expenses and Changes in Net Assets	9
Statement of Cash Flows	10
Notes to Financial Statements	12



Lutgardo Acevedo López, CPA, CMA, JID

CERTIFIED PUBLIC ACCOUNTANT • CERTIFIED MANAGEMENT ACCOUNTANT

Independent Auditor's Report

To the Board of Directors of
Puerto Rico Land Administration;

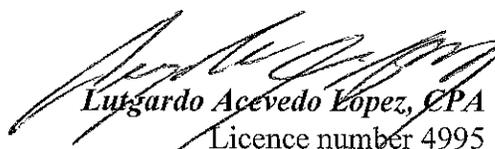
I have audited the accompanying balance sheet of the Puerto Rico Land Administration (the Administration) (a component unit of the Commonwealth of Puerto Rico), as of June 30, 2012 and 2011 and the related statements of revenues and expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Administration's management. My responsibility is to express an opinion on these financial statements based on our audit.

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

In my opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Puerto Rico Land Administration as of June 30, 2012 and 2011 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.

The Management's Discussion and Analysis on pages 2 through 6 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

November 16, 2012


Lutgardo Acevedo Lopez, CPA
Licence number 4995
Expires December 1st, 2013

Stamp number E49130 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
June 30, 2012 and 2011

This section of the Puerto Rico Land Administration's (the Administration) annual financial report presents our discussion and analysis of the Administration's performance during the fiscal year ended June 30, 2012. Please read it in conjunction with the Administration's financial statements and accompanying notes.

Financial Highlights

- The Administration's net assets increased by \$1.3 million during the fiscal year ended June 30, 2012.

Overview of the Financial Statements

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

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
June 30, 2012 and 2011

Financial Analysis of the Administration

Net assets: The following table summarizes the changes in the Net Assets between June 30, 2012, 2011 and 2010 (in thousands):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Assets:</u>			
Cash, cash equivalents and investments in debt securities	\$ 43,179	52,626	89,989
Current receivables	4,840	5,229	4,624
Non-current receivables	-	-	-
Property and equipment			
Non-depreciable	14,407	10,559	9,863
Depreciable	9,370	10,091	9,121
Other capital assets	175,442	169,795	186,591
Other assets	<u>800</u>	<u>94</u>	<u>507</u>
Total Assets	<u>248,038</u>	<u>248,394</u>	<u>300,695</u>
<u>Liabilities:</u>			
Deposits on sales of land	33,698	33,698	34,664
Other liabilities	<u>12,302</u>	<u>13,953</u>	<u>13,747</u>
Total liabilities	<u>46,000</u>	<u>47,651</u>	<u>48,411</u>
Net Assets	<u>\$ 202,038</u>	<u>200,743</u>	<u>252,284</u>

The Administration's total assets and liabilities do not present material changes for the year ended June 30, 2012, other than the normal operating increase in net assets.

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
June 30, 2012 and 2011

Operating Activities: The Administration enters into lease agreements, on the land and properties it owns, with government and private entities. The agreements vary in values and terms, dependent on the intended public use and benefits to the Commonwealth of Puerto Rico and its citizens/residents. The Administration also acquires and sells to other government agencies, and instrumentalities, or private entities, land and property that has been determined to be used or developed for the public interest. Operating expenses comprising principally of administration expenses, are mostly payroll and payment of real property taxes, of which the Administration is not exempt.

The following table summarizes the results of operations and the variance between fiscal years ended June 30, 2012, 2011 and 2010 (in thousands):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Revenues:</u>			
Rental Income	\$ 10,495	12,433	8,966
Investment Income	<u>280</u>	<u>575</u>	<u>878</u>
Total	10,775	13,008	9,844
General and Administrative Expenses	(9,924)	(8,990)	(9,221)
Other Income (Loss), Net	<u>443</u>	<u>(55,559)</u>	<u>16</u>
Total	<u>(9,481)</u>	(64,549)	(9,205)
Change in Net Assets	<u>\$ 1,294</u>	<u>(51,541)</u>	<u>\$ 639</u>

Capital Assets

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

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
June 30, 2012 and 2011

The following table summarizes the capital assets used by the Administration during the years ended June 30, 2012, 2011 and 2010 (in thousands):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Non-depreciable:</u>			
Land	\$ 106	106	106
Construction in progress	<u>14,301</u>	<u>10,453</u>	<u>9,756</u>
Total non-depreciable	14,407	10,559	9,862
<u>Depreciable:</u>			
Building	15,299	15,379	13,717
Furniture and equipment	1,173	1,245	1,267
Vehicles	<u>234</u>	<u>204</u>	<u>204</u>
Total depreciable	<u>16,706</u>	<u>16,828</u>	<u>15,188</u>
Less: accumulated depreciation and amortization	<u>(7,336)</u>	<u>(6,737)</u>	<u>(6,067)</u>
Net capital assets	<u>\$ 9,370</u>	<u>10,091</u>	<u>9,121</u>
Depreciation and amortization expense	<u>\$ 799</u>	<u>701</u>	<u>699</u>

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Other capital assets:</u>			
Real estate held for sale	\$ 156,445	152,124	150,725
Land under long-term lease	16,116	16,116	17,604
Real estate held for future use	<u>2,881</u>	<u>1,555</u>	<u>18,262</u>
Total other capital assets	<u>\$ 175,442</u>	<u>169,795</u>	<u>186,591</u>

Other capital assets have been reclassified to reflect the accounts in which they are accounted for in the accounting records of the Administration. The increase in other capital assets was due to acquisitions made during the fiscal year.

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
June 30, 2012 and 2011

Commitments

The Administration has entered into a development project commitment with a Municipality of Puerto Rico. In addition, the Administration serves as absolute, unconditional and irrevocable guarantor to the US Government, represented by the Department of the Navy, for an acquisition of properties made by the Local Redevelopment Authority for Naval Station Roosevelt Roads. For additional details on these commitments please refer to note 12 of the financial statements.

Contacting the Administration's Financial Management:

The financial report has the purpose of informing the Commonwealth of Puerto Rico residents and taxpayers, and our clients with a general financial overview of the Administration's accountability of the assets, funds and appropriations it holds and receives. If you have any questions about this report or need additional information, contact Ms. Nurys Paniagua Charles, CPA, Acting Budget and Finance Director, at Puerto Rico Land Administration, 171 Carlos Chardón Avenue, Suite 101, San Juan, Puerto Rico. You may also visit our website at: www.terrenos.gobierno.pr. You may also call us at 787-753-9470.

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)

Balance Sheets
June 30,

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents (note 2)	\$ 31,609,464	44,462,292
Investment in debt securities (note 3)	11,569,122	8,163,873
Interest receivable (note 4)	542,447	466,793
Rent receivable, net of allowance (note 4)	2,490,473	2,933,326
Notes receivable from government agencies (note 4)	1,305,617	1,305,617
Other current receivable, net of allowance (note 4)	501,871	523,481
Prepaid expenses	66,647	93,883
Total current assets	48,085,641	57,949,266
Non-current assets:		
Restricted cash (note 1)	733,000	-
Capital assets:		
Property and equipment (note 5):		
Non-depreciable:		
Land	106,429	106,429
Construction in progress	14,300,568	10,452,774
Total non-depreciable	14,406,998	10,559,202
Depreciable	9,370,374	10,090,601
Other capital assets (note 9):		
Real estate held for sale	156,444,877	152,123,759
Land under long-term lease	16,116,301	16,116,301
Real estate held for future use	2,880,500	1,554,594
Total other capital assets	175,441,678	169,794,653
Total non-current assets	199,952,049	190,444,456
Total assets	\$ 248,037,691	248,393,722

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

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Balance Sheets - continued
June 30,

<u>Liabilities and Net Assets</u>	<u>2012</u>	<u>2011</u>
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,097,479	4,846,935
Current portion of obligation for incentives, retirement, and retraining program (note 7)	266,425	119,585
Rent collected in advance - current	1,923,197	2,465,988
Total current liabilities	<u>5,287,101</u>	<u>7,432,508</u>
Non-current liabilities:		
Guaranty rent deposits	300,189	307,431
Rent collected in advance - non-current	4,750,000	5,750,000
Long-term portion of obligation for incentives, retirement, and retraining program (note 7)	1,965,292	463,030
Deposits on sales of land and properties held for sale (note 9)	33,697,538	33,697,538
Total non-current liabilities	<u>40,713,019</u>	<u>40,217,998</u>
Total liabilities	46,000,119	47,650,506
Contingencies and commitments (notes 8 and 12)		
Net assets:		
Invested in capital assets	9,370,374	10,090,601
Unrestricted	192,667,197	190,652,614
Total net assets	<u>202,037,571</u>	<u>200,743,215</u>
Total liabilities and net assets	<u>\$ 248,037,691</u>	<u>248,393,722</u>

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

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Statements of Revenues, Expenditures and Changes in Net Assets
June 30,

	<u>2012</u>	<u>2011</u>
Revenues:		
Rental income (notes 1 and 9)	\$ 10,494,919	12,432,610
Investment income (note 3)	279,656	575,388
Total revenues	<u>10,774,575</u>	<u>13,007,999</u>
Expenses:		
Payroll and personnel costs	6,918,715	5,668,434
Property taxes	438,121	767,558
Contracted services	747,477	682,309
Depreciation and amortization (note 5)	799,453	701,303
Insurance	202,048	236,069
Utilities	371,964	401,637
Repairs and maintenance	134,799	69,337
Interagency administrative fee (note 10)	-	273,000
Other general and administrative	310,837	190,769
Total expenses	<u>9,923,414</u>	<u>8,990,416</u>
Net income	<u>851,162</u>	<u>4,017,583</u>
Other income/(expenses)		
Sale of land held for sale	-	497,400
Cost of property sold	13,482	(158,308)
Cost of donated property, received (transferred)	(72,957)	(31,211,345)
Contribution to other component unit	-	(25,133,345)
Realized loss on investments	1,009	(63,801)
Change in unrealized gain/(loss) on investments	(231,418)	18,629
Legal settlements	-	-
Other miscellaneous	733,078	492,190
	<u>443,194</u>	<u>(55,558,580)</u>
Change in net assets	1,294,356	(51,540,997)
Net assets, at beginning of year	<u>200,743,215</u>	<u>252,284,212</u>
Net assets, at end of year	<u>\$ 202,037,571</u>	<u>200,743,215</u>

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

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

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Collection of rent, including advanced	\$ 9,409,350	11,014,364
Interest collected on investment in debt-securities and other	204,003	552,731
Payments to employees and related payroll costs	(5,192,185)	(5,187,254)
Payments for goods and services	<u>(4,004,898)</u>	<u>(2,046,777)</u>
Net cash provided by operating activities	<u>416,270</u>	<u>4,333,064</u>
Cash flows used in capital and related financial activities:		
Capital expenditures	<u>-</u>	<u>-</u>
Net cash provided (used) in capital and related financial activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
(Purchases) proceeds from sale and disposition of real estate	(4,321,118)	(12,672,729)
(Increase) Release of restriction on cash	(733,000)	400,000
Payments for construction in progress	(3,847,795)	(2,293,333)
Purchase of investment in debt-securities	(7,105,247)	(13,711,768)
Proceeds from sales and redemption of investments	3,700,000	22,158,443
(Increase) Decrease in real property	(882,712)	29,488,873
Additions in depreciable assets	(79,226)	(73,727)
Contributions to other governmental entities	-	(56,344,690)
Decrease on deposits on sales of land	-	(966,208)
Proceeds from other miscellaneous	<u>-</u>	<u>766,112</u>
Net cash used in investing activities	<u>(13,269,097)</u>	<u>(33,249,027)</u>
Net change in cash and cash equivalents	(12,852,828)	(28,915,963)
Cash and cash equivalents, beginning of year	<u>44,462,292</u>	<u>73,378,255</u>
Cash and cash equivalents, end of year	<u>\$ 31,609,464</u>	<u>44,462,292</u>

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

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

	<u>2012</u>	<u>2011</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 851,162	4,017,583
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	799,453	701,303
Changes in operating assets and liabilities:		
Decrease (Increase) in interest receivable	(75,654)	(22,657)
Decrease (Increase) in rent receivable	442,853	(808,203)
Decrease (Increase) in other receivables	21,610	225,897
Decrease (Increase) in prepaid expenses	27,236	12,822
Increase (Decrease) in accounts payable	(1,749,457)	470,953
Increase (Decrease) in obligation under early employee retirement	1,649,102	582,615
Increase (Decrease) in guaranty rent deposits	(7,242)	16,455
Increase (Decrease) in rent collected in advance	<u>(1,542,792)</u>	<u>(863,704)</u>
Net cash provided by operating activities	<u>\$ 416,270</u>	<u>4,333,064</u>
Supplemental Information on Non-cash Investing Activities		
Cash paid for interests	<u>\$ -</u>	<u>-</u>
Cash paid for income taxes	<u>\$ -</u>	<u>-</u>

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

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

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

Reporting Entity

The Puerto Rico Land Administration (the Administration), is a public corporation and a component unit of the Commonwealth of Puerto Rico (the Commonwealth). The Administration was created by Act 13 of May 16, 1962, as amended, to promote the welfare of the community through efforts and programs designed for the efficient utilization of public land in Puerto Rico. Among its programs, the Administration acquires, through negotiation or expropriation, parcels of land, on behalf of government entities, for future development or for reserve. The Administration is also dedicated to the rental of certain tracts of land through lease contracts for public and private use.

Significant Accounting Policies

The significant accounting policies adopted by the Administration follows:

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

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

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

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

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds. As of June 30, 2012 and 2011, there was no debt related to the invested capital assets.

Restricted – This component of net assets consists of constraints placed on net assets use, imposed by creditors (such as through covenants), contributors, or law regulations of other governments or constraints imposed by law through constitutional provision or enabling legislation. As of June 30, 2012 there was restricted cash in the amount of \$733,000 and for the year ended June 30, 2011 there were no restricted net assets.

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

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

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

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

Accounting estimates

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

Land and Properties

Land and properties are recorded at cost, plus allocable interest, costs of appraisals, related acquisition studies and improvements, and other costs able to be capitalized or market value, whichever is lower. Donated land and properties are stated at fair market value at the date of donation. The GASB has issued Statement No. 42 "Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries," which requires the Administration to report the effects of capital asset impairments in its financial statements when they occur rather than as a part of on-going depreciation expense for the capital assets or upon disposal of the capital asset. Impairment will be measured using methods that are designed to isolate the cost of the capital asset's service capacity that has been rendered unusable by impairment. The statement requires several disclosure requirements to assist users in understanding the nature and impact of the impairment. Management of the Administration is of the opinion that the cost to appraise all land and property would represent a significant unwarranted expense. Appraisals of certain properties made during the past years, as well as current market value information of certain land and properties obtained from sales transactions carried out in during the year ended June 30, 2012 and 2011, and from other sources, reflected that market values are generally in excess of carrying values.

Management of the Administration understands that there are no instances of impairment of a capital asset for the years ended June 30, 2012 and 2011.

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

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

Cash and Cash Equivalents

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

Investments

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

Allowance for Doubtful Accounts

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

Property and Equipment

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

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

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

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

Property and Equipment, continued

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

Land and Property Sales

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

Rental Income

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

Taxes

The Administration is exempt from the payment of Puerto Rico taxes, except real property taxes.

Risk Financing

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

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

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

Non-exchange Transactions

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

- (2) Cash and Cash Equivalents

As of June 30, 2012 and 2011, the Administration had cash deposits with the Government Development Bank for Puerto Rico (GDB) of approximately \$31,342,275 and \$42,613,560 respectively. The deposits bear interest at approximately 0.1% during the fiscal years 2012 and 2011. The remaining balances were maintained in a commercial bank. The depository commercial bank balances at June 30, 2012 and 2011, amounted to approximately \$1,371,896 and \$2,527,604 of which \$250,000 were covered by the Federal Deposit Insurance Corporation.

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

(2) Cash and Cash Equivalents, continued

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

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

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

Category 3 Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the Administration's cash deposits with a private financial institution in the amount of \$1,371,896 are classified as Category 1. Such deposits have a book balance of \$998,689.

The amounts deposited with the GDB \$31,342,275 are classified in Category 3. The book balance is the same.

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

(3) Investment in Debt Securities

The following tables summarize the Administration's investments at June 30, 2012 and 2011:

<u>Description</u>	<u>Fair Value</u>	June 30, 2012 Investments Maturities (in years)			
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More than 10</u>
US Municipal Bonds	\$ 3,353,783	-	3,353,783	-	-
FNMA pass-through certificates	60,399	-	60,399	-	-
Federal Agency Note	6,055,750	-	6,055,750	-	-
Corporate Bonds	<u>2,099,190</u>	<u>-</u>	<u>2,099,190</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 11,569,122</u>	<u>-</u>	<u>11,569,122</u>	<u>-</u>	<u>-</u>

<u>Description</u>	<u>Fair Value</u>	June 30, 2011 Investments Maturities (in years)			
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More than 10</u>
FHLMC participation certificates	\$ 173,534	-	-	173,534	-
FNMA pass-through certificates	136,921	-	87,806	49,115	-
Federal Home Loan Bank	2,007,760	-	2,007,760	-	-
Corporate Bonds	2,821,328	708,568	2,112,760	-	-
Federal Agency Note	<u>3,024,330</u>	<u>-</u>	<u>3,024,330</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 8,163,873</u>	<u>708,568</u>	<u>7,232,656</u>	<u>222,649</u>	<u>-</u>

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

(3) Investment in Debt Securities, continued

The Administration's investments are exposed to credit, custodial credit, concentration of credit and interest rate risks. Following is a description of these risks at June 30, 2012 and 2011:

Credit Risk

The Administration is authorized to invest in Puerto Rico and U.S. government obligations or in obligations guaranteed by the Puerto Rico or U.S. governments or its agencies or instrumentalities, including mortgage loans secured or guaranteed under federal housing laws. It can also invest in corporate debt classified in the highest categories of at least two of the principal rating services. As of June 30, 2012 and 2011, the Administration's credit rating of investments subject to credit risk were as follows on the next page:

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

(3) Investment in Debt Securities, continued

June 30, 2012

<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>	<u>Total</u>	<u>Credit Risk Rating</u>	
				<u>S&P</u>	<u>Moody's</u>
Arizona St WTR Infrastructure	US Municipal Bond	\$ 1,108,173	—	AAA	Aaa
NY St Urban Dev Corp	US Municipal Bond	1,234,920	—	AAA	n/a
Wayne County, MI	US Municipal Bond	1,010,690	3,353,783	SP-1	n/a
FNMA Pool C1-541714 Reg	FNMA pass-through	60,399	60,399	AA+	Aaa
Federal Farm Bonds	Federal Agency Note	3,038,610	—	AA+	Aaa
Federal Home Ln Bond.	Federal Agency Note	2,015,860	—	AA+	Aaa
Federal Natl MTG Assn	Federal Agency Note	1,001,280	6,055,750	AA+	Aaa
Wal-Mart Stores, Inc.	Corporate Bonds	1,049,640	—	AA	Aa2
Sherwin-Williams	Corporate Bonds	<u>1,049,550</u>	<u>2,099,190</u>	A	A3
		<u>\$ 11,569,122</u>	<u>11,569,122</u>		

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

(3) Investment in Debt Securities, continued

June 30, 2011

<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>	<u>Total</u>	<u>Credit Risk Rating</u>	
				<u>S&P</u>	<u>Moodv's</u>
FHLMC Remic Series	FHLMC participation certificates	\$ 173,534	173,534	AAA	Aaa
FNMA Remic Trust	FNMA pass-through certificates	49,115	—	AAA	Aaa
FNMA Pool CI-541714 Reg.	FNMA pass-through certificates	87,806	136,921	AAA	Aaa
Federal Farm Bonds	Federal Agency Note	3,024,330	3,024,330	AAA	Aaa
General Electric Corp.	Corporate Bonds	708,568	—	AA+	Aaa
Wal-Mart Stores, Inc.	Corporate Bonds	1,056,730	—	AA	Aa2
Sherwin-Williams Co.	Corporate Bonds	1,056,030	2,821,328	A	A3
Federal Home Ln Bk	US Agencies	<u>2,007,760</u>	<u>2,007,760</u>	AAA	Aaa
		<u>\$ 8,163,873</u>	<u>8,163,873</u>		

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

(3) Investment in Debt Securities, continued

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Administration will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Administration has bank investment contracts with the GDB. As of June 30, 2012 and 2011 all the investments in debt securities are in custody with another financial institution. These may be classified in one of the following three categories:

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

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

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

As of June 30, 2012 and 2011, the investments held by financial institutions were exposed to custodial risk as follows:

	<u>2012</u>	<u>2011</u>
Uninsured and unregistered investments held by the governmental entity or held by the governmental entity's agent in the name of the governmental entity.	\$ <u>11,569,122</u>	<u>8,163,873</u>

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

(3) Investment in Debt Securities, continued

Concentration of Credit Risk

The Administration's investment policy does not place limits on the amounts that may be invested in Governmental and U.S. agencies. Financial and corporate limits fluctuate based on the instrument classification. The Administration's investments in the following instruments represent a concentration of credit risk as each of these are at least 5% of the total investments at June 30, 2012:

<u>Issuer</u>	<u>Amount</u>
Arizona St. WTR Infrastructure	\$ 1,108,173
New York St. Urban Dev. Corp.	1,234,920
Wayne County, MI	1,010,690
Federal Farm Bonds	3,038,610
Federal Home LN Bond	2,015,860
Federal National Mortgage Association	1,001,280
Sherwin-Williams Company	1,049,550
Wal-Mart Stores, Inc.	1,049,640

Interest Rate Risk

The Administration holds approximately \$60,399 in mortgage-backed securities, as part of its normal operations. These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgages, which may result from a decline in interest rates. The collateralized mortgage obligations consisted of Federal National Mortgage Association (FNMA) certificates restricted for the payment of bonds.

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

(4) Notes, Interest and Other Receivables, Net

As of June 30, 2012 and 2011, notes, interest and other receivables were as follows:

	<u>2012</u>	<u>2011</u>
Notes receivable from government entities:		
Current portion	\$ <u>1,305,617</u>	<u>1,305,617</u>
Non-current portion	\$ <u>—</u>	<u>—</u>
Interest receivable	\$ <u>542,447</u>	<u>466,793</u>
Rent and land leases	\$ 4,146,856	4,707,807
Less: Allowance for doubtful accounts	<u>(1,656,383)</u>	<u>(1,774,481)</u>
Total rent and land leases, net	\$ <u>2,490,473</u>	<u>2,933,326</u>
Other current receivables	\$ 696,030	717,640
Less: Allowance for doubtful accounts	<u>(194,159)</u>	<u>(194,159)</u>
Total other current receivables	\$ <u>501,871</u>	<u>523,481</u>

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

(4) Notes, Interest and Other Receivables, Net, continued

Interest receivable includes interest amount of \$515,683 on a note receivable from the Puerto Rico Industrial Development Corporation (PRIDCO). The payment of interest on this note, was due on December 23, 2009. As of the date of these financial statements, interests have not been settled or paid by PRIDCO.

(5) Property and Equipment

As of June 30, 2012 and 2011, property and equipment consist of the following:

<u>Description</u>	June 30, 2011 <u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	June 30, 2012 <u>Ending Balance</u>
Property and equipment not being depreciated:				
Land	\$ 106,429	-	-	106,429
Construction in progress	<u>10,452,774</u>	<u>3,847,794</u>	<u>-</u>	<u>14,300,568</u>
Total property and equipment not being depreciated	<u>\$ 10,559,203</u>	<u>3,847,794</u>	<u>-</u>	<u>14,406,997</u>
Property and equipment being depreciated:				
Buildings, structures and improvements	\$ 15,378,453			15,378,453
Furniture and equipment	1,245,060	48,926	(121,141)	1,172,845
Vehicles	<u>204,003</u>	<u>30,300</u>	<u>-</u>	<u>234,303</u>
	\$ 16,827,516	79,226	(121,141)	16,785,601
Less: accumulated depreciation	<u>(6,736,915)</u>	<u>(799,453)</u>	<u>121,141</u>	<u>(7,415,227)</u>
Total property and equipment being depreciated, net	<u>\$ 10,090,601</u>	<u>\$ (720,227)</u>	<u>\$ -</u>	<u>9,370,374</u>

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

(6) Pension Plan

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

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

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

In no case will the annuity be less than \$300 per month. Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation, otherwise they will receive 75% of the average compensation. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess of \$550 of monthly salary. The Administration is required by the same statute to contribute 10.275% of the participant's salary. Total payroll covered for 2012 was approximately \$4,000,461. Total employee and employer contributions (rounded) for the years ended June 30, 2012, 2011 and 2010 are as follows in the next page:

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

(6) Pension Plan, continued

<u>Description</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Employer	\$ 325,561	317,294	316,611
Employee	\$ 238,028	279,581	238,753

There are certain special laws providing additional economic benefits to retired persons. The subject laws provide that such benefits will be billed by the Retirement System to the Administration. During the year 2011 the Administration was billed in the amount of approximately \$120,073 in relation to that year and prior year charges under special laws.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted for the purpose of establishing a new pension program (System 2000). System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives.

Participants will receive periodic account statements, similar to those of defined contribution plans, showing their accrued balances. Disability pensions will not be granted under System 2000. The employers' contribution (10.275% of the employee's salary) will be used to fund the current plan. System 2000 reduced the retirement age from 65 to 60 for those employees who joined the current plan on or after April 1, 1990. Additional information on the System will be provided in its financial statements for the years ended June 30, 2012 and 2011, a copy of which may be obtained directly from the System.

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

(7) Voluntary Termination Benefits

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Administration. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. In this early retirement benefit program, the Administration will make the employee and the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one month to six months salary, based on employment years. For eligible employees that choose the economic incentives and have at least 30 years of credited service in the Retirement System and the age for retirement or have the age for retirement, the Administration will make the employee and the employer contributions to the Retirement System for a five year period. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Administration.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Administration's financial statements of a liability of \$2,231,717 (of which \$266,425 are current and \$1,965,292 are long-term) and \$582,615 (of which \$119,585 are current and \$463,030 are long-term) in the statement of net assets as of June 30, 2012 and 2011 respectively. The charge of \$1,792,682 and \$638,396 in the statement of revenues, expenditures and changes in net assets for the year ended June 30, 2012 and 2011 respectively.

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

(7) Voluntary Termination Benefits, continued

At June 30, 2012 and 2011, unpaid long-term benefits on this program were discounted for employees as follows:

	Discount percentage	
<u>Article of Act 70</u>	<u>2012</u>	<u>2011</u>
Article 4b	1.89%	2.72%
Article 4c	0.71%	1.85%

(8) Contingencies

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

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

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

(8) Contingencies, continued

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

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

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

(9) Other Capital Assets

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

Land under Long-term Leases

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

Cataño Fuel Storage Facilities

The Administration owns certain fuel storage and pier facilities in Cataño, Puerto Rico. The net book value of the subject facilities corresponds to the portion of land. Accordingly, the amount of \$2,817,919 shown below is included as part of land under long-term leases. The following summarizes the Administration's investment in these facilities at June 30, 2012:

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

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

(9) Other Capital Assets, continued

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

As of June 30, 2008 a new contract agreement with a new lessee was entered for a 10 year term lease. As part of agreement, the lessees paid the minimum annual lease payments in advance. The rent collected in advance amounted to \$5,750,000 and \$6,750,000 at June 30, 2012 and 2011, respectively.

As of June 30, 2012, net rental income under these agreements is as follows:

Gross rental income	\$ 8,350,839
Less direct expenses:	
Depreciation and amortization	—
Property taxes	<u>249,889</u>
	<u>\$ 8,100,950</u>

Minimum expected annual rentals under these contracts for the year ending June 30, 2012 are approximately \$4,206,928.

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

(9) Other Capital Assets, continued

(a) Real Estate Held for Sale

Land and properties held for sale (principally to other governmental entities) include land purchased by the Administration on behalf of other governmental entities. Land, which is acquired on behalf of other governmental entities, generally, includes certain holding costs, which are subject to reimbursement by the acquiring entity. Funds received under this program from the acquiring governmental entities are classified as deposits on sales of land and properties held for sale in the accompanying balance sheet until title is transferred to the buyer. Deposits received for optioned land and properties amounted to \$33,697,538 and \$33,697,538 at June 30, 2012 and 2011, respectively.

(b) Real Estate Held for Future Use

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

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

(10) Interagency Agreement

(a) Puerto Rico Convention Center District Authority

During the year ended June 30, 2011, the Administration entered into an interagency agreement to participate in the donation of land and cash to the Puerto Rico Convention Center District Authority (hereinafter "the Authority"). The basis for the donation is a major development of certain properties located in the San Juan, Puerto Rico touristic and port zone, which has been named "Bahía Urbana." It was determined that the agency best suited to develop such a project was the Authority. Under the agreement, the Administration would donate to the Authority certain land lots that belonged, or were to be acquired, by the Administration. The total amount of land donated is approximately \$28,000,000. In addition to the donation of land, the Administration also divested itself of approximately \$25,000,000 which were removed from time deposits held at the GDB and transferred to the Authority.

(b) Department of Economic Development of Puerto Rico

For the fiscal year ended June 30, 2011, the Administration entered into an agreement with the Department of Economic Development of Puerto Rico (hereinafter "the Department"). The entity responsible to implement and execute public policy for the economic development of Puerto Rico is the Department. Based on that fact an annual Reorganization Plan has been established. Under the agreement the Department assists in interagency coordination, project management, strategic planning, incentive administration, legal and legislative advisors, as well as advertising, communication, promotion, travel, contracting and designations. Total expense for this service for the year ended June 30, 2011 is in the amount of \$273,000. The agreement has not been renewed for fiscal year ending June 30, 2012.

(11) Land donations

During the year ended June 30, 2011, the Administration entered into agreements in which land was transferred in exchange for \$1 to the Municipalities of San Juan and Bayamón. The Administration has retired, at book value, the land donated estimated in approximately \$3,223,925.

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

(12) Commitments

(a) Municipality of Ponce

The Administration has an outstanding, or planned, construction project as of June 30, 2012 and 2011. This project is being developed in the City of Ponce, Puerto Rico with the involvement of this municipality. The total commitment to this project is in the amount of \$3,975,000 plus a contingent amount of \$525,000. Professional services related to this project are approximately \$85,000.

(b) Local Redevelopment Authority for Naval Station Roosevelt Roads

The Administration has entered into a guaranty agreement with the Local Redevelopment Authority for Naval Station Roosevelt Roads (hereinafter "LRA") and the United States of America, acting by and through the Department of the Navy (hereinafter "the US Government"). Under the terms of this guaranty agreement, the Administration will serve as guarantor of a transaction that includes the acquisition of certain real estate properties located at Naval Station Roosevelt Roads by the LRA. The price determined for such properties is in the amount of \$8,040,000. That amount is payable under the following terms: \$200,000 at the closing of the transaction and \$7,840,000 in fifteen (15) equal annual installments plus interest, which is computed at 150 basis points over the U.S. Treasury 10 Year Composite Note, utilizing the rate established on the first day of the month immediately prior to the due date that the first installment is made. The first installment is due on the later of September 30, 2015, or thirty (30) days following the conveyance of specific properties to the LRA. Each subsequent installment is due on the anniversary of the previous installment date.

The terms of the guaranty agreement establishes that the Administration serves as guarantor under its full faith and credit, absolutely, unconditionally and irrevocably as primary obligor and not merely as surety, of the installment payments to the US Government, due or to become due, and arising out of or in connection with such payments. The agreement constitutes a guaranty by the Administration of payment when due and not of collection. It shall not be necessary or required that the US Government exercise any right, assert any claim, demand or enforce any remedy whatsoever against the LRA before or as a condition to the obligations of guarantor hereunder.

(Continues)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2012 and 2011

(12) Commitments - continued

(b) Local Redevelopment Authority for Naval Station Roosevelt Roads -
continued

In the event that the US Government exercises its rights under the guaranty against the Administration, LRA secures the payment to the Administration under the terms of a separate supporting guaranty granted on January 25, 2012. Under the terms of such guaranty LRA serves as obligor to the PRLA for any payment made to the US Government.