

**COMPAÑÍA PARA EL DESARROLLO INTEGRAL  
DE LA PENÍNSULA DE CANTERA  
(A COMPONENT UNIT OF THE  
COMMONWEALTH OF PUERTO RICO)**

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED JUNE 30, 2008**

**COMPAÑÍA PARA EL DESARROLLO INTEGRAL  
DE LA PENÍNSULA DE CANTERA  
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)**

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED JUNE 30, 2008**

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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying statement of net assets of **Compañía para el Desarrollo Integral de la Península de Cantera** (a component unit of the Commonwealth of Puerto Rico) as of June 30, 2008, and the related statements of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of **Compañía para el Desarrollo Integral de la Península de Cantera's** internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of **Compañía para el Desarrollo Integral de la Península de Cantera** as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

San Juan, Puerto Rico  
April 14, 2009

The stamp number 2398129 of the Puerto Rico Society of Certified Public Accountant was affixed to the original of this Report.



*José L. Cardona & Co.*  
**JOSE L. CARDONA & CO. P.S.C.**

**COMPAÑÍA PARA EL DESARROLLO INTEGRAL  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED JUNE 30, 2008**

Our discussion and analysis of the Compañía para el Desarrollo Integral de la Península de Cantera (the Company) financial performance provides an overview of the Company's financial activities of the fiscal year ended on June 30, 2008. Please read it in conjunction with the Company's audited basic financial statements, beginning on page 6.

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

**FINANCIAL HIGHLIGHTS:**

- 1) Total assets of Company as of June 30, 2008 were \$10,111,376, compared with \$10,476,047 at June 30, 2007, including prior period adjustment amounting to \$289,715. The adjustment is related to interest due from Península Housing, Inc. unrecorded in prior years. The net change, amounting to \$364,671, is mostly related to an increase in accounts receivable from Government amounted to \$997,359, regarding the contributions receivable for the repayment of the debt with the Government Development Bank for Puerto Rico and a decrease in the account receivable from Apoyo Empresarial para la Península de Cantera, Inc. amounted to \$661,968, as result of an allowance for doubtful account established for estimated uncollectible amount.
- 2) The Company's assets exceed liabilities by \$8,828,485 as of June 30, 2008.
- 3) Total expenses increased by \$802,486, basically due to the increase in administrative expenses.

**USING THE ANNUAL REPORT:**

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

**OVERVIEW OF THE FINANCIAL STATEMENTS:**

The Company is a component unit of the Commonwealth of Puerto Rico and is presented in the Commonwealth's government wide financial statements as a public corporation. The Company's basic financial statements are presented attached to this document and are accompanied by notes to the Basic Financial Statements, which provide information essential to their full understanding.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2008**

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

**Statement of Net Assets:**

The Statement of Net Assets presents the Company's financial position as of June 30, 2008, showing information that includes all of the Company's assets and liabilities, as well as the net assets.

**Statement of Activities:**

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

**Statement of Cash Flows:**

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

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

Net cash used by operating activities	\$ (1,124,995)
Net cash used in investing activities	(41,260)
Net cash provided by financing activities	<u>980,814</u>
Net decrease in cash and cash equivalents	(185,441)
Cash and cash equivalents at beginning of year	<u>1,932,698</u>
Cash and cash equivalents at beginning of year	<u><u>\$ 1,747,257</u></u>

The cash used in investing activities is related to the acquisition of new equipment, specifically computer equipment and a motor vehicle. On the other hand the cash provided by financing activities is related to the borrowings from the Government Development Bank for Puerto Rico.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2008**

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

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

**TABLE 1 – STATEMENT OF NET ASSETS**

	June 30,		
	<u>2008</u>	<u>2007</u>	<u>Change</u>
Assets:			
Current assets	\$ 2,838,041	\$ 2,417,541	\$ 420,500
Non Current Assets	<u>7,273,335</u>	<u>8,058,506</u>	<u>(785,171)</u>
Total Assets	<u>\$ 10,111,376</u>	<u>\$ 10,476,047</u>	<u>\$ (364,671)</u>
Liabilities:			
Current liabilities	\$ 1,282,891	\$ 404,777	<u>878,114</u>
Net Assets:			
Invested in capital assets	372,779	499,503	(126,724)
Restricted	497,338	497,338	-
Unrestricted	<u>7,958,368</u>	<u>9,074,429</u>	<u>(1,116,061)</u>
Total net assets	<u>8,828,485</u>	<u>10,071,270</u>	<u>(1,242,785)</u>
Total liabilities and net assets	<u>\$ 10,111,376</u>	<u>\$ 10,476,047</u>	<u>\$ (364,671)</u>

As observed from table above, Company has experienced an increase in its current assets and current liabilities of \$420,500 and \$878,114 respectively. This change was primarily due to an increase in accounts receivable, as more fully explained in Financial Highlights section, and the borrowings obtained from the lines of credit with the Government Development Bank.

Basically, the decrease in net assets (total expenses over total revenues) amounting to \$1,242,785 was produced by an increase of \$518,974 in professional services and the reserve for uncollectible accounts amounting to \$661,968, regarding the amount due from Apoyo Empresarial para la Península de Cantera, Inc. The increase in professional services is mainly due to an increase in engineering, architects and other consulting fees related to rehabilitation and infrastructures of communities and sectors of Cantera area.

It is important to note that during the year ended June 30, 2008 the Municipality of San Juan did not made the contributions amounting to \$413,000, pursuant to the provision of Law No. 20 of July 10, 1992. As a matter of fact the Municipality owes the Company contributions amounting to \$1,068,000 that have not been made since the fiscal year 2005-2006.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2008**

**TABLE 2 – STATEMENT OF ACTIVITIES**

	June 30,		<u>Change</u>
	<u>2008</u>	<u>2007</u>	
Expenses:			
Salaries, wages and benefit	\$ 1,051,003	\$ 1,065,810	\$ (14,807)
Improvements & development cost	698,562	677,752	20,810
Depreciation	167,984	155,623	12,361
Interest on debt	16,545	39,075	(22,530)
Other program expenses	<u>1,351,895</u>	<u>545,243</u>	<u>806,652</u>
	3,285,989	2,483,503	802,486
Program revenues:			
Operating grants and contributions	<u>855,714</u>	<u>752,255</u>	<u>103,459</u>
Net programs expenses	(2,430,275)	(1,731,248)	699,027
General revenues	<u>1,187,490</u>	<u>567,231</u>	<u>620,259</u>
Change in net assets	<u>\$ (1,242,785)</u>	<u>\$ (1,164,017)</u>	<u>\$ 78,768</u>

**CAPITAL ASSETS**

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

**CURRENT AND NEXT YEAR BUDGET**

During the fiscal year ending June 30, 2008 Company's budget amounted to \$1,999,061. Also, the Company has two credit lines with the Government Development Bank for Puerto Rico up to the amounts of \$38 and \$40 millions, each.

For the fiscal year 2008-2009 a budget of \$ 2,307,579 was assigned to Company.

**CONTACTING ADMINISTRATION FINANCIAL INFORMATION**

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

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**STATEMENT OF NET ASSETS**

**JUNE 30, 2008**

**ASSETS**

**CURRENT ASSETS**

Cash		\$ 1,747,257
Receivables (Note 3):		
Government	\$ 997,359	
Grant receivable	<u>59,617</u>	1,056,976
Prepaid expenses		<u>33,808</u>
Total current assets		2,838,041

**NON-CURRENT ASSETS**

Long-term note receivable (Notes 4 and 6)		5,741,250
Long-term accounts receivable (net) (Notes 5 and 6)		661,968
Capital assets net of accumulated depreciation of \$1,737,032 (Notes 1 and 7)		372,779
Other assets – donated land (Note 10)		<u>497,338</u>

**TOTAL ASSETS** \$ 10,111,376

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Notes payable (Note 8)		\$ 980,814
Accounts payable		70,069
Accrued liabilities		<u>232,008</u>
Total current liabilities		<u>1,282,891</u>

**COMMITMENTS AND CONTINGENCIES (NOTE 9)**

**NET ASSETS (NOTES 1, 10 AND 11)**

Invested in capital assets		372,779
Restricted		497,338
Unrestricted		<u>7,958,368</u>
Total net assets		<u>8,828,485</u>

**TOTAL LIABILITIES AND NET ASSETS** \$ 10,111,376

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

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**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Administration</u>	<u>Improvements and Development</u>	<u>Debt Service</u>	<u>Total</u>
<b>Expenses:</b>				
Salaries, wages and fringe benefits	\$ 693,678	\$ 357,325	\$ -	\$ 1,051,003
Improvements and development cost	-	698,562	-	698,562
Other program expenses	1,101,322	250,573	-	1,351,895
Depreciation	167,984	-	-	167,984
Interests on debt	-	-	16,545	16,545
 Total expenses	 1,962,984	 1,306,460	 16,545	 3,285,989
<b>Program revenues (Notes 1, 2 and 9)</b>				
Operating grants and contributions	740,567	98,602	16,545	855,714
 Net program expenses	 1,222,417	 1,207,858	 -	 2,430,275
<b>General revenues (Notes 1 and 2)</b>				
Grant and contributions not restricted to specific programs				1,097,994
Interest income				89,496
 Total general revenues				 1,187,490
 Change in net assets				 (1,242,785)
 Net assets, beginning of year, as previously reported				 9,781,555
 Prior period adjustment (Note 11)				 289,715
 Net assets, beginning of year, as restated				 10,071,270
 Net assets at end of year				 \$ 8,828,485

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

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**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED JUNE 30, 2008**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from grantors and contributors	\$ 1,360,804
Interests received	60,181
Interests paid	(270)
Cash paid to suppliers	(1,511,176)
Cash paid to employees	<u>(1,034,534)</u>
Net cash used by operating activities	<u>(1,124,995)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchases of capital assets	<u>(41,260)</u>
Net cash used in investing activities	<u>(41,260)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Proceeds from short-term borrowings	1,097,994
Repayments of short-term borrowings	<u>(117,180)</u>
Net cash provided by financing activities	<u>980,814</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(185,441)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b><u>1,932,698</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 1,747,257</u></b>
<b>RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES:</b>	
Change in net assets	\$(1,242,785)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation expense	167,984
Bad debts expense	682,739
Changes in assets and liabilities:	
Increase in receivables	\$ (622,219)
Increase in prepaid expenses	(8,014)
Decrease in accounts payable	(186,309)
Increase in accrued liabilities	<u>83,609</u>
Net cash used by operating activities	<u>\$(1,124,995)</u>

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

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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2008**

**1. NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of the Organization**

**Compañía para el Desarrollo Integral de la Península de Cantera** (the Company) is a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico (the Commonwealth) created on July 10, 1992 pursuant to Act. No. 20. The Company will exit during a period of 20 years with, if granted by an executive order of the Governor of Puerto Rico, an extension of 5 additional years. The Company was created to establish and implement a comprehensive development plan for the Península de Cantera area. Its main function is to supervise and coordinate governmental efforts and also promote and manage private sector initiatives for the improvements and rehabilitation of the aforementioned area. Under the entity concept, the Corporation is a component unit of the Commonwealth's financial statements.

The significant accounting policies consistently applied in the preparation of the accompanying financial statement follows:

**Basis of Accounting**

The accounting and reporting policies of the Company conform to the accounting roles prescribed by the Governmental Accounting Standard Board (GASB). The financial statements have been prepared on the accrual method of accounting.

**Revenues Recognition**

Operating Purposes

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

Capital Expenditures

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

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2008**

**1. NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Receivables**

Future donations are recorded as revenues when the written commitment from donor is received.

**Cash and Cash Equivalents**

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

**Fair Value of Financial Instruments**

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

**Capital Assets**

The Company defines capital assets, which include land, building, furniture and fixtures and equipment, as assets with an initial, individual cost of \$500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital assets are depreciated using the straight line method over the following estimated useful lives:

Building	10 years
Equipment	5 years
Furniture and fixtures	5 years
Vehicles	5 years
Leasehold improvements	5 years

**Liability for Compensated Absences**

Employees are allowed to accrue monthly 2.5 days for vacation and 1.5 days for sick leave with a limit, not to exceed, of 60 and 90 days, respectively. Any excess over these amounts is paid to the employees during March of the next fiscal year and recorded as a current liability and expenditure in the financial statements as of June 30, 2008. Sick leave is payable to the employee upon retirement.

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2008**

**1. NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Employees Retirement Benefits**

The employees of the Company are not entitled to participate in the Commonwealth's retirement plan, but any employee transferred to the Company from an other government entity who is covered by the Commonwealth's plan will retain all benefits vested until that moment and may continue participating in the Commonwealth's retirement plan while in the service of the Company. Total pension expense for the year ended June 30, 2008 amounted to \$11,112.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**2. CONCENTRATION OF CREDIT RISK**

Compañía para el Desarrollo Integral de la Península de Cantera maintains its cash accounts in commercial banks located in Puerto Rico. Commercial bank accounts are insured by the Federal Deposit Insurance Company (FDIC) up to \$100,000. As of June 30, 2008 the significant concentration of credit risk for the insured cash amounted to \$1,512,448.

**3. RECEIVABLES**

At June 30, 2008 the receivable from Government consist of contributions receivable from the Public Improvement Fund of the Commonwealth of Puerto Rico, to repaid the outstanding balances of the Non Revolving Lines of Credit with the Government Development Bank. The balance includes the principal amount totaling \$980,814 and accrued interests totaling \$16,545.

**4. LONG-TERM NOTE RECEIVABLE**

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

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2008**

**4. LONG-TERM NOTE RECEIVABLE (CONTINUED)**

interest on note. As of June 30, 2008 the balance of the note amounted to \$5,741,250, including accrued interests amounting to \$29,315.

**5. LONG-TERM ACCOUNTS RECEIVABLE**

The long-term accounts receivable consist of advances or payments made by the Company on behalf of Apoyo Empresarial para La Península de Cantera, Inc. (a related party) in the ordinary course of business. As of June 30, 2008 the net balance of long-term accounts receivable amounted to \$661,968 (\$1,323,936 less allowance for doubtful account amounted to \$661,968).

**6. RELATED PARTY**

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

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

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

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

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2008**

**6. RELATED PARTY (CONTINUED)**

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

Effective December 20, 2001 the partnership agreement was amended to go into effect the admission of ESIC Citigroup CCDE Investment Fund LP as limited partnership, and the withdrawal of Apoyo as limited partner, and set forth more fully the rights and obligations of the general and limited partners. Apoyo became the developer, administrator and social services providers of the project.

**7. CAPITAL ASSETS ACTIVITY**

Capital assets activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 80,300	-	-	\$ 80,300
Building	1,229,041	-	-	1,229,041
Furniture and fixtures	194,050	-	-	194,050
Equipment	316,530	16,232	-	332,762
Vehicles	245,980	25,028	-	271,008
Leasehold improvements	<u>2,649</u>	<u>-</u>	<u>-</u>	<u>2,649</u>
Total	<u>2,068,550</u>	<u>41,260</u>	<u>-</u>	<u>2,109,810</u>
Less: Accumulated depreciation:				
Building	\$ 962,748	122,904	-	\$ 1,085,652
Furniture and fixtures	135,581	14,640	-	150,221
Equipment	237,831	23,018	-	260,849
Vehicles	230,238	7,422	-	237,660
Leasehold improvements	<u>2,649</u>	<u>-</u>	<u>-</u>	<u>2,649</u>
Total accumulated depreciation	<u>1,569,047</u>	<u>167,984</u>	<u>-</u>	<u>1,737,031</u>
Capital assets, net	<u>\$ 499,503</u>			<u>\$ 372,779</u>

**COMPAÑÍA PARA EL DESARROLLO INTEGRAL  
DE LA PENÍNSULA DE CANTERA  
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2008**

**8. NOTES PAYABLE**

On December 26, 2000, the Company entered into a Non Revolving Line of Credit Agreement (the Loan Agreement) with the Government Development Bank (the Lender), as authorized by the Joint Resolution No. 20 approved on February 16, 2000 by the Legislature of the Commonwealth of Puerto Rico, to finance the development and construction of low cost residential housing projects at the Península de Cantera area. The Loan Agreement provides for borrowings through July 31, 2012 (the Maturity Date) up to an amount of \$38,000,000, the maximum amount of borrowings that may be outstanding under the Loan Agreement.

On October 12, 2004 the Legislature of the Commonwealth of Puerto Rico approved a Joint Resolution No. 2199 to authorized the Company to incur in obligations in an amount not to exceed \$40,000,000 for the payments of costs incurred or to be incurred for the permanent improvements projects in the communities and sectors that constitute the Community of the Cantera Península. As resulted the Company enters into an additional Non Revolving Line of Credit Agreement with the Lender. The Loan Agreement provides for borrowings through December 31, 2011 (the Maturity Date) up to a maximum amount of \$40,000,000.

Under both agreements, borrowings bear interest at a variable rate and will be repaid, including the outstanding balance of borrowings, from appropriations from the Public Improvements Fund of the Commonwealth of Puerto Rico and as agreed by the Lender and the Office of Management Budget. The interest rate ranging from 3.78% to 6.25% during the year ended June 30, 2008. The changes in notes payable were as follows:

	Beginning Balance	Borrowings	Repayments	Ending Balance
\$38 millions line of credit	\$ -	\$ 763,061	\$ 117,180	\$ 645,881
\$40 millions line of credit	<u>-</u>	<u>334,933</u>	<u>-</u>	<u>334,933</u>
Total	<u>\$ -</u>	<u>\$ 1,097,994</u>	<u>\$ 117,180</u>	<u>\$ 980,814</u>

**9. COMMITMENT AND CONTINGENCIES**

**Operating lease commitment**

The Company leases its administrative offices in Cantera Plaza located at 608 Barbosa Avenue from Apoyo Empresarial para la Península de Cantera Inc., a related party. The lease provides for monthly payments of \$800, expires in December 31, 2008 with a renewal option. The total rent expense for the year ended June 30, 2008 amounted to \$9,600. The future minimum rental payments due to the related party under the operating lease agreement are as follows: Year Ending June 30, 2009 \$4,800.

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2008**

**9. COMMITMENT AND CONTINGENCIES (CONTINUED)**

**Litigation**

In March 12, 2009 the Company initiated a collection claim in the Honorable Commission to Resolve Controversies on Payments and Debts between Governmental Agencies, against the Municipality of San Juan. The claim states that the contributions the Municipality is obligated to effect, pursuant to the provisions of Law No. 20 of July 10, 1992 (the Law), has not been made. The Law specified in its Article No. 27 that the functional budget of the Company will be equally financed with resources provided by the Commonwealth of Puerto Rico and the Municipality of San Juan. The Company alleged the Municipality owes \$1,068,000 in contributions that have not been made since the fiscal year 2005-2006. Management believes, based on Company's legal counsel, that the claim could result in favor of the Company. However the ultimate outcome of the claim cannot be determine and no amount have been recognized for possible collection.

**10. CONTRIBUTED CAPITAL**

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

**11. PRIOR PERIOD ADJUSTMENT**

Net assets at the beginning of 2008 have been increased due to unrecognized interest receivable on cash advances made to a related party in prior years. Had the error not been made, changes in net assets for 2007 would have been increased by \$289,715.