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RSM ROC & Company
Certified Public Accountants & Consultants

Puerto Rico Land Administration

(A Component Unit of the Commonwealth of Puerto Rico)

ADMINISTRACIÓN DE TERRENOS
ESTADO LIBRE ASOCIADO DE PUERTO RICO

Basic Financial Statements and Required Supplementary Information
For the Fiscal Year Ended June 30, 2013

Puerto Rico Land Administration
(A Component Unit of the Commonwealth of Puerto Rico)

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION
For the fiscal year ended June 30, 2013

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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of
Puerto Rico Land Administration

We have audited the accompanying financial statements of Puerto Rico Land Administration, a Component Unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Puerto Rico Land Administration as of June 30, 2013, and the changes in financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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

San Juan, Puerto Rico
December 19, 2013.

RSM ROC & Company

Stamp No. E83572 was affixed to
the original of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

This section of the Puerto Rico Land Administration (the Administration) financial statements presents a narrative overview and analysis of the Administration's financial performance and is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in the financial position of the Administration. The information presented herewith should be read in conjunction with the Administration's basic financial statements and accompanying notes.

1. FINANCIAL HIGHLIGHTS

- The Administration's total assets increased by $3.8 million (or 1.5%)
- Land and properties leased under long-term contracts increased by $3.7 million (or 23.1%)
- Land held for sale increased by $1.7 million (or 1.1%)
- Cash (including restricted cash), cash equivalents and investments in debt securities increased by $4.7 million (or 10.8%)
- Capital assets decreased by $4.5 million (or 19.1%)
- Notes, interest and other receivables, net, decreased by $2.2 million (or 44.7%)
- There were sales of land and properties of $3.9 million during the year ended June 30, 2013
- Rental income increased by $1 million (or 9.1%)
- Operating expenses increased by $3.7 million (or 36.8%)

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Administration's basic financial statements, which are comprised of the financial statements and the notes to the financial statements. Since the Administration is comprised of a single proprietary fund, no fund level financial statements are shown.

Basic Financial Statements – The basic financial statements are designed to provide readers with a broad overview of the Administration's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Administration's assets and liabilities, with the difference between the two reported as net position. Net position increases when revenues exceed expenses. Increase to assets without a corresponding increase to liabilities results in increased net position, which indicates an improved financial position.

The statement of revenues, expenses, and change in net position presents information showing how an entity's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of timing of related cash flows.

The last of the required financial statements is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and capital and noncapital financing activities, and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Basic Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

3. FINANCIAL ANALYSIS OF THE ADMINISTRATION

Condensed financial information on assets, liabilities and net position is presented below (all amounts in thousands):

Description	2013	2012	Increase (Decrease)	Percentage
ASSETS:				
Land and properties	$ 180,916	$ 175,442	$ 5,474	3.1%
Cash (including restricted cash, cash equivalents and investments in debt securities)	48,651	43,912	4,739	10.8%
Capital assets	19,245	23,777	(4,532)	(19.1%)
Notes, interest, and other receivables, net	2,676	4,840	(2,164)	(44.7%)
Other assets	380	66	314	468.7%
	251,868	248,037	3,831	1.5%
LIABILITIES:	47,842	46,000	1,842	4.0%
NET POSITION:				
Invested in capital assets	8,686	9,370	(684)	(7.3%)
Restricted	733	733	-	-
Unrestricted	194,607	191,934	2,673	1.4%
	$ 204,026	$ 202,037	$ 1,989	1.0%

Overall, the Administration's net position increased by $2.0 million, mainly resulting from the sale of land and properties during fiscal year ended June 30, 2013 for $3.8 million and an increase in rental income of $958 thousand. Total increase in revenues of $4.8 million was sufficient to cover the increase in operating expenses of $3.6 million. This activity results in an increase in net position of $696 thousand.

As stated in the preceding paragraph, the comparative data shows that total assets increased primarily due to cash proceeds from sale of land and properties. There were additions to land held for sale and capital assets of approximately $795,000 and $830,000, respectively. In addition, there was an increase in the allowance for uncollectible receivables of $2.1 million.

During the year ended June 30, 2013, a parcel of land known as "Finca Multeado Estrella" located in Ponce, Puerto Rico, with an aggregate cost of $4.6 million was reclassified from capital assets-construction in progress to land and properties.

Condensed financial information on revenues, expenses, and changes in net position is presented below (dollars in thousands):

Description	2013	2012	Increase (Decrease)	Percentage
OPERATING REVENUES:				
Land and properties sales, net	$ 3,880	$ -	$ 3,881	100.0%
Rental income	11,453	10,495	958	9.1%
Land donation	4	-	4	100.0%
	15,337	10,495	4,843	46.1%
OPERATING EXPENSES	13,573	9,983	3,590	36.0%
NON-OPERATING REVENUES	225	782	(557)	(71.2%)
INCREASE IN NET POSITION	$ 1,989	$ 1,294	$ 696	53.8%

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

During the year ended June 30, 2013, there were net sales of land and properties of $3.9 million, while during the year ended June 30, 2012, there were no sales, since the Administration's strategy was focused on long-term ownership of the current resources and leased them. During the year ended June 30, 2013, the Administration entered into twelve (12) new lease agreements of land and properties, contributing to the increase in rental income of $958,000, in comparison with the year ended June 30, 2012.

Operating expenses increased by $3.6 million (or 36.0%), mostly caused by the following:

- Increase in property tax expense of $1.3 million due to a reserve recorded to cover potential tax assessments over the main offices of the Administration located in Hato Rey, Puerto Rico.

- During the year ended June 30, 2013, the allowance for doubtful accounts was increased to $1.2 million.

Non-operating revenues decreased by $557,000 (71.2%), mostly caused by the following:

- During the year ended June 30, 2012, the Administration received a legislative appropriation of $733,000 to finance the project known as "Digitalización de Suelos". There were no appropriations during the year ended June 30, 2013. This project has not been commenced by the Administration.

- During the year ended June 30, 2013, there was an increase of $83,000 in interest income and a decrease of $93,000 in unrealized loss of investments.

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

The following table summarizes the capital assets of the Administration as of June 30, 2013 and 2012:

Description	2013	2012	Increase (Decrease)	Percentage
CAPITAL ASSETS:				
Land	$ 106	$ 106	$ -	0.0%
Building and improvements	15,378	15,378	-	0.0%
Furniture and equipment	1,252	1,173	79	6.7%
Vehicles	224	234	(10)	(4.3%)
Less: Accumulated depreciation and amortization	(8,168)	(7,415)	(753)	10.2%
Plus: Construction in progress	10,453	14,301	(3,848)	(26.9%)
	$ 19,245	$ 23,777	$ (4,532)	(19.1%)

Change in accumulated depreciation is due to the depreciation of building and improvements, furniture and fixtures, vehicles for $779,000, $58,000, and $10,000, respectively, for the year ended June 30, 2013. During the year ended June 30, 2013, there were additions to construction in progress for $742,000 and reclassification from construction in progress to land and properties for $4.6 million, related to the parcel of land known as "Finca Multeado Estrella". For a detailed activity of capital assets, please refer to Note 7 of the basic financial statements.

4. COMMITMENTS

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 this commitment, please refer to Note 12 of the basic financial statements.

5. REQUEST FOR INFORMATION

This financial report is designed to provide those interested with a general overview of the Administration's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Puerto Rico Land Administration, 171 Carlos Chardon Avenue, Suite 101, San Juan, Puerto Rico.

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

STATEMENT OF NET POSITION
June 30, 2013

ASSETS	
LAND AND PROPERTIES:	
Leased under long-term contracts:	
Cataño Fuel Storage Facilities, net	$ 2,817,919
Other properties	17,025,713
	19,843,632
Held for sale	158,191,770
Held for future use	2,880,500
	180,915,902
CASH AND CASH EQUIVALENTS	37,002,992
INVESTMENTS IN DEBT SECURITIES	10,914,613
NOTES, INTEREST AND OTHER RECEIVABLES, net	2,676,149
CAPITAL ASSETS, net	19,245,468
RESTRICTED CASH	733,000
OTHER ASSETS	380,703
	251,868,827
LIABILITIES AND NET POSITION	
LIABILITIES:	
Accounts payable and accrued liabilities:	4,430,342
Obligation for incentives, retirement and retraining program	3,719,311
Rent collected in advance	5,646,250
Guaranty rent deposit	448,792
Deposits on sales of land and properties held for sale	33,597,453
	47,842,148
NET POSITION:	
Net investment in capital assets	8,686,265
Restricted	733,000
Unrestricted	194,607,414
	$ 204,026,679

The accompanying notes are an integral part of this statement of net position.

PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the year ended June 30, 2013

OPERATING REVENUES:	
Land and properties sales -	
To entities, agencies or component units	$ 3,620,000
To others	490,535
	4,110,535
Less: cost of land and properties sold	(230,003)
Gain on sale of land and properties	3,880,532
Rental income	11,452,787
Land donation	4,109
	15,337,428
OPERATING EXPENSES:	
Personnel services	7,121,905
Contracted services	612,642
Utilitites	347,180
Property taxes	1,749,112
Insurance	283,025
Repairs and maintenance	80,997
Bad debt expense	2,148,400
Depreciation and amortization	848,518
Land donation	4,109
Other	377,372
	13,573,260
OPERATING INCOME	1,764,168
NON-OPERATING REVENUES (EXPENSES)	
Investment income	362,975
Unrealized loss on investments	(138,035)
	224,940
INCREASE IN NET POSITION	1,989,108
NET POSITION, beginning of year	202,037,571
NET POSITION, end of year	$ 204,026,679

The accompanying notes are an integral part of this statement.

PUERTO RICO LAND ADMINISTRATION

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS

For the year ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Sales of properties and rental income	$ 14,831,133
Acquisition of land for sale	(795,000)
Payment to employees and related payroll costs	(6,054,788)
Payments for goods, servcies and taxes, substantially real property tax	(2,493,916)
Other receipts	417,489
Net cash provided by operating activities	5,904,918
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(829,556)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest collected on investments in debt securities	267,485
Purchase of investments in debt securities	1,547,311
Proceeds from redemption of investments in debt securities	(1,496,630)
Net cash provided by investing activities	318,166
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,393,528
CASH AND CASH EQUIVALENTS, beginning of year	31,609,464
CASH AND CASH EQUIVALENTS, end of year	$ 37,002,992
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	1,764,168
Adjustments to reconcile operating income to net cash provided by operating activities -	
Depreciation and amortization	848,518
Bad-debt expense	2,148,400
Changes in assets and liabilities:	
(Increase) decrease in assets -	
Notes, interest, and other receivables	15,858
Other assets	(314,056)
Increase (decrease) in liabilities -	
Accounts payable and accrued liabilities	932,865
Rent collected in advance, guaranty rent deposits, and other	(878,344)
Deposits on sales of land and properties held for sale	(100,085)
Obligation for incentives, retirements, and retraining program	1,487,594
Net cash provided by operating activities	$ 5,904,918

The accompanying notes are an integral part of this statement.

1) 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 the public and private use.

The Administration is exempt from the payment of Puerto Rico taxes, except real property taxes (see Note 14) and excise taxes on certain purchases.

2) Summary of Significant Accounting Policies:

The accounting and reporting policies of the Administration conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles in the United States of America. Following is a description of the most significant accounting policies:

Measurement focus basis of accounting and financial statement presentation – Financial statements of proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Proprietary funds present three basic financial statements, which include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows. It requires the classification of net assets into three components: net investment in capital assets, restricted and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – It consists of capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of related debt when such debt is attributable to the acquisition, construction, or improvement of those capital assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt should also be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital asset. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount. As of June 30, 2013, there was no debt on the invested capital assets.

- Restricted – The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

- Unrestricted – The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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 and disclosures of contingent assets and liabilities at the date of 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 capitalizable costs or market value, whichever is lower. Donated land properties are stated at fair market value at date of donation. Management of the Administration is of the opinion that the cost to appraise all land and property would represent a significant and unwarranted expense. Appraisals of certain properties made during the past five years, as well as current market value information of certain land and properties obtained from sales transactions carried out from fiscal years 2008 through 2013, and from other sources, reflected that market values are generally in excess of carrying values.

Management understands that there are no instances of impairment of properties and capital assets as of June 30, 2013.

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

Investments in debt securities – Investments in debt securities are carried at fair value. Fair value is determined based on a quoted market prices, whenever available. For securities without a quoted price, fair value is determined based on quoted market prices for comparable instruments.

Allowance for doubtful accounts – Allowance for uncollectible amounts are maintained on all types of receivables that historically experience uncollectible amounts. Allowances are based on collection experience and management's evaluation of the current status of existing receivables.

Capital assets – Capital assets that are purchased or constructed are recorded at historical cost. Donated assets are recorded at estimated market value at the time of donation. 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. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Description	Useful Life (In years)
Building and improvements	10-30
Furniture and equipment	5-15
Vehicles	5

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.

Compensated absences – The Administration maintains a policy that permits employees to accumulate earned but unused vacation and sick pay benefits that will be paid to employees upon separation from the Administration service if certain criteria are met. These benefits, plus their related tax and retirement costs, are classified as compensated absences. The Administration's policy permits employees to either bank unused sick pay benefits or receive a cash buyout on an annual basis.

Voluntary Termination Benefits – The Administration accounts for termination benefits in accordance with the provision of GASB No. 47, *Accounting for Termination Benefits*, which indicates that a liability with its corresponding expense should be recognized for voluntary termination benefits when the offer is accepted and the amount can be estimated.

Land and properties sales – Land and properties sales are recognized when title to the land and property is conveyed to the buyer. When portions of land parcels are sold, the cost of land is determined by computing an average area unit cost at the date of sale, which is then applied to the total area sold. Sale of air and surface rights to land is recognized as sale of land under the full accrual method of accounting. Land and properties sales are considered operating revenues in the accompanying statement of revenues, expenses and changes in net position.

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. Rental income is presented as operating revenues in the accompanying statement of revenues, expenses and changes in net position.

Non-operating revenues (expenses) – Include investment net income or loss and net unrealized gains and losses on investments.

Risk management – The Administration is responsible for assuring that the Administration's property is properly insured. 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's compensation insurance to another component unit of the Commonwealth.

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 transaction, 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.

Recently issued accounting standards – The GASB has issued the following accounting standards that have effective dates after June 30, 2013:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for periods beginning after December 15, 2012.
- GASB Statement No. 66, *Technical Corrections 2012 – a amendment of GASB Statements Nos. 10 and 62*, which is effective for periods beginning after December 15, 2012.

- GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, which is effective for periods beginning after June 15, 2013.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, which is effective for periods beginning after June 15, 2014.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which is effective for periods beginning after December 15, 2013.
- GASB Statement No. 70, *Accounting and Financial Reporting for Non-Exchange Financial Guarantees*, which is effective for periods beginning after June 15, 2013.

The impact of these standards in the Administration's basic financial statements has not yet been determined.

3) Land and Properties:

The Administration's land and properties inventory is segregated into the following:

Leased under long-term contracts – Represent the investment in land and properties subject to lease contracts for varying terms. Long-term lease agreements cover initial periods of five to thirty years with renewal option periods of up to ten 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 fiscal years is not readily available.

The Administration owns certain fuel storage and pier facilities in Cataño, Puerto Rico. The following summarizes the Administration's investment in these facilities at June 30, 2013:

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

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^{o} F, passing through the facilities, whichever is greater. The leases contain renewal options for two additional five-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 1996, were retroactively applied as of October 1, 1994, and shall remain in effect until September 30, 2004. The retroactive rent amounted to $333,333, of which $100,000 was paid at the inception of the new agreement and the remaining balance is due in eight (8) annual installments of $29,167, starting on December 1, 1997. The leases contain renewal options for one additional ten- year period.

During the year ended June 30, 2008, a new contract agreement with a new lease was entered for a 10-year term lease. As part of the agreement, the lessees paid the minimum annual lease payments in advance. The rent collected in advance amounted to $4,750,000 at June 30, 2013.

During the year ended June 30, 2013, net rental income under these lease agreements, are as follows:

Description	Amount
Gross rental income	$ 8,746,878
Plus: Property taxes	406,556
	$ 9,153,434

Minimum expected annual rentals under these contracts during the remaining term of the lease (all of which are due during the year ending June 30, 2014), is approximately $1,500,000.

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 statement of net position until title is transferred to the buyer. Deposits received for optioned land and properties amounted to approximately $33,597,000 at June 30, 2013.

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.

4) Cash and Cash Equivalents:

As of June 30, 2013, the Administration had cash deposits with Government Development Bank (GDB) of approximately $36,700,000. Custodial credit risk is the risk that in the event of a bank failure, the bank's deposits may not be returned. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized. Deposits maintained in the GDB are exempt from the collateral requirement established by the Commonwealth and thus, may not be able to recover the deposits. The Administration's policy is to deposit funds with an institution that provides insurance or securities as collateral. Such collateral is held by the Department of Treasury of the Commonwealth. The deposits bear interest ranging from 0.8% to 0.40% during the year ended June 30, 2013. The remaining balances were maintained in commercial banks.

The depository commercial bank balances at June 30, 2013, amounted to approximately $1,188,000, of which $250,000 are insured by the Federal Depository Insurance Corporation (FDIC). The amount exceeding the limit insured by the FDIC is approximately $938,000.

The Puerto Rico Government Investment Trust Fund (the Trust Fund) is a collective investment Trust Fund created by the Secretary of the Treasury of Puerto Rico, as Settler, and GDB as Trustee, Administrator and Custodian pursuant to Act No. 176 of August 11, 1995 of the Commonwealth of Puerto Rico. The purpose of the Trust Fund is to provide eligible investors a convenient and economical way to invest in a money market portfolio. Units of the Trust Fund are offered exclusively to the Commonwealth and its agencies, municipalities, public corporations and other public authorities and entities. The Trust Fund may purchase only high quality securities denominated in U.S. dollars that the Investment Advisors believe present minimal credit risk. The investment objective of the Trust Fund is to seek to obtain a high level of current income with the preservation of capital and liquidity. The Trust Fund must invest in a portfolio with a dollar- weighted average maturity of less than 60 days.

During the year ended June 30, 2012, the Administration received a legislative appropriation of $733,000 to finance the project known as "Digitalización de Suelos". These funds were classified as restricted cash in the accompanying statement of net position. The related project has not been commenced by the Administration.

5) Investments in Debt Securities:

As of June 30, 2013, investments in debt securities consist of the following:

Description	Amount
U.S. Government Securities-	
US Municipal Bonds	$ 3,310,669
Federal Agency Notes	5,025,050
FNMA Pool	41,124
	8,376,843
Corporate bonds	2,537,770
	$ 10,914,613

The following tables summarize the Administration's investments' maturities of June 30, 2013:

		Investments Maturities (Years)			
Description	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
US Municipal Bonds	$ 3,310,669	$ 2,212,858	$ 1,097,811	$ -	$ -
FNMA pass-through certificates	41,124	-	41,124	-	-
Federal Agency Note	5,025,050	5,025,050	-	-	-
Corporate Bonds	2,537,770	1,023,910	1,513,860	-	-
	$ 10,914,613	$ 8,261,818	$ 2,652,795	$ -	$ -

The Administration's investments are exposed to credit, custodial credit, concentration of credit and interest rate risks. Following is a description of these risks as of June 30, 2013:

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, 2013, the Administration's credit rating of investments subject to credit risk was as follows:

Issuer	Investment Type	Market value	Market Value (including interest receivable)	Credit Risk Rating S&P	Credit Risk Rating Moody's
Apple, Inc.	Corporate Bonds	$ 480,150	$ 480,956	Aa+	Aa1
Arizona St WTR Infrastructure	US Municipal Bond	1,097,811	1,100,206 *	AAA	Aaa
Federal Farm Bonds	Federal Agency Note	3,017,970	3,029,595 *	AA+	Aaa
Federal Home Loan Bond	Federal Agency Note	2,007,080	2,007,274 *	AA+	Aaa
FNMA Pool #541714	FNMA pass-through	41,124	41,354	AA+	Aaa
NY St Urban Dev Corp	US Municipal Bond	1,209,648	1,210,972 *	AAA	NR
Sherwin-Williams	Corporate Bonds	1,033,710	1,035,099 *	A	A3
Wal-Mart Stores, Inc.	Corporate Bonds	1,023,910	1,027,999 *	AA	Aa2
Wayne County, MI	US Municipal Bond	1,003,210	1,012,043 *	SP-1	NR
		$ 10,914,613	$ 10,945,498		

6) Notes, Interest and Other Receivables, net:

As of June 30, 2013, notes, interest and other receivables were as follows:

Description	Amount
Notes and other receivables from government entities	$ 1,838,552
Other:	
Notes and other receivables from third parties	188,280
Interest receivable	642,058
Rent and land leases (including rent from government entities for approximately $1,400,000)	3,516,354
	6,185,244
Less: Allowance for doubtful accounts	(3,509,095)
	$ 2,676,149

Interest receivable includes interest amount of $584,228 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, interest has not been settled or paid by PRIDCO.

7) Capital Assets, net:

As of June 30, 2013, capital assets consist of the following:

Description	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated, land	$ 106,428	$ -	$ -	$ 106,428
Capital assets being depreciated:				
Buildings and improvements	15,298,609	79,844	-	15,378,453
Furniture and equipment	1,172,846	87,822	(8,256)	1,252,412
Vehicles	234,303	-	(10,758)	223,545
	16,705,758	167,666	(19,014)	16,854,410
Less: accumulated depreciation and amortization	(7,415,228)	(771,929)	19,014	(8,168,143)
	9,290,530	(604,263)	-	8,686,267
Construction in progress	14,300,568	742,129	(4,589,924)	10,452,773
	$ 23,697,526	$ 137,866	$ (4,589,924)	$ 19,245,468

8) Compensated absences:

The activity for compensated absences, included within accounts payable and accrued liabilities in the accompanying statement of net assets, during the year ended June 30, 2013, is as follows:

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Compensated absences	$ 878,950	$ 487,066	$ (629,373)	$ 736,643	$ 736,643

Compensated absences are available to be liquidated by the employees during the year.

9) Retirement System:

Defined Contribution Plan – The Legislature of the Commonwealth enacted Act 305 on September 24, 1999 to established, among other things, a defined contribution savings plan program (the "Program") to be administered by the Employees' Retirement System of the Government of the Commonwealth (the "Retirement System"). The Retirement System, created pursuant to Act No. 447 of May 15, 1951, as amended, is sponsored by and reported as a component unit of the Commonwealth. All regular employees hired for the first time on or after January 1, 2000, become member of the Program as a condition to their employment.

Act 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Active members may contribute 5.775% of gross salaries up to $6,600, plus 8.275% gross salary in excess of $6,600. Employee contributions are credited to individual accounts established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semiannually.

The Administration is required by Act 305 to contribute 11.275% of each participant's gross salary. The Retirement System will use these contributions to increase its assets level and reduce the unfunded status of the defined benefit pension plan. On April 4, 2013, the Legislature enacted Act 3 which amended Act 305 to establish a new retirement program.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement date will receive a lump-sum payment.

In case of death, the balance in each participant's account will be paid in a lump sum to the participant's beneficiaries. Participants have the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

Total employee contributions for the defined contribution plan during the year ended June 30, 2013, amounted to approximately $263,000. The Administration's contributions during the year ended June 30, 2013, amounted to approximately $477,000. These amounts represented 100% of the required contribution for the corresponding year.

<u>Defined Contribution Hybrid Program</u> – On April 4, 2013, the Legislature enacted Act 3 which amended Act 447 and Act 305 to establish, among other things, a defined contribution hybrid program (the "Hybrid Program") to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit pension plan and the defined contribution plan, and were rehired on or after July 1, 2013, become members of the Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Defined Contribution Hybrid Program.

Participants in the defined benefit pension plan who as of June 3, 2013, were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program. Participants who as of June 30, 2013, have not reach the age of 58 and completed 10 years of service or have not reached the age of 55 and completed 25 years of service can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

Participants in the defined contribution plan who as of June 30, 2013 were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding their retirement plan, as well as the annuity accrued under the Hybrid Program. Participants in the Program who as of June 30, 2013, has not reached the age of 60 can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

Act 3 requires employees to contribute ten percent (10%) of their monthly gross salary to the Hybrid Program. Employee contributions are credited to individual accounts established under the Hybrid Program. In addition a mandatory contribution equal to or less than point twenty five percent (.25%) is required for the purchase of disability insurance.

The Administration is required to contribute 12.275% of each participant's gross salary. The Retirement System will use these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2013, and up until June 30, 2016, the employer's contribution rate shall be annually increased by one percent (1%). Beginning July 1, 2016, and up until June 30, 2021, the employer's contribution rate that is in effect on June 30 of every year shall be annually increased on every successive July 1st by one point twenty-five percent (1.25%).

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service, a death benefit will be paid in one lump sum in cash to the participant's beneficiaries.

Participants with a balance of less than $10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability the participants have the option of receiving a lump sum or purchasing an annuity contract.

Additional information on the Retirement System is provided in its stand-alone financial statements for the year ended June 30, 2013, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan, PR 00940-2004.

10) 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 services in the Retirement System and will consist of bi-weekly 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 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 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 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 the Administration's management.

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 $3,719,311 (of which $455,544 are current and $3,263,767 are long term) in the statement of net position as of June 30, 2013 and an expense of $1,760,606 in the statement of revenues, expenses and changes in net position for the year ended June 30, 2013.

As of June 30, 2013, unpaid long-term benefits on this program were discounted for employees, as follows:

Article of Act 70	Discount Percentage
Article 4b	2.83%
Article 4c	1.31%

11) Interagency Agreement:

For the year ended June 30, 2013, the Administration entered into an agreement with the Department of Economic Development of Puerto Rico (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, 2013, is in the amount of $152,000.

12) Commitments:

The Administration has entered into a guaranty agreement with the Local Redevelopment Authority for Naval Station Roosevelt Roads (LRA) and the United States of America, acting and through the Department of the Navy (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 $8,500,000. That amount is payable by the LRA under the following terms: $200,000 at the closing of the transaction and $7,840,000 in fifteen (15) equal payments, plus interest, which is computed at 150 basis points over the US 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 obligation of guarantor hereunder.

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 May 6, 2013. Under the terms of such guaranty, LRA services as obligor to the PRLA for any payment made to the US Government.

13) Rental Income Commitments:

The Administration has entered into various rental agreements of certain land and properties available. The rental agreements have a monthly or semi-annual rental payment that ranges from $10,000 to $127,500, with an aggregate averaged monthly payment of approximately $403,600 as of June 30, 2013. For the years ended June 30, 2013, rent revenues on such rental agreements amounted to approximately $971,000, which are reported as part of rental income.

Minimum annual rentals under these contracts for the years subsequent to June 30, 2013, are as follows:

Year ending June 30,	Amount
2014	$ 1,168,896
2015	793,370
2016	793,370
2017	721,370
2018	490,185
Thereafter	17,064,345
	$ 21,031,536

14) Contingencies:

The Administration is a party in legal claims arising from land condemnations principally on behalf of other government entities. The management of the Administration, after consulting with legal counsels, is of the opinion that any liabilities arising from claims of land condemnations on behalf of others, which for the most part represent additional costs of land acquired and not yet sold, will be assumed by the governmental instrumentality which will ultimately acquire the land.

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 aware of the land and/or operations, and therefore, were responsible for part of the liability associated to the disposal of hazardous substances at the site.

According to the case file, the governmental PRPs must enter into an interagency agreement to allocate to each governmental PRP responsibility and duties, which currently include monthly maintenance activities. It was preliminarily 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 in, 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

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.

The Administration is also a party in other claims arising in the ordinary course of business. Management is of the opinion, based on consultation with legal counsel, that the outcome of such litigation will not have a material adverse effect on the Administration's financial condition.

15) Real Property Taxes:

In 2010, the Administration decided to make use of the benefits provided by Article No. 14 of Law 71 of July 2, 2010. Such Act authorized the elimination of penalties and interests on real property taxes and provided discounts to those taxpayers who pay the property tax debt in its entirety. A reserve of approximately $1,500,000 is included in the accompanying financial statements to cover any tax assessment on properties owned by the Administration.

16) Supplemental Disclosures to the Statement of Cash Flows:

A) Non-cash investing and financing transactions – For the year ended June 30, 2013, there were no non-cash investing and financing activities.

B) Other cash flows transactions – For the year ended June 30, 2013, there were no interest payments.

17) Subsequent Events:

Management has evaluated subsequent events through December 19, 2013, the date on which the financial statements were available to be issued.