

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

Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

ZAYAS, MORAZZANI & Co.
CERTIFIED PUBLIC ACCOUNTANTS

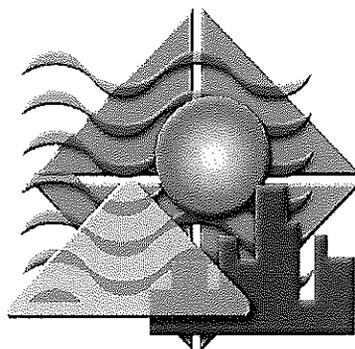
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PUERTO RICO LAND ADMINISTRATION
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ADMINISTRACION DE TERRENOS
ESTADO LIBRE ASOCIADO DE PUERTO RICO

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
June 30, 2009 and 2008

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Independent Auditors' Report

To the Board of Directors of
Puerto Rico Land Administration:

We have audited the accompanying balance sheets of the Puerto Rico Land Administration (the Administration) (a component unit of the Commonwealth of Puerto Rico), as of June 30, 2009 and 2008 and the related statements of revenues and expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Administration's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Puerto Rico Land Administration as of June 30, 2009 and 2008 and the results of its operations and its cash flows for the years 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 Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

September 21, 2009



Stamp No. 2457441 of the Puerto
Rico Society of Certified Public
Accountants was affixed to original.



PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
June 30, 2009 and 2008

This section of the Puerto Rico Land Administration (the Administration) annual financial report presents our discussion and analysis of the Administration's financial performance during the fiscal year ended on June 30, 2009. Please read it in conjunction with the Administration's financial statements and accompanying notes.

Financial Highlights

- The Administration's net assets increased by \$1.1 million.

Overview of the Financial Statements

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



PUERTO RICO LAND ADMINISTRATION
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Management's Discussion and Analysis
June 30, 2009 and 2008

Financial Analysis of the Administration

Net Assets: The following caption summarizes the changes in the Net Assets between June 30, 2009 and 2008 (dollars in thousands):

	<u>2009</u>	<u>2008</u>	<u>Variance</u>
Assets:			
Cash, cash equivalents and investment in debt securities	\$ 94,083	\$ 102,487	(8,404)
Current receivables	2,605	3,071	(466)
Claim receivable	-	2,370	(2,370)
Non-current receivables	1,884	3,057	(1,173)
Advances and charges under interagency agreement	-	146,480	(146,480)
Property and equipment			
Non-depreciable	5,005	1,205	3,800
Depreciable	9,777	5,041	4,736
Other capital assets	186,673	185,775	898
Other assets	500	523	(23)
Total Assets	<u>300,527</u>	<u>450,009</u>	<u>(149,482)</u>
Liabilities:			
Notes, interest and advances payable under interagency agreement	-	146,480	(146,480)
Deposits on sales of land	34,664	38,202	(3,538)
Other liabilities	<u>14,218</u>	<u>14,852</u>	<u>(634)</u>
Total liabilities	<u>48,882</u>	<u>199,534</u>	<u>(150,652)</u>
Net Assets	<u>\$ 251,645</u>	<u>\$ 250,475</u>	<u>1,170</u>

The Administration's total assets and liabilities decreased primarily due to the competition of interagency agreement, effective August 28, 2007, with the Puerto Rico Department of Transportation and Public Works ("DTOP"). In the agreement the Administration made advances on certain properties transferred from "DTOP" for sale on its behalf. Each property was transferred at \$1.00. However, they were pledged based on their market values (approximately \$161,961,000) with the Puerto Rico Government Development Bank (GDB). The amounts borrowed from GDB were directly advanced to the "DTOP" (approximately 90% of estimated market values). The debt with GDB was reported as notes payable under

(Continued)



PUERTO RICO LAND ADMINISTRATION
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Management's Discussion and Analysis
June 30, 2009 and 2008

Financial Analysis of the Administration, Continued

interagency agreement in the amount of \$145,207,092 and interest amounting \$1,272,873. The advances to the "DTOP" were presented as advances under interagency agreement. Except for one of the properties, the subject properties were not sold during the specified term of the agreement. Accordingly, during the year ended June 30, 2009, the properties were transferred, as agreed, to GDB. The corresponding values of the transferred properties were credit against the line of credit owed to GDB, except for two properties that were retained and acquired by the Administration.

The aggregate cost of the retained properties amounted \$4,773,215. The decrease in cash, cash equivalents and investment in debt securities is related to the use of funds for the acquisition of two properties for the aggregate cost \$4,773,215 and the use of funds for the acquisition of the third and, fourth floor of the building and the parking amounting \$3,245,000. The last acquisition was part of an agreement by which a claim receivable of \$2,369,438 was settled. The space received included two areas under lease agreements with the Municipality of San Juan and a private entity. Rental income was earned on those two leases during 2009. The agreement with the Municipality expired subsequent to June 30, 2009 and it is in process of renewal.

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

(Continued)



PUERTO RICO LAND ADMINISTRATION
 (A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
June 30, 2009 and 2008

The following table summarizes the results of operations and the variance between fiscal years ended June 30, 2009 and 2008 (dollars in thousands):

	<u>2009</u>	<u>2008</u>	<u>Variance</u>	<u>% Increase (Decrease)</u>
Revenues:				
Rental Income	\$ 7,363	\$ 6,919	444	6.40 %
Investment Income	<u>2,045</u>	<u>4,360</u>	<u>(2,315)</u>	<u>(53) %</u>
Total	9,408	11,279	(1,871)	16.59 %
General and Administrative Expenses	(9,764)	(8,936)	(828)	9.27 %
Other Income, Net	<u>1,526</u>	<u>1,040</u>	<u>486</u>	<u>46.73 %</u>
Change in Net Assets	\$ <u>1,170</u>	\$ <u>3,383</u>	<u>(2,213)</u>	<u>(65.42) %</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 sector. 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 operation as it is customary in real estate industry.

(Continued)



PUERTO RICO LAND ADMINISTRATION
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Management's Discussion and Analysis
June 30, 2009 and 2008

The following table summarizes the capital assets used by the Administration during the years ended June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>	<u>Variance</u>	<u>% Increase (Decrease)</u>
Non-depreciable				
Land	\$ 106	\$ 106	-	-
Construction in progress	<u>4,898</u>	<u>1,099</u>	<u>3,799</u>	<u>346.00 %</u>
Total non-depreciable	<u>5,004</u>	<u>1,205</u>	<u>3,799</u>	<u>316.00 %</u>
Depreciable				
Building	13,717	8,304	5,413	65.18 %
Furniture and equipment	1,241	1,782	(541)	(30.36) %
Vehicles	<u>204</u>	<u>296</u>	<u>(92)</u>	<u>(31.08) %</u>
	<u>15,162</u>	<u>10,382</u>	<u>4,780</u>	<u>46.00 %</u>
Less: accumulated depreciation and amortization	<u>(5,385)</u>	<u>(5,341)</u>	<u>44</u>	<u>0.82 %</u>
Net capital assets	\$ <u>9,777</u>	\$ <u>5,041</u>	<u>4,736</u>	<u>94.00 %</u>
Depreciation and amortization expense	\$ <u>704</u>	\$ <u>347</u>	<u>352</u>	<u>102.88 %</u>

Other capital assets, as stated above are summarized as follows:

	<u>2009</u>	<u>2008</u>	<u>Variance</u>	<u>% Increase (Decrease)</u>
Other capital assets				
Real estate held for sale	\$ 104,167	99,470	4,697	4.72 %
Land under long-term lease	24,738	24,538	200	0.82 %
Real estate held for future use	<u>57,768</u>	<u>61,767</u>	<u>(3,999)</u>	<u>6.47 %</u>
Total other capital assets	\$ <u>186,673</u>	<u>185,775</u>	<u>898</u>	<u>0.48 %</u>

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 finances and to comply with 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. Verónica Pagán, Budget and Finance Director, at Land Administration, 171 Carlos Chardón Avenue, Suite 101, San Juan, Puerto Rico, or visit our website at: www.terrenos.gobierno.pr.

PUERTO RICO LAND ADMINISTRATION
 (A Component Unit of the Commonwealth of Puerto Rico)
Balance Sheets
June 30, 2009 and 2008

<u>Assets</u>	<u>2009</u>	<u>2008</u>
Current assets:		
Cash and cash equivalents (note 2)	\$ 80,571,579	83,160,786
Investments in debt securities (note 3)	13,511,271	19,325,860
Interest receivable (note 4)	438,821	722,825
Rent receivable, net of allowance (note 4)	796,751	1,037,366
Notes receivables from government agencies (note 4)	1,305,617	1,305,617
Advances and charges under interagency agreement (note 9)		
Advances to original owner of properties	-	145,207,092
Accrued interest on advances to original owner of properties	-	1,272,873
	<u>-</u>	<u>146,479,965</u>
Other current receivable, net of allowance (note 4)	64,362	5,373
Prepaid expenses	99,782	123,285
Total current assets	\$ <u>96,788,183</u>	<u>252,161,077</u>

(Continued)

See accompanying independent auditors' report
and notes to financial statements.

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Balance Sheets
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Non-current assets:		
Restricted cash (note 1)	400,000	400,000
Other non current receivable from Governmental Entities (note 4)	1,883,902	1,752,406
Notes receivable (note 4)	-	1,305,618
Claim receivable (note 5)	-	2,369,438
Capital assets:		
Property and equipment: (note 5)		
Non-depreciable:		
Land	106,429	106,429
Construction in progress	4,898,452	1,098,860
Total non-depreciable	<u>5,004,881</u>	<u>1,205,289</u>
Depreciable	9,777,038	5,040,729
Other capital assets (note 8):		
Real estate held for sale	104,167,133	99,470,133
Land under long-term lease	24,737,507	24,537,994
Real estate held for future use	57,767,879	61,766,748
Total other capital assets	<u>\$ 186,672,519</u>	<u>185,774,875</u>
Total non-current assets	<u>\$ 203,738,340</u>	<u>197,848,355</u>
Total assets	<u>\$ 300,526,523</u>	<u>450,009,432</u>

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Balance Sheets
June 30, 2009 and 2008

<u>Liabilities and Net Assets</u>	<u>2009</u>	<u>2008</u>
Current liabilities:		
Accounts payable and accrued liabilities	3,814,126	3,814,614
Obligations under interagency agreement:		
Notes payable (note 9)	-	145,207,092
Accrued interest payable (note 9)	-	1,272,873
	<u>-</u>	<u>146,479,965</u>
Rent collected in advance - current	2,369,712	1,998,144
Total current liabilities	<u>6,183,838</u>	<u>152,292,723</u>
Non-current liabilities:		
Guaranty rent deposits	284,153	290,160
Rent collected in advance - non-current	7,750,000	8,750,000
Deposits on sales of land and properties held for sale (note 8)	34,663,746	38,201,501
Total liabilities	<u>48,881,737</u>	<u>199,534,384</u>
Contingencies (note 7)		
Net assets:		
Invested in capital assets	9,777,038	5,040,729
Unrestricted	241,867,748	245,434,319
Total net assets	<u>251,644,786</u>	<u>250,475,048</u>
Total liabilities and net assets	<u>\$ 300,526,523</u>	<u>450,009,432</u>

See accompanying independent auditors' report and notes to financial statements.

PUERTO RICO LAND ADMINISTRATION
 (A Component Unit of the Commonwealth of Puerto Rico)
Statements of Revenues, Expenses and Changes in Net Assets
Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Revenues:		
Rental income (note 8)	\$ 7,362,689	6,919,082
Investment income (note 3)	2,045,226	4,359,891
Total revenues	<u>9,407,915</u>	<u>11,278,973</u>
Expenses:		
Payroll and personnel costs	5,420,473	5,264,616
Property taxes	883,535	936,793
Contracted services	957,433	1,168,969
Depreciation and amortization (note 5)	703,591	347,019
Insurance	243,741	274,688
Utilities	390,600	226,023
Repairs and maintenance	164,625	32,317
Contributions to other governmental entities (note 10)	80,000	-
Other general and administrative	919,779	685,317
Total expenses	<u>9,763,777</u>	<u>8,935,742</u>
Net income	<u>(355,862)</u>	<u>2,343,231</u>
Other income/(expenses):		
Sale of land held for sale	6,187,623	298,970
Cost of property sold	(2,768,760)	(6,599)
Cost of donated property	(1,923,782)	-
Legislative appropriations	-	313,000
Realized loss on investments	(11,737)	(38,184)
Change in unrealized gain/(loss) on investment	22,776	466,584
Other miscellaneous	19,480	5,715
Total other income	<u>1,525,600</u>	<u>1,039,486</u>
Change in net assets	1,169,738	3,382,717
Net assets, at beginning of year	<u>250,475,048</u>	<u>247,092,331</u>
Net assets, at end of year	\$ <u>251,644,786</u>	<u>250,475,048</u>

See accompanying independent auditors' report and notes to financial statements.

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Statements of Cash Flows
Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Collection of rent, including advanced	\$ 7,079,736	16,339,889
Interest collected on investment in Debt-securities and other	2,329,230	4,605,741
Payments to employees and related payroll costs	(5,420,473)	(5,264,616)
Payments for goods and services	(3,489,053)	(3,116,552)
Contributions to other governmental entities	(80,000)	-
Net cash provided by operating activities	<u>419,440</u>	<u>12,564,462</u>
Cash flows used in capital and related financial activities:		
Capital expenditures	(3,413,456)	(59,089)
Net cash used in capital and related financial activities	<u>(3,413,456)</u>	<u>(59,089)</u>
Cash flows from investing activities:		
Proceeds from sale and disposition of real estate	4,739,905	2,402,766
Payments on acquisition of land held for sale	(6,380,612)	(22,820,980)
Payments for construction in progress	(3,799,592)	(160,218)
Purchase of investments in debt-securities	(5,384,420)	(4,346,733)
Proceeds from sales and redemption of investments	11,210,048	15,126,134
Proceeds from other miscellaneous	19,480	5,715
Net cash used in investing activities	<u>404,809</u>	<u>(9,793,316)</u>
Net change in cash and cash equivalents	(2,589,207)	2,712,057
Cash and cash equivalents, beginning of year	<u>83,160,786</u>	<u>80,448,729</u>
Cash and cash equivalents, end of year	<u>80,571,579</u>	<u>83,160,786</u>

(Continued)

See accompanying independent auditors' report
and notes to financial statements.

PUERTO RICO LAND ADMINISTRATION
 (A Component Unit of the Commonwealth of Puerto Rico)
Statements of Cash Flows
Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income/(loss)	(355,862)	2,343,231
Adjustments to reconcile operating income/(loss) to net cash provided by operating activities:		
Depreciation and amortization	703,591	347,019
Bad debt expense	549,932	266,663
Loss on disposal	47,645	-
Changes in assets and liabilities:		
(Increase)/decrease in:		
Rent receivable	(244,125)	(137,005)
Claim receivable	295,349	(342,455)
Interest receivable	284,004	245,850
Other current receivables	(58,989)	1,061
Other non-current receivables from governmental entities	(196,688)	-
Prepaid expenses	23,503	(1,836)
(Decrease)/increase in:		
Accounts payable and accrued liabilities	(488)	209,391
Rents collected in advance, guaranty rent deposits	<u>(628,432)</u>	<u>9,632,543</u>
Net cash provided by operating activities:	\$ <u>419,440</u>	<u>12,564,462</u>

(Continued)

See accompanying independent auditors' report and notes to financial statements.

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Statements of Cash Flows
Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>Supplemental Information on Non-Cash</u>		
<u>Investing Activities:</u>		
Notes receivable from a governmental entity were partially reduced by the receipt of land at its appraised value	\$ <u> -</u>	<u>1,300,000</u>
Donation of land at its cost	\$ <u>1,923,782</u>	<u> -</u>
Deposits from a governmental entity were partially reduced by the sale of land at its appraised value	\$ <u>3,559,186</u>	<u> -</u>
Non cash portion of building received in exchange for a claim receivable and a cash payment of \$3,245,000	\$ <u>2,074,089</u>	<u> -</u>
Interagency agreement		
Advances under interagency agreement were directly disbursed/(applied) by bank	\$ 145,207,092	145,207,092
Interest accrued/(applied)	<u>1,272,873</u>	<u>1,272,873</u>
	\$ <u>146,479,965</u>	<u>146,479,965</u>

See accompanying independent auditors' report and notes to financial statements.

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements
June 30, 2009 and 2008

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

Reporting Entity

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

Significant Accounting Policies

The significant accounting policies adopted by the Administration follow:

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(1) Organization, Nature of Business and Summary of Significant Accounting Policies, 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, 2009, there was no debt on the invested capital assets.

Restricted - This component of net assets consists of constraints placed on net assets use, imposed by creditors (such as through covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provision or enabling legislation. As of June 30, 2009, there was restricted cash amounting to \$400,000.

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

As permitted by Governmental Accounting Standard 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 Board (FASB) Statements and Interpretations, issued after November 30, 1989 that do not conflict with those issued by GASB.

Reclassifications

In the accompanying financial statements certain 2008 figures were reclassified to conform with the 2009 presentation.

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(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 and disclosures of contingent assets and liabilities at the date of financial statements and the reported amounts of revenue and expenses during the reported periods. Actual results could differ from those estimates.

Land and Properties

Land and properties are recorded at cost, plus allocable interest, costs of appraisals, related acquisition studies and improvements, and other costs able to be capitalized or market value, whichever is lower. Donated land properties are stated at fair market value at date of donation. The Government Accounting Standards Board ("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 and 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 2008, and from other sources, reflected that market values are generally in excess of carrying values.

Management of the Administration understands there are no indications of impairments on its capital assets as of June 30, 2009.

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(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.

Investment

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</u> <u>(in years)</u>
Building	30
Structures 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.

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

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

Land and Properties Sales

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

Rental income

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

Property Taxes

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

Risk Financing

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

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

- (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, 2009 the Administration had cash deposits with Government Development Bank for Puerto Rico (GDB) of approximately \$80,093,510. The deposits bear interest at various rates ranging from .10% to 5.0% in 2009. The remaining balances were maintained in a commercial bank. The depository commercial bank balances at June 30, 2009, amounted to approximately \$1,668,938 of which \$250,000, were covered by the Federal Depository Insurance Corporation.

The cash deposits held at financial institutions can be categorized according to three levels of risk.

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(2) Cash and Cash Equivalents, Continued

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 \$1,668,938 are classified as Category 1. Such deposits have a book balance of \$876,570.

The amounts deposited with the Government Development Bank for Puerto Rico \$80,093,510 are classified in Category 3. The book balance is also \$80,093,510.

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(3) Investment in Debt Securities

The following table summarizes the investment of the Administration at June 30, 2009 and 2008:

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

		June 30, 2008			
		Investments Maturities (in years)			
<u>Fair Value</u>		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
U.S. Treasury Securities	\$ 4,581,330	4,581,330	-	-	-
FHLMC participation certificates	4,078,712	64,832	-	4,013,880	-
FNMA pass-through certificates	823,797	-	-	823,797	-
Asset Backed Securities	1,890,529	-	1,890,529	-	-
Federal Agency Note	1,708,537	-	1,708,537	-	-
Corporate Bonds	6,242,955	3,713,120	2,529,835	-	-
Total investments	\$ <u>19,325,860</u>	<u>8,359,282</u>	<u>6,128,901</u>	<u>4,837,677</u>	<u>-</u>

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(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 description of these risks at June 30, 2009:

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. As of June 30, 2009 and 2008, the Administration's credit rating of investments subject to credit risk were as follows:

June 30, 2009				Credit Risk Rating	
<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>	<u>Total</u>	<u>S&P</u>	<u>Moody's</u>
FHLMC Remic Series 2677	FHLMC participation certificates	\$ 1,385,993	-	AAA	Aaa
FHLMC Remic Series	FHLMC participation certificates	1,547,946	2,933,939	AAA	Aaa
FNMA Remic Trust 2003-25	FNMA pass-through certificates	476,717	-	AAA	Aaa
FNMA Pool #C1-541714 Reg.	FNMA pass-through certificates	131,726	608,443	AAA	Aaa
American Express Master	Asset Backed Securities	<u>1,498,740</u>	1,498,740	AAA	Aaa
	Balance carried forward	\$ <u>5,041,122</u>			

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(3) Investment in Debt Securities, Continued

June 30, 2009				<u>Credit Risk Rating</u>	
<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>	<u>Total</u>	<u>S&P</u>	<u>Moody's</u>
Balance brought forward		\$ <u>5,041,122</u>			
Federal Farm Bonds	Federal Agency Note	1,148,764	1,148,764	AAA	Aaa
JP Morgan Chase & Co.	Corporate Bonds	3,072,780	-	AAA	Aaa
Wal-Mart Stores, Inc.	Corporate Bonds	1,526,025	-	AA	Aa2
Wal-Mart Stores, Inc.	Corporate Bonds	991,800	-	AA	Aa2
General Electric Corp.	Corporate Bonds	517,580	-	AA+	Aa2
General Electric Corp.	Corporate Bonds	491,045	-	AA+	Aa2
General Electric Corp.	Corporate Bonds	<u>722,155</u>	<u>7,321,385</u>	AAA	Aaa
		\$ <u>13,511,271</u>	<u>13,511,271</u>		

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(3) Investment in Debt Securities, Continued

June 30, 2008

<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>
U.S. Treasury Notes	U.S. Treasury Securities	\$ 4,581,330	4,581,330	AAA	Aaa
FHLMC Remic Series 2677	FHLMC participation certificates	2,011,120	-	AAA	Aaa
FHLMC Remic Series 2760	FHLMC participation certificates	2,002,760	-	AAA	Aaa
FHLMC Series 1701	FHLMC participation certificates	64,832	4,078,712	AAA	Aaa
FNMA Remic Trust 2003-25	FNMA pass-through certificates	673,092	-	AAA	Aaa
FNMA Pool #C1-541714 Reg.	FNMA pass-through certificates	150,705	823,797	AAA	Aaa
Federal Farm Bonds	Federal Agency Note	1,708,537	1,708,537	AAA	Aaa
American Express Master	Asset Backed Securities	1,493,610	-	AAA	Aaa
USAA Auto Owner Tr	Asset Backed Securities	396,919	1,890,529	AAA	Aaa
Wal-Mart Stores, Inc.	Corporate Bonds	1,517,475	-	AA	Aa2
Pfizer, Inc.	Corporate Bonds	2,001,480	-	AAA	Aaa
General Electric Corp.	Corporate Bonds	496,200	-	AAA	Aaa
General Electric Corp.	Corporate Bonds	516,160	-	AAA	Aaa
General Electric Corp.	Corporate Bonds	<u>1,711,640</u>	<u>6,242,955</u>	AAA	Aaa
		\$ <u>19,325,860</u>	<u>19,325,860</u>		

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(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 the possession of an outside party. The Administration has bank investment contracts with the Government Development Bank for Puerto Rico. As of June 30, 2009 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, 2009, the investments held by financial institutions were exposed to custodial credit risk as follows:

Uninsured and unregistered investments held by the governmental entity's agent in the name of the governmental entity.	\$ <u>13,511,271</u>
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(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(3) Investment in Debt Securities, Continued

Concentration of Credit Risk

The Administration places limits on the amount that may be invested in and on the issuer. Investment on Governmental and US instruments has no limit. Financial and corporate limits fluctuate based on the instrument classification. The Administration's investments in the following instruments represent a concentration of credit risk, as each of these are at least 5% of the total investments at June 30, 2009:

<u>Issuer</u>	<u>Amount</u>
American Express Master	\$ 1,498,740
FHLMC Remic Series 2677	1,385,993
FHLMC Multiclass	1,547,946
General Electric	722,155
JP Morgan Chase & Co.	3,072,780
Walmart Stores	1,526,025
Walmart Stores	991,800

Interest Rate Risk

The Administration holds approximately \$5.5 million in mortgage-backed securities, as part of its normal operations. These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgages, which may result from a decline in interest rates. The collateralized mortgage obligations consisted of Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage (FHLMC) certificates restricted for the payment of bonds.

(Continued)

PUERTO RICO LAND ADMINISTRATION
 (A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(4) Notes, Interest, and Other Receivable, Net

As of June 30, 2009 and 2008, notes, interest and other receivables were as follows:

	<u>2009</u>	<u>2008</u>
Notes receivable		
from government entities:		
Current portion	\$ <u>1,305,617</u>	<u>1,305,617</u>
Non-current portion	\$ <u> -</u>	<u>1,305,618</u>
Other:		
Other receivables	\$ 252,522	193,947
Less: Allowance for doubtful accounts	<u>(188,160)</u>	<u>(188,574)</u>
Other receivables, net	\$ <u>64,362</u>	<u>5,373</u>
Interest receivable	\$ <u>438,821</u>	<u>722,825</u>
Rent and land leases	2,580,489	2,896,299
Less: Allowance for doubtful accounts	<u>(1,783,738)</u>	<u>(1,858,933)</u>
Total rent and land leases, net	\$ <u>796,751</u>	<u>1,037,366</u>
Other Non-Current Receivables from Governmental Entities		
Rent receivable from government entities	\$ 1,525,736	1,150,640
Other receivables from government entities	906,838	912,838
Less: Allowance for doubtful accounts	<u>(548,672)</u>	<u>(311,072)</u>
Total other non-current receivables from Governmental Entities	\$ <u>1,883,902</u>	<u>1,752,406</u>

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(4) Notes, Interest, and Other Receivable, Net, Continued

Interest receivable includes interest amount of \$309,861 on a note receivable for the Puerto Rico Industrial Development Corporation. The payment of interest on this note is due on December 23, 2009.

(5) Property and Equipment

As of June 30, 2009 and 2008, property and equipment consist of the following:

<u>Description</u>	June 30, 2008 <u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	June 30, 2009 <u>Ending Balance</u>
Property and equipment not being depreciated:				
Land	\$ 106,429	\$ -	\$ -	\$ 106,429
Construction in process	<u>1,098,860</u>	<u>3,894,301</u>	<u>(94,709)</u>	<u>4,898,452</u>
Total property and equipment not being depreciated	\$ <u>1,205,289</u>	<u>3,894,301</u>	<u>(94,709)</u>	<u>5,004,881</u>
Property and equipment being depreciated:				
Buildings, structures and improvements	\$ 8,303,435	5,413,798	-	\$ 13,717,233
Furniture and Equipment	1,781,606	73,747	(614,228)	1,241,125
Vehicles	<u>296,384</u>	<u>-</u>	<u>(92,381)</u>	<u>204,003</u>
	10,381,425	5,487,545	(706,609)	15,162,361
Less: accumulated depreciation	<u>(5,340,696)</u>	<u>(703,591)</u>	<u>658,964</u>	<u>(5,385,323)</u>
Total property and equipment being depreciated, net	\$ <u>5,040,729</u>	\$ <u>4,783,954</u>	\$ <u>(47,645)</u>	\$ <u>9,777,038</u>

During fiscal year 1997, the Administration entered into an agreement with a developer for the construction of two additional floors and a parking space building for the Administration's office building. Under the agreement, the developer constructed the two additional floors and parking space building at its own cost (approximately \$3 million) in exchange for a twenty-year lease agreement with an annual rent substantially below market terms.

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(5) Property and Equipment, Continued

The developer has the right to sublease the property at market terms. The Administration will record the fair value of these assets at the end of the twenty-year lease agreement when the economic benefit is received.

In July 2008, the Administration executed an agreement with the developer. Under the terms of the agreement the developer returned the property under the lease agreement to the Administration. The accrued rents retained by the developer amounting to approximately \$2,369,438 at June 30, 2008, reported as claim receivable in the accompanying financial statements, and a payment of \$3,245,000 made to the developer, were exchanged for \$295,349 deposited by the lessee with the Court of jurisdiction in this case and the improvements made by the developer to the leased property. The property received was recorded for \$5,319,089 in the accompanying financial statement.

(6) Pension Plan

The Employees' 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 of Puerto Rico. 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 years of plan participation.

(Continued)

PUERTO RICO LAND ADMINISTRATION
 (A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(6) Pension Plan, Continued

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-eight (58) years of age and have completed ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

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

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess of \$550 of monthly salary. The Administration is required by the same statute to contribute 9.275% of the participant's salary. Total payroll covered for 2009 was approximately \$4,303,433. Total employee and employer contributions (rounded) for the years ended June 30, 2009, 2008 and 2007 are as follows:

<u>Description</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Employer	\$ <u>365,776</u>	\$ <u>320,022</u>	\$ <u>331,439</u>
Employee	\$ <u>268,097</u>	\$ <u>281,003</u>	\$ <u>376,495</u>

There are certain special laws providing additional economic benefits to retired persons. The subject laws provide that such benefits will be billed by the Retirement System to the Administration. During the years 2009 and 2008 the Administration was billed in the amount of approximately \$105,718 and \$135,055, respectively in relation to current and prior year charges under such special laws.

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(6) Pension Plan, Continued

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension program (System 2000). System 2000 is a hybrid defined contribution plan, also 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 (9.275% of the employee's salary) will be used to fund the current plan. System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990. Additional information on the System will be provided in its financial statements for the year ended June 30, 2008, a copy of which may be obtained directly from the System.

Costs related with a voluntary termination plan adopted by the Administration in 2007, amounted to \$123,452 during 2008 and \$531,692 in 2007. During the year ended June 30, 2009, there were no costs incurred in relation with the voluntary termination plan, which term expired in 2008.

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(7) 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. Management, after consultation with legal counsel understands that the amount of loss, if any, in the subject cases will no be significant with respect to the accompanying financial statements.

In 1992, the Administration was named by the Environmental Protection Agency (EPA) as a potentially responsible party pursuant to the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), along with the Municipality of Juncos and other third parties, both public and private, (all jointly referred to as PRP's), for investigation and clean-up costs associated with the Juncos Landfill Superfund site (the Site). On August 27, 1993, the Administration, together with the Municipality of Juncos and the Commonwealth Housing Development and Improvements Administration (the Public Sector PRP's), accepted to contribute to those site remediation costs. In October 1995, the Commonwealth Legislature approved a Joint Resolution assigning a total of \$4,200,000 to cover resident relocation costs at the site.

On August 21, 2001, the United States Department of Justice (DOJ) proposed that the PRP's pay a total of \$5,500,000 in settlement of EPA cost claims at the Site, through November 2000, and penalty and punitive damages claims relating to prior alleged non-compliance. Settlement agreements were reached between Public and Private PRP's and EPA that resulted in Private PRP's paying \$3,350,000 and Public PRP's assuming payment of \$650,000. A separate final agreement was reached between the Administration and the Commonwealth of Puerto Rico Housing and Improvement Administration, of which the Administration agreed to disburse \$227,500 and the Commonwealth of Puerto Rico Housing and Improvement Administration \$422,500 of the total agreed amount of \$650,000. EPA and DOJ signed settlement documents in August 2004 and all agreed to amounts were paid.

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(7) Contingencies, Continued

On May 2, 2006, EPA notified the Public Sector PRP's that the Uniform Relocation Assistance Act (URA) required benefits in the amount of \$347,359 would have to be provided to the former families residing adjacent to the Site. This sum includes relocation benefits under URA totaling \$264,298 plus, allegedly related payroll, travel costs and indirect cost claimed by EPA amounting to \$83,061. Although EPA is currently claiming payment of \$347,359, it is understood that the agency may have expended additional funds for which claims may be forthcoming.

All three Public Sector PRP's are jointly and severally liable for EPA claimed URA-benefit amounts. The Land Administration has requested EPA to detail and disclose the basis for its latest claim. Once this sum is known, the Public Sector PRP's will negotiate, among themselves, an appropriate distribution of the final claimed amount. Management, after consulting with its legal counsel, is of the opinion that a significant short-term monetary outlay is not expected. No amount has been included in the accompanying financial statements arising from this claim.

During 2008 the United States Environmental Protection Agency and the Puerto Rico Environmental Quality Board, in separate actions have notified that the occupant of certain land located in San Juan has violated certain environmental regulations. Both agencies included the Administration in their notifications. Management, after consultation with legal counsel, understands it has no responsibility in the subject case.

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(8) Other Capital Assets

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

Land under Long-term Leases

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.

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 including as part of land under long-term leases. The following summarizes the Administration's investment in these facilities at June 30, 2009:

	<u>Useful life</u> <u>(in years)</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>

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(8) Land and Properties, 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 additional 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 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 ten-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 the agreement, the lessees paid the minimum annual lease payments in advance. The rent collected in advanced amounted \$8,750,000 and \$9,750,000 at June 30, 2009 and 2008, respectively.

During the year 2009, the Administration renewed two leases at these facilities and has been in the process of renewing another lease at June 30, 2009.

As of June 30, 2009, net rental income under these agreements is as follows:

Gross rental income	\$ 3,019,856
Less direct expenses:	
Depreciation and amortization	-
Property taxes	<u>437,122</u>
	\$ <u>2,582,734</u>

Minimum expected annual rentals under these contracts for the year ending June 30, 2010 are approximately \$3,718,556.

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(8) Land and Properties, Continued

Real Estate Held for Sale

Land and properties held for sale (principally to other governmental entities) include land purchased by the Administration on behalf of other governmental entities. Land, which is acquired on behalf of other governmental entities generally, includes certain holding costs which are subject to reimbursement by the acquiring entity. Funds received under this program from the acquiring governmental entities are classified as deposits on sales of land and properties held for sale in the accompanying balance sheet until title is transferred to the buyer. Deposits received for optioned land and properties amounted to \$34,663,746 and \$38,201,501 at June 30, 2009 and 2008, respectively.

Real Estate held for future use

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

(9) Interagency Agreement

Effective August 28, 2007, the Administration entered into an interagency agreement to participate in the disposition through sale of certain properties of the Commonwealth of Puerto Rico. The subject properties were not part of the inventory of properties owned by the Administration. The properties were transferred by the Puerto Rico Department of Transportation and Public Works ("DTOP") at \$1.00 each. Upon transfer, the Administration pledged the properties with GDB who advanced directly to the "DTOP" approximately ninety percent (90%) of the estimated proceeds from the future sale of the properties. The funds for such advances are provided by a line of credit facilitated by the Puerto Rico Governmental Development Bank ("GDB"). No assets of the Administration will serve as security for the subject line of credit.

(Continued)

PUERTO RICO LAND ADMINISTRATION
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Financial Statements

(9) Interagency Agreement, Continued

The estimated values of the acquired properties held at June 30, 2008 amounted \$161,965,000. GDB advanced to "DTOP" a total of \$145,207,092 against such properties.

The properties, except for one of them, were not sold during the specified term of the agreement. Accordingly, during the year ended June 30, 2009, the properties were transferred, as agreed, to GDB. The corresponding values of the transferred properties were credit against the line of credit owed to GDB, except for two properties that were retained and acquired by the Administration. The aggregate cost of the retained properties amounted \$4,773,215.

(10) Contribution to Other Governmental Entities

In the year ended June 30, 2009, the Administration make a non-refundable \$80,000 cash contribution to the Puerto Rico Department of Housing. The Administration does not expect to make further contributions to the Puerto Rico Department of Housing in the foreseeable future.