

RSM! ROC & Company

Certified Public Accountants & Consultants

Puerto Rico Convention Center District Authority

Basic Financial Statements and
Other Supplementay Information
June 30, 2007



PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

BASIC FINANCIAL STATEMENTS AND OTHER SUPPLEMENTARY INFORMATION

June 30, 2007

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RSM!ROC & Company

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SECTION I

Independent Auditors' Report

RSM ROC & Company

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To: Board of Directors of the Puerto Rico
Convention Center District Authority

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the Puerto Rico Convention Center District Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority'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 also 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 the Authority'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 above present fairly, in all material respects, the financial position of the Puerto Rico Convention Center District Authority as of June 30, 2007, and the changes in its financial position 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 Section II 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 inquires 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information presented in Section IV, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

San Juan, Puerto Rico
October 31, 2007.

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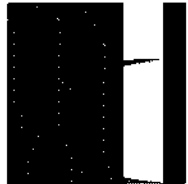
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SECTION II

Management's Discussion and Analysis



**AUTORIDAD
DEL DISTRITO**
de Centro de Convenciones
Estado Libre Asociado de Puerto Rico

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2007

The Puerto Rico Convention Center District Authority (the "Authority"), is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth"), created by Law No. 142 of October 4, 2001, and is responsible for developing, constructing, and operating the Puerto Rico Convention Center ("Convention Center") and the Puerto Rico Convention District ("District"). On August 3, 2004, Act No. 185, which amends Act No. 351 of September 2, 2000, transferred the ownership interest of the Puerto Rico Coliseum José Miguel Agrelot (the "Coliseum") to the Authority to administer and supervise its operations. The Authority's annual financial report presents management's discussion and analysis of the Authority's financial performance during the year ended June 30, 2007. It provides an assessment of how the Authority's financial position and result of operations has improved or declined and identifies the factors that, in management's view, significantly affected the Authority's overall financial position. It may contain opinions, assumptions or conclusions by the Authority's management that should not be considered a replacement for, and must be read in conjunction with, Authority's financial statements, which follow this section.

Financial Highlights

- The Authority's total assets increased by \$28.7 million in 2007 or 3.6%.
- The Authority's total liabilities increased by \$6.6 million in 2007 or 1.0%.
- The Authority's net assets increased by \$22.1 million in 2007 or 19.6%.
- Operating revenues increased by \$6.0 million in 2007 or 26.8%.
- Operating costs and administrative expenses increased by \$5.2 million in 2007 or 11.4%.
- Non-operating income increased by \$9.7 million in 2007 or 214.7%.
- Transfer in increased by \$38.0 million in 2007 or >99%

Overview of the Financial Statements

This annual financial report consists of three parts: the management's discussion and analysis report (this section), the basic financial statements of the Authority including notes that explain in more detail some of the information in the financial statements, and other supplementary information.

- The financial statements are designed to provide readers with a broad overview of the Authority's basic finances, in a manner similar to a private-sector business. These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (USGAAP) as applicable to governmental units under the accrual basis of accounting. Under this basis of accounting, revenues are recognized in the period they are earned, while expenses are recognized in the period they are incurred.

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2007

- The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, the increases and decreases in net assets provide an indication of whether its financial health is improving or deteriorating.
- The statement of revenues, expenses and changes in net assets presents information showing how the Authority's net asset changed during the most recent fiscal year.
- The statement of cash flows explains the sources and uses of cash during the fiscal year classified in operations, capital and related financing, non-capital and related financing and investing activities.

Financial Analysis of the Authority

The following summarizes the Authority's financial position as of June 30, 2007 and 2006:

STATEMENTS OF NET ASSETS (in 000's)

	<u>2007</u>	<u>2006</u>	<u>Variance</u>
Assets:			
Current assets	\$ 36,837	\$ 30,705	\$ 6,132
Capital assets, net	680,390	651,641	28,749
Other non capital assets	<u>109,791</u>	<u>115,991</u>	<u>(6,200)</u>
 Total assets	 <u>\$ 827,018</u>	 <u>\$ 798,337</u>	 <u>\$ 28,681</u>
Liabilities:			
Current liabilities	\$ 208,586	\$ 197,013	\$ 11,573
Non-current liabilities	<u>484,040</u>	<u>488,989</u>	<u>(4,949)</u>
 Total liabilities	 <u>692,626</u>	 <u>686,002</u>	 <u>6,624</u>
Net assets:			
Invested in capital assets, net of related debt	44,997	18,656	26,341
Restricted assets	68,333	86,247	(17,914)
Unrestricted	<u>21,062</u>	<u>7,432</u>	<u>13,630</u>
 Total net assets	 <u>134,392</u>	 <u>112,335</u>	 <u>22,057</u>
 Total liabilities and net assets	 <u>\$ 827,018</u>	 <u>\$ 798,337</u>	 <u>\$ 28,681</u>

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2007

- **The Authority's total assets increased by \$28.7 million in 2007 (or 3.6%)**

The Authority has remained focus on its mission of promoting economic activities by providing outstanding venues and related services to the tourist sector and the general public. The Authority completed the construction of the Convention Center and currently is dedicated, along with overseeing the operations of the venues, to the developing of the surrounding Convention Center District, which will accommodate hotels, commercial and residential facilities and recreational areas. During the year ended June 30, 2007, total capital assets increased by \$28.7 million. This increase was mainly related to five (5) parcels of land received from the Puerto Rico Department of Transportation and Public Works measuring approximately 43,700 square meters and valued at \$39.5 million. The Authority completed certain development and construction work amounting to approximately \$5.7 million related to the pedestrian recreational area and the landmark social meeting diner Ficus Café, a facility operated by the Authority. During the year ended June 30, 2007, the net decrease in restricted assets amounted to \$9.8 million, mainly related to the payments of \$21.8 million of interests from revenue bonds obligation and the disbursement of \$4.6 million from the construction fund offset by deposits from the room tax revenues amounting to \$16.6 million. Lastly, accounts receivable increased by approximately \$5.3 million related to the room tax revenues pursuant to the Commonwealth Law No. 272 of September 2003, which establishes a subsidy to finance the administration and deficit from operating the Convention Center.

- **The Authority's total liabilities increased by \$6.6 million in 2007 (or 1.0%)**

This increase in the liabilities is substantially related to the bond interest costs associated with the Convention Center and its surrounding district and the Coliseo de Puerto Rico. As of June 30, 2007, the Authority accrued interest increased by \$13.8 million. The Authority, consistent with the completion of the Convention Center, has decreased its accounts payable by \$7.7 million. During the year ended June 30, 2007, the Authority extended credit facility due date with the Puerto Rico Government Development Bank (GDB) for the Coliseum, until June 2027.

- **The Authority's net assets increased by \$22.1 million in 2007 (or 19.6%)**

As of June 30, 2007, the Authority had \$134.4 million in net assets categorized in \$45.0 million invested in capital assets, net of related debt, \$68.3 million in restricted assets, and \$21.1 million in unrestricted assets. Investment in capital assets, net of related debt, increased by \$26.3 million in 2007 (or 140.6%), due to substantially, to the land transferred for the Puerto Rico Department of Transportation and Public Works. Restricted net assets decreased by \$17.9 million (or 20.8%) representing funding obtained from the bond issuance, set aside for specific capital uses and debt services, reduced by current portion of bonds payable and accrued interest to be paid from such funds for approximately \$6.0 million. Unrestricted assets increased in 2007 by \$13.6 million (or 185.1%)

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2007

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (in 000's)

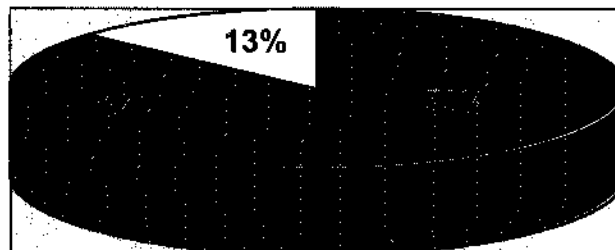
	2007	2006	Variance
Operating revenues	\$ 28,508	\$ 22,474	\$ 6,034
Operating direct costs	(10,243)	(7,795)	(2,448)
Operating and administrative expenses	(40,893)	(38,121)	(2,772)
Non-operating (expenses) income	5,185	(4,521)	9,706
Transfer in	39,500	1,483	38,017
Net increase (decrease) in net assets	22,057	(26,480)	48,537
Net assets, at beginning of year	112,335	138,815	(26,480)
Net assets, at end of year	<u>\$ 134,392</u>	<u>\$ 112,335</u>	<u>\$ 22,057</u>

- **Operating revenues increased by \$6.0 million in 2007 (or 26.8%)**

The opening of the Convention Center and the increase in the number of events in the Coliseum accounted for the increase in the Authority's operating revenues during the year ended June 30, 2007. Operating revenues are generated from rental of facilities and related support services, sale of food and beverages, suites and club seat rental, sponsorships and ticket incentive rebates, among others.

The following graph presents the sources of the revenues generated by the Authority during the year:

2007 Operating Revenues



Food and Beverage
 Rental and event services
 Advertising

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2007

For the year ended June 30, 2007, operating revenues generated by the Convention Center amounted to approximately \$11.8 million or an increase of \$6.2 million from the previous year (or 110.7%) , while operating revenues from the Coliseum amounted to approximately \$16.8million, a decrease of less than 1% when compared to last year.

- **Operating direct costs increased by \$2.4 million in 2007 (or 30.8%)**

The operating direct costs include the cost of food, beverages and novelty and direct rental and event costs such as event set up, support, engineering, and labor directly related to the event. Increase in direct costs is related to the opening of the Convention Center and the increase in the number of events at the Coliseum.

- **Operating and administrative expenses increased by \$2.8 million in 2007 (or 7.3%)**

Professional and contract services expense increased by \$1.5 million during 2007 (or 19.0%), this increase is mainly due to the incentive fees paid to outside operators of the venues and other related professional services. Utilities increased by \$1.2 million during 2007 (22.2%), the increase is consistent with the general increase of energy cost experience during the last year. Repair and maintenance increased \$1.3 million during 2007 (or 52.0%), the increase was expected based on the operation of the new facility Convention Center and the plan to maintain the venues. These increases have been partially offset by decreases in advertising and insurance expenses of approximately \$600,000 during 2007 (or 8.6%). During 2006, the Authority incurred a non-recurring marketing campaign for the opening of the Convention Center.

- **Non-operating income net of non-operating expenses increased by \$9.7 million in 2007 (or 214.7%)**

The Authority's non-operating revenues are comprised of funds allocated from the room tax law enacted by the Government of the Commonwealth of Puerto Rico of \$30.6 million or an increase of \$19.1 million in 2007 (or 167.5%). The provisions of the room tax revenues provide, among other things, for the debt services of the bond issued for the financing of the Convention Center, administrative funds up to \$2.5 million and the setting of special funds to cover for the operating deficit, as defined. Non-operating expenses include non-capitalized interest expense of approximately \$30.9 million from the Convention Center's bond obligation and the Coliseum's line of credit, offset by interest earned of approximately \$4.7 million.

- **Transfers in amounted to \$39.5 million in 2007**

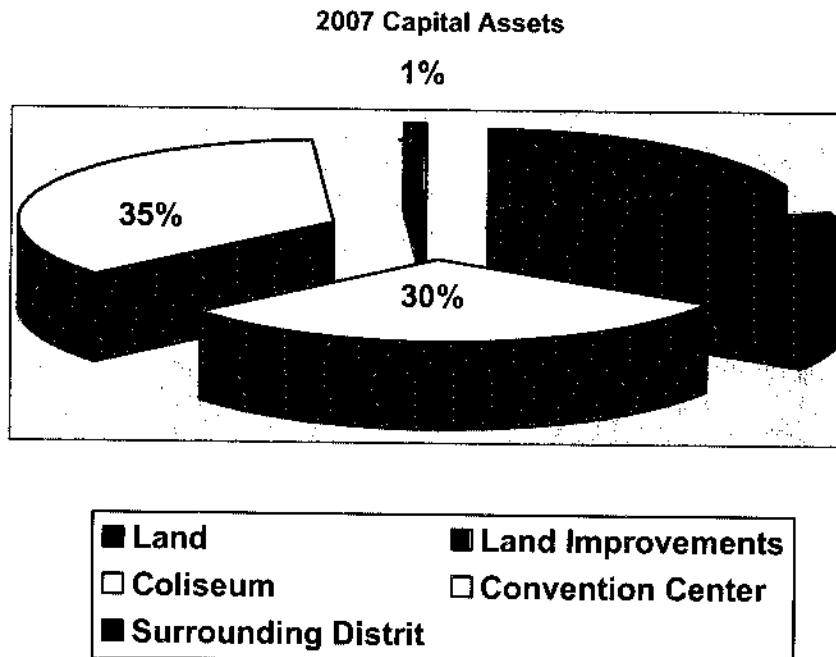
The transfers-in of \$39.5 million during 2007 consist of parcels of land transferred by the Puerto Rico Department of Transportation and Public Works that will be part of the District's development.

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2007

- **Capital assets increased by \$28.7 million in 2007 (or 4.4%)**

The Authority's increase in capital assets during 2007 consists as follows: a) land transfers from the Puerto Rico Department of Transportation and Public Works for \$39.5 million; b) development of the surrounding Convention Center District for approximately \$7.4 million; c) transferred to land held for sale of approximately \$5.5 million for private development.

The following graph segregates the capital assets among land, land improvement, property subject to depreciation pertaining to the Coliseum, Convention Center and surrounding district, at cost before depreciation, as follows:



Subsequent event

On October 4, 2007, the Commonwealth of Puerto Rico Department of Treasury transferred approximately \$22.6 million to the Puerto Rico Government Development Bank to be applied to the line of credit of the Coliseum. Refer to Note 14 to the basic financial statements.

Contacting the Authority's Financial Management

This financial report is designed to provide to the general public with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Puerto Rico Convention Center District Authority, PO Box 19269, San Juan, Puerto Rico, 00910-1269.

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SECTION III

Basic Financial Statements

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PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

STATEMENT OF NET ASSETS

June 30, 2007

ASSETS

CURRENT ASSETS:

Cash	\$ 21,895,842
Accounts receivable, net	13,875,775
Prepaid expenses	986,788
Other assets	<u>78,613</u>
	<u>36,837,018</u>

RESTRICTED ASSETS:

Bond payment fund	46,590,892
Construction fund	<u>35,851,291</u>
	82,442,183

LONG-TERM ACCOUNTS RECEIVABLE 5,174,478

LAND HELD FOR SALE 5,650,000

CAPITAL ASSETS, NET 680,389,769

DEBT ISSUE COST, NET 16,524,468

790,180,898

\$ 827,017,916

The accompanying notes are an integral part of this statement.

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

STATEMENT OF NET ASSETS June 30, 2007

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES:

Borrowings under line of credit	\$ 155,221,380
Accounts payable	3,647,764
Contract payable, including retention	1,490,778
Interest on line of credit	22,284,233
Customer deposits payable	3,083,139
Deferred revenues	5,395,269
Accrued expenses	3,354,583
	<hr/>
	194,477,146

CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:

Current portion of bonds payable	3,000,000
Interest on bonds	11,108,882
	<hr/>
	14,108,882

NON-CURRENT LIABILITIES:

Bond payable	478,722,175
Deferred revenues	5,318,178
	<hr/>
	484,040,353

NET ASSETS:

Invested in capital assets, net of related debt	44,955,436
Restricted	68,333,301
Unrestricted	21,102,798
	<hr/>
	134,391,535
	<hr/>
	\$ 827,017,916

The accompanying notes are an integral part of this statement.

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the year ended June 30, 2007

OPERATING REVENUES:

Food, beverage and novelty	\$ 14,946,449
Rental and event services	9,788,097
Advertising	<u>3,773,705</u>

28,508,251

OPERATING EXPENSES:

Food, beverage and novelty expenses	6,460,571
Rental and event services	<u>3,782,948</u>

10,243,519

ADMINISTRATIVE EXPENSES:

Salaries and related benefits	1,689,443
Professional and contract services	9,387,465
Depreciation and amortization	11,837,314
Utilities and insurance	10,382,892
Advertising	2,625,098
Repairs and maintenance	3,479,444
Others	<u>1,491,149</u>

40,892,805

OPERATING LOSS (22,628,073)

NON-OPERATING INCOME, net 5,184,823

LOSS BEFORE TRANSFERS (17,443,250)

TRANSFER IN:

Land received from the Department of Transportation and Public Works 39,500,000

NET INCREASE IN NET ASSETS 22,056,750

NET ASSETS, beginning of year 112,334,785

NET ASSETS, end of year \$ 134,391,535

The accompanying notes are an integral part of this statement.

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:

Collections on food, beverages, rental, event services and advertising	\$ 29,114,709
Payments to suppliers	(44,689,477)
Payments to employees	<u>(1,681,406)</u>
Net cash used in operating activities	<u>(17,256,174)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Advances from line of credit	375,504
Withdrawal from restricted assets	9,791,301
Capital expenditures	(7,460,995)
Payments of interest	<u>(16,663,322)</u>
Net cash used in capital and related financing activities	<u>(13,957,512)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Collections on room tax	25,223,673
Collections of interest income and other	<u>5,513,340</u>
Net cash provided by investing activities	<u>30,737,013</u>

NET DECREASE IN CASH (476,673)

CASH, beginning of year 22,372,515

CASH, end of year \$ 21,895,842

Continues...

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

STATEMENT OF CASH FLOWS For the year ended June 30, 2007

Continued...

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES

Operating loss	\$ (22,628,073)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	11,837,314
Reserve for bad debts	188,363
Changes in assets and liabilities-	
(Increase) decrease in assets:	
Accounts receivable	(277,018)
Prepaid expenses	282,717
Others	40,687
Increase (decrease) in liabilities:	
Accounts payable	(7,739,711)
Customer deposits payable	898,956
Deferred revenues	(203,843)
Accrued expenses	<u>344,434</u>
Net cash used in operating activities	<u>\$ (17,256,174)</u>

The accompanying notes are an integral part of this statement.

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

1) Organization and summary of significant accounting policies:

- A) Organization - The Puerto Rico Convention Center District Authority (the "Authority"), is a component unit of the Commonwealth of Puerto Rico (the Commonwealth), created by Law No. 142 of October 4, 2001, and is responsible for developing, constructing, and operating the Puerto Rico Convention Center and the Puerto Rico Convention District. Law No. 142 amends and supersedes Law No. 400 of September 9, 2000, which had been enacted to create the Puerto Rico Convention Center Authority and to develop the convention center, in an effort to promote congress and large groups meetings in Puerto Rico. Law No. 142 also amends and supersedes Law No. 351 of September 2, 2000, which had created the World Trade Center District with the final objective to provide the necessary support to the Convention Center Authority. The new legislation conveyed the Puerto Rico Convention Center and the World Trade Center District into a single agency.

Under the provisions of Law No. 142, the Puerto Rico Tourism Company (PRTC) transferred to the Authority the net costs incurred during the development and design of the site that fosters the convention center and surrounding infrastructure, which as of the transfer date October 4, 2001, amounted to \$3,600,000.

On August 3, 2004, the Commonwealth of Puerto Rico enacted Law No. 185 to amend Law No. 351 of September 2, 2000 and transferred the ownership of the José Miguel Agrelot Coliseum (the "Coliseum") to the Authority, increased the composition of the Board of Directors and committed the Office of Management and Budget to allocate funds for the debt services and operation deficit, as applicable, among others. Related to the transfer of the Coliseum, on September 21, 2004, Law No. 394 was enacted, amending Law No. 351, to transfer the ownership interest as well as other rights and obligations related to the development and operations of the Coliseum.

- B) Summary of significant accounting policies – The accounting and reporting policies of the Authority conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities. The activities of the Authority are accounted for as an enterprise fund. Accordingly, the Authority follows the accrual basis of accounting. Revenues are recognized when earned, regardless of when received, and expenses are recognized when incurred, regardless of when paid. Following is a description of the most significant accounting policies:

Basis of presentation – The Authority's financial statements are presented as an enterprise fund and conform to the provisions of Governmental Accounting Standards Board Statement No. 34 (GASB 34), as amended, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments". GASB 34 establishes standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows. It requires the classification of net assets 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, costs to be recovered from future revenues, and unamortized debt expense 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, the portion of the debt is included in the same net assets component as the unspent proceeds.

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

- Restricted – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provision or enabling legislation.
- 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 Authority 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.

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.

Allowance for doubtful accounts – The allowance for doubtful accounts receivable 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 collectibility of the receivables. Because of uncertainties inherent in the estimation process, the related allowance may change in the future.

Capital assets – Consist of construction costs, related to the development of the Convention Center and other improvements on the adjacent District, the Coliseum, and office furniture and equipment. Land received as transferred is valued at fair market value. Capital assets, other than construction costs or land, are defined by the Authority as assets which have a cost of \$1,000 or more at the date of acquisition and have an expected useful life of two or more years. Such assets are recorded at cost.

Construction costs include project development costs, design and architecture, environmental studies and site improvements, capitalized interest, insurance, construction costs received in transfers and other capitalizable costs.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the building (50 years), vehicles (5 years), and furniture and equipment (ranging from 3 to 10 years). The capital assets under construction are depreciated once they are placed in operations. At the time capital assets are sold or otherwise disposed of, the cost and related accumulated depreciation is removed from books and the resulting gain or loss, if any, is credited or charged to operations. Expenditures for repairs and maintenance, which do not extend the useful lives of the assets, are charged to operations in the years incurred.

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Accounting for the impairment or capital assets- The Authority accounts for asset impairment under the provisions of GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its services utility has declined significantly and unexpectedly. This statement also establishes accounting requirements for insurance recoveries. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value.

Compensated absences – Compensated absences, such as unpaid vacation and sick leave pay, are accrued when incurred using the pay or salary rates in effect at the statement of net assets' date.

Operating revenue and expenses – Entities that follow enterprise fund reporting distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the entity's principal ongoing operations. Revenue and expenses not meeting this definition are reported as non-operating revenue and expenses. Operating revenues and operating direct costs are related to the Convention Center and the Coliseum.

Statements of cash flows – The accompanying statement of cash flows is presented in accordance with the provisions of GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting". The provisions of GASB 9 required that the direct method be used to present the cash inflows and outflows of the Authority.

Risk management - The Authority purchases commercial insurance to cover for casualty, theft, tort claims, and other losses through the Puerto Rico Treasury Department (the Treasury Department) negotiated under a blanket agreement and then charged to the Authority.

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 the GASB 33, the provider and the recipient should recognize the non-exchange transaction as an expense and revenue, respectively, when all eligibility requirements are satisfied.

The Authority accounts for room tax revenues and transfer of land under provisions of GASB 33.

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Restricted assets and liabilities from restricted assets – Restricted assets represent the amounts deposited by the Authority to provide for the amortization of bond payable and related interest costs and cash available in the related construction fund.

Recently Issued accounting standards – The GASB has issued the following accounting standards that have effective dates after June 30, 2007:

- GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions, which is effective for periods beginning after December 15, 2006, December 15, 2007 or December 15, 2008, depending on the level of total annual revenues.
- GASB Statement No. 47, Accounting for Termination Benefits, which is effective in two parts. For termination benefits provided through an existing defined benefit other postemployment benefits plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45. For all other termination benefits, this Statement is effective for financial statements for periods beginning after June 15, 2005.
- GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, which is effective for financial statements for periods beginning after December 15, 2006.
- GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, which is effective for financial statements for periods beginning after December 15, 2007.
- GASB Statement No. 50, Pension Disclosures, An Amendment of GASB Statements No. 25 and No. 27, which is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which is effective for periods which the financial statements and required supplemental information contain information resulting from actuarial valuations as of June 15, 2007, or later.
- GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, which is effective for financial statements for periods beginning after June 15, 2009.
- GASB Technical Bulletin No. 2006-1, Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D, which is effective simultaneously with the implementation of GASB Statements No. 43 and 45.

The impact of these pronouncements in the Authority's financial statements has not yet been determined.

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

2) Cash and restricted assets:

Cash – The Authority is authorized to deposit funds in the Puerto Rico Government Development Bank (GDB) and/or in the custody of financial institutions approved by the Commonwealth of Puerto Rico, and as such, deposits should be kept in separate accounts in the name of the Authority. The Authority has deposits with GDB that are not required to be insured or collateralized. Deposits with non-government financial institutions are insured by the Federal Depository Insurance Corporation up to \$100,000, or collateralized with various financial instruments held by trustees of the Treasury Department of the Commonwealth of Puerto Rico. Based on these provisions, deposits either insured or collateralized, are not considered to be subject to custodial risk, which is the risk that in the event of a bank's failure, the Authority's deposits may not be returned. As of June 30, 2007, the Authority had approximately \$1,077,000 of deposits subject to custodial risk.

As of June 30, 2007, the Authority has non-interest and interest bearing demand deposits as follows:

Description	Bank balance	Interest	Insured/ collateralized	Uninsured or uncollateralized
GDB	\$ 1,077,541	4.6%	\$ -	\$ 1,077,541
Non-government banks	21,973,202	4.5%	21,973,202	-
	<u>\$ 23,050,743</u>		<u>\$ 21,973,202</u>	<u>\$ 1,077,541</u>

Restricted assets – Based on the hotel occupancy tax revenue bonds, certain proceeds from the bond issued on March 15, 2006 (see Note 6) were set aside for the repayment of the bonds, for capitalized interest, and construction; and are classified as restricted assets on the statement of net assets. Separate bank accounts were opened with the Bank of New York (formerly JP Morgan Chase Bank, N. A.) (BNY), as Trustee, and Citigroup Financial (CITG); the latter, under an investment agreement. The use of such balances is limited by applicable bond covenants.

Investment Policy – The Trust Agreement between the Authority and BNY, and the Investment Agreement between Authority and CITG, both dated March 24, 2006, provide general and specific guidance for the allowed investment alternatives and provide collateralization requirements based on the specified credit rating by nationally recognized credit agencies. The objective of these provisions is to maximize the yield, while having adequate liquidity to pay the obligation as they become due.

The Authority permits BNY and CITG to purchase and/or acquire the following investments:

- Governmental obligations.
- General state obligation bonds rated within the three highest credit categories.
- Collateralized banker's acceptance or certificates of deposits.
- Obligations of the Commonwealth of Puerto Rico or any State of the United States of America, their agencies, municipalities, instrumentalities, rated within the three highest credit categories.
- Shares of stock in corporations with the highest rating category, as defined.
- Commercial paper rated P-1 or A-1 of United States banking institutions.
- Money market accounts, with the highest credit categories.

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Under the Trust Agreement, the following funds were created with restrictions in the use of monies deposited:

- Bond payment fund – shall be used to pay the bond payments and redemption price as defined. Separated accounts shall be maintained for the appropriate series designation.
- Proceeds fund – the Trustee shall create and maintain separate accounts identified as the capitalized interest account, construction account, and the loan payment account.
- Financial agreement fund – the Trustee shall create and maintain separate accounts for payment of any amounts due to the provider, of any credit facility, or interest rate exchange, as defined.
- Debt service reserve fund – amounts in each account shall be used to pay debt service on the date of such debt service is due when insufficient funds are not available in the bond payment fund.

As of June 30, 2007, restricted funds were as follows:

Funds	Beginning balance	Additions	Withdrawals	Ending balance
Bond payment fund	\$ 36,702,650	\$ 14,493,757	\$ (4,605,515)	\$ 46,590,892
Proceeds Fund- Construction account	\$ 55,530,834	\$ 2,086,713	\$ (21,766,256)	\$ 35,851,291

As of June 30, 2007, the credit ratings of the investments in the Bond Payment fund and Proceeds fund is as follows:

Description	Due	Rating	Amount
Money market fund	On demand	AAA - G	\$ 46,590,892
Guarantee contract	June 30, 2009	N/A	\$ 35,851,291

The guarantee contract represents an unsecured debt instrument subject to collateralization requirements in the event the agent's parent (Citigroup, Inc.) long-term unsecured debt rating is suspended, withdrawn, or graded below AA, the investment will require the guarantee eligible collateral, as defined.

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

3) Accounts receivable:

Accounts receivable as of June 30, 2007 consists of:

Description	Current	Long term	Total
Trade receivables	\$ 7,730,678	\$ -	\$ 7,730,678
Deferred receivable:			
Billable	4,592,439	4,923,783	9,516,222
Non-monetary consideration	1,741,021	250,695	1,991,716
	14,064,138	5,174,478	19,238,616
Less – Allowance for bad debts	(188,363)	-	(188,363)
	<u>\$ 13,875,775</u>	<u>\$ 5,174,478</u>	<u>\$ 19,050,253</u>

Trade receivables comprise amount due on event services, food, beverages, rental, and advertising billed to promoters, facility members, sponsors, and the general public.

The Authority enters in long-term multi-services agreements for advertising and corporate sponsorship, which provides among others, deferred billings arrangements and non-monetary consideration, related to the sponsor's trade or business. The agreements can extend from one to five years and include a blend of advertising space and assignment of exclusive use of luxury corporate suites in the facilities, with event attendance, as defined. The revenues associated with the long-term agreements are deferred and recognized using the straight-line method over the term of the agreement. The non-monetary consideration is measured at fair value based on the current rates applicable to the Authority.

As of June 30, 2007, the Authority's schedule of deferred charges was as follows:

Years ending June 30,	Billable	Non-monetary consideration	Total
2008	\$ 4,592,439	\$ 1,741,021	\$ 6,333,460
2009	3,626,083	229,862	3,855,945
2010	735,720	20,833	756,553
2011	343,712	-	343,712
2012	218,268	-	218,268
	<u>\$ 9,516,222</u>	<u>\$ 1,991,716</u>	<u>\$ 11,507,938</u>

As of June 30, 2007, the Authority received services and products used to reduce the deferred non-monetary consideration for approximately \$373,000.

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

As of June 30, 2007, the deferred revenues related to the long-term agreement were as follows:

Description	Current	Long Term
Deferred revenues	\$ 5,395,269	\$ 5,318,178

The deferred revenues will be earned in the following years:

Years ending June 30, 2007	Amount
2008	\$ 5,395,269
2009	3,698,053
2010	1,029,394
2011	372,462
2012	218,269
	<u>\$ 10,713,447</u>

4) Capital assets:

Capital assets are comprised of the cost incurred in the development of the Convention Center District (CCD), which will entail 113 acres of land positioned near the center of the San Juan metropolitan area and the Coliseum of Puerto Rico. It also includes improvements, furniture, equipment and vehicles at the Convention Center and Coliseum of Puerto Rico. The Board of Directors adopted a master plan that calls for developments of the Convention Center and surrounding infrastructure, residential and office buildings, hotels and casinos, a complex for retail and entertainment, restaurants and walkways, and others. The development strategy is a blend of public and private investment, but ownership of the land will substantially remain with the Authority.

As of June 30, 2007, capital assets were as follows:

Description	Beginning balance	Additions/ Transfer	Retirements/ transfers	Ending balance
Land	\$ 103,659,625	\$ 39,491,176	\$ (3,833,729)	\$ 139,317,072
Land improvements	61,389,346	1,046,328	-	62,435,674
Construction in progress	31,916,694	4,688,405	-	36,605,099
	<u>196,965,665</u>	<u>45,225,909</u>	<u>(3,833,729)</u>	<u>238,357,845</u>

Continues...

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Continued...				
Description	Beginning balance	Additions/ transfers	Retirements/ transfers	Ending balance
Capital assets being depreciated:				
<u>Coliseum</u>				
Building	199,228,683	168,648	(1,666,271)	197,731,060
Furniture and fixtures	13,165,373	109,266	-	13,274,639
Equipment	99,358	57,266	-	156,624
	<u>212,493,414</u>	<u>335,180</u>	<u>(1,666,271)</u>	<u>211,162,323</u>
<u>Convention Center</u>				
Building	242,979,293	151,837	(952)	243,130,178
Furniture and Fixture	7,176,179	494,911	-	7,671,090
	<u>250,155,472</u>	<u>646,748</u>	<u>(952)</u>	<u>250,801,268</u>
<u>District</u>				
Improvements, other than land	7,482,219	-	-	7,482,219
Furniture and fixture	97,081	-	(27,418)	69,663
Equipment	212,804	28,903	(38,644)	203,063
Vehicles	31,795	-	-	31,795
	<u>7,823,899</u>	<u>28,903</u>	<u>(66,062)</u>	<u>7,786,740</u>
Total assets being depreciated	470,472,785	1,010,831	(1,733,285)	469,750,331
Less: accumulated depreciation	(15,947,154)	(11,837,315)	66,062	(27,718,407)
Total capital assets being depreciated, net	<u>454,525,631</u>	<u>(10,826,484)</u>	<u>(1,667,223)</u>	<u>442,031,924</u>
	<u>\$ 651,491,296</u>	<u>34,399,425</u>	<u>(5,500,952)</u>	<u>680,389,769</u>
Land held for sale	<u>\$ 150,000</u>	<u>5,500,000</u>	<u>-</u>	<u>5,650,000</u>

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Ground lease – On August 31, 2005, the Authority, entered into a development ground lease agreement (“Agreement”) with third party. The agreement includes the construction of a hotel with a minimum 500 guest rooms, a casino, meeting facilities, business and fitness center, among others.

Land held for sale – As of June 30, 2007, the Board of Directors had authorized the sale of parcels of land with an area of approximately 9,200 square meters. The appraised value of the land amounted to \$5,650,000.

5) Borrowing under line of credit - Coliseum:

As of June 30, 2007, the Authority had an interim non-revolving line of credit with GDB for the development and construction of the Coliseum. On November 24, 2004, the Authority had entered into a credit transfer agreement with GDB, pursuant to Law No. 394 of 2004, amounting to an aggregate of \$230,000,000, maturing on June 30, 2027. Proceeds from the credit facilities are used to finance the costs associated with the development and construction of the Coliseum. Outstanding balances bear interest at 150 basis points over commercial paper note, as defined in the financing. As of June 30, 2007, the effective interest rate was 5.60%. As of June 30, 2007, the unused line of credit amounted to approximately \$2,625,000.

As of June 30, 2007, the aggregate balance of the line of credit is as follows:

Description	Beginning balance	Additions/ transfers	Payments	Ending balance
Borrowing under line of credit– Coliseum	\$ 154,845,876	\$ 375,504	\$ -	\$ 155,221,380

6) Bonds payable:

On March 15, 2006, the Authority authorized the issuance of bonds amounting to \$468,800,000 to finance any outstanding loans, or any construction project associated with the Convention Center construction project. The revenue bonds are direct obligations and are secured by a pledge of the Hotel Occupancy Tax Funds to be reviewed by the Authority until all bond payments have been paid in full. These bonds were issued with a maturity of twenty (20) years for serial bonds and thirty (30) years for the term bonds, with different amounts of principal maturing each year. Certain bonds may be subject to optional redemption, the first possible date of redemption being July 1, 2016.

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Revenue bonds –

Serial Bonds maturing through 2026, with interest rates ranging from 4% to 5%	\$ 249,305,000
Term Bonds Maturing through 2036, with interest rates ranging from 4 1/2% to 5 %	<u>219,495,000</u>
	468,800,000
Plus: Bonds premiums, net	<u>12,922,175</u>
Net bonds payable	481,722,175
Less: Current portion	<u>(3,000,000)</u>
	<u>\$ 478,722,175</u>

Revenue bonds debt service annual requirements to maturity (excluding discounts and premiums) are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 3,000,000	\$ 22,097,763
2009	4,000,000	21,937,763
2010	6,000,000	21,697,763
2011	8,640,000	21,297,063
2012	9,040,000	20,868,963
2013-2017	51,705,000	97,667,163
2018-2022	65,090,000	83,364,450
2023-2027	82,755,000	64,860,475
2028-2032	105,395,000	41,017,625
2033-2037	<u>133,175,000</u>	<u>12,512,250</u>
	<u>\$ 468,800,000</u>	<u>\$ 407,321,278</u>

The final payment of the bonds is due on July 1, 2036.

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Long-term liability activity for the year ended June 30, 2007 is as follows:

Description	2006	June 30, 2007			
		Issuances	Payments/ amortization	2007	Current portion
Serial bonds	\$ 249,305,000	\$ -	\$ -	\$ 249,305,000	\$ 3,000,000
Terms bonds	219,495,000	-	-	219,495,000	-
Total bonds outstanding	468,800,000	-	-	468,800,000	3,000,000
Plus: Bonds premium	13,789,127	-	(866,952)	12,922,175	-
Total bonds payable, net	\$ 482,589,127	\$ -	\$ (866,952)	\$ 478,722,175	\$ 3,000,000

Interest on the bonds will be paid semi-annually on January 1 and July 1, beginning on July 1, 2006, and will be calculated based on a 360 days year.

7) Unamortized bond issuance costs:

Costs related to the issuance of bonds are capitalized in the respective bond issues and amortized over the term of the bonds. During the year ended June 30, 2007, the capitalized issuance cost was as follows:

Description	Beginning balance	Additions	Retirements	Ending balance
Bond insurance expense	\$ 13,128,793	\$ -	\$ -	\$ 13,128,793
Underwriter's fee	3,094,921	-	-	3,094,921
Issuance costs	1,018,193	-	-	1,018,193
	17,241,907	-	-	17,241,907
Less: Amortization expense	(143,683)	(573,756)	-	(717,439)
	\$ 17,098,224	\$ (573,756)	\$ -	\$ 16,524,468

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

NOTES TO FINANCIAL STATEMENTS June 30, 2007

8) Non-operating income, net:

For the year ended June 30, 2007, non-operating income net of related expenses, were as follows:

Description	Amount
Interest expense	\$ (30,910,986)
Room tax revenue	30,582,469
Interest income	4,717,647
Amortization on bond issuance cost	730,822
Other income	64,871
	<u>\$ 5,184,823</u>

9) Transaction with Puerto Rico Tourism Company:

The Authority maintains a contract under a month-to-month agreement with a monthly payment of \$1,000. Among the services to be provided by PRTC are, but not limited to, contracting, legal, human resources, financial counseling and others, as requested by the Authority.

10) Hotel room tax revenue:

Pursuant to Sections 2051 and 2084 of the 1994 Puerto Rico Internal Revenue Code, hotels are required to pay a 9% tax based on the proceeds related to the occupancy and distributed among different revenue accounts of the Puerto Rico Treasury Department general and special revenue funds pursuant to the provisions of Section 2084.

Law No. 299 of September 1, 2000, amended Sections 2051 and 2084 of the 1994 Puerto Rico Internal Revenue Code and established that proceeds received from room tax are to be collected by the Treasury Department and then transferred to the Puerto Rico Tourism Company ("PRTC") in order for PRTC to dispose these moneys based on the provisions established in Law No. 299.

On September 9, 2003, the Governor of Puerto Rico signed Law No. 272, which among others, amended the provisions of Law No. 299 of room taxes. The significant provisions amended included the following:

- Transfers the responsibility of imposing, collecting and administering the Puerto Rico room tax to the PRTC.
- Without limitation, and based on the amount certified by the GDB, provided the required funding for the debt service related to the financing obtained to construct the Convention Center.
- The excess over the amount certified by GDB for the debt service will be distributed in priority order in the following manner:
 - Two percent (2%) of the total proceeds will be assigned to the Puerto Rico Tourism Company for administration of the funds.

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

- Five percent (5%) of the proceeds will be transferred to the Puerto Rico Treasury Department and will be deposited into the general fund. Once the commencement of the operations of the Convention Center are certified to Puerto Rico Department of Treasury by the PRTC and the Authority, and for a period of ten years, the five percent (5%) will be deposited into a special account to cover any deficit from operation of the Authority in excess of \$2,500,000. For each year that the funds in the special account are not used by the Authority, the Puerto Rico Department of Treasury will release and administer the funds.
- Nine percent (9%) of the proceeds will be used to fund the expenses incurred by the Puerto Rico Convention Bureau (an unrelated party).
- A special fund of \$2,500,000 will be established to cover the operation deficit, if any, of the Convention Center upon the commencement of the operations during the first 10 years of operations, certified to Puerto Rico Department of Treasury by the PRTC and the Authority.
- Any excess on the funds collected will be assigned to the PRTC to promote, advertise, and develop the tourism activities in Puerto Rico.

During the year ended June 30, 2007, the Authority's revenues related to the room taxes amounted to approximately \$30,582,000 in relation to the debt services certified by the Board of Directors of the Puerto Rico Tourism Company and the funds for the Administration and operating deficit.

11) Defined Contribution Plan:

During the fiscal year ended June 30, 2004, the Authority approved and established the Puerto Rico Convention Center Retirement Plan Money Purchase Plan (the Plan), a contributory deferred money purchase plan covering all the employees of the Authority, with benefits for the employees effective January 1, 2003. All employees become vested, once they entered into the Plan, in accordance with the eligibility requirements. The Authority acts as the Plan Administrator and subject to certain limitations can amend the Plan. Contributions to the Plan have been determined to be equivalent to 9% of the employees' normal annual salary, as defined. Total contributions made by the Authority for the year ended June 30, 2007, amounted to approximately \$106,000.

12) Transfer of land lot:

On November 7, 2006, the Authority received a transfer of land from the Commonwealth of Puerto Rico through a fee simple deed. The tract of land comprises approximately 40,200 square meters and was recorded at the appraisal value of \$39,500,000.

13) Consulting and management

As of June 30, 2007, the Authority had entered into various consulting services and management agreements with third parties for the management of the operations of the Convention Center and Coliseum. The agreements covered the daily operations, which includes scheduling of activities, pricing of rental and advertising, and food and beverages, among others. The contracts have several provisions that at the option of the Authority could extend the management period up to June 30, 2008.

PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

The minimum future commitments assumed by the Authority amounts to approximately \$1,560,000, as follows:

<u>Years ending June 30,</u>	<u>Base fees</u>	<u>Incentive fees</u>	<u>Total</u>
2008	\$ 500,000	\$ 360,000	\$ 860,000
2009	<u>375,000</u>	<u>325,000</u>	<u>700,000</u>
	<u>\$ 875,000</u>	<u>\$ 685,000</u>	<u>\$ 1,560,000</u>

One of the agreements, include a clause to adjust the annual fees to reflect the consumer price index with a cap of up to 3% per year. During the year ended June 30, 2007, the Authority paid in consulting and management fees related to these agreements approximately \$918,000.

14) Subsequent Event:

On October 4, 2007, the Department of Treasury of the Commonwealth of Puerto Rico transferred approximately \$22,580,000 for the payment of the non-revolving line of credit with the GDB (refer to note 5).

RSM!ROC & Company

Certified Public Accountants & Consultants

SECTION IV

Other Supplementary Information

Puerto Rico Convention Center District Authority
Statement of Net Assets disclosure
June 30, 2007

	Convention Center District Authority	Convention Center	Coliseum	Total
Current assets:				
Cash	\$ 14,835,367	\$ 2,603,148	\$ 4,457,327	\$ 21,895,842
Account receivable	24,137	6,360,817	1,286,506	7,671,460
Unbilled contract receivable	-	495,803	5,708,512	6,204,315
Prepaid expenses	79,491	260,658	646,639	986,788
Inventory	-	76,613	-	76,613
Other assets	-	2,000	-	2,000
	<u>14,938,995</u>	<u>9,799,039</u>	<u>12,098,984</u>	<u>36,837,018</u>
Non-current assets:				
Restricted assets				
Bond sinking funds	-	46,590,892	-	46,590,892
Construction funds	-	35,851,291	-	35,851,291
	-	<u>82,442,183</u>	-	<u>82,442,183</u>
Capital assets:				
Land	-	110,658,473	26,658,599	139,317,072
Land improvements	-	99,040,773	-	99,040,773
Building	-	243,130,178	197,731,060	440,861,238
Recreational areas	7,482,219	-	-	7,482,219
Furniture and fixtures	69,663	7,671,091	13,274,637	21,015,391
Equipment and vehicles	234,859	-	156,624	391,483
Accumulated depreciation	(501,374)	(10,413,620)	(16,803,413)	(27,718,407)
Property held for sale	-	5,500,000	150,000	5,650,000
Other assets, mainly prepaid insurance bonds	-	16,524,468	-	16,524,468
Contract receivable	-	1,534,405	3,640,073	5,174,476
	<u>7,285,367</u>	<u>473,645,768</u>	<u>226,807,580</u>	<u>707,738,715</u>
	<u>\$ 22,224,362</u>	<u>\$ 565,886,990</u>	<u>\$ 238,906,564</u>	<u>\$ 827,017,916</u>
Current liabilities:				
Borrowings under line of credit	\$ -	\$ -	\$ 155,221,380	\$ 155,221,380
Accounts payable	1,638,576	761,388	1,247,800	3,647,764
Contract payable	-	-	-	-
Retention payable	-	1,490,778	-	1,490,778
Deferred revenue	-	495,803	4,699,466	5,395,269
Deposits payable	-	-	-	-
Advance deposit	80,000	434,518	2,568,621	3,083,139
Accrued interest expenses	-	-	22,284,233	22,284,233
Accrued expenses	1,457,601	714,275	1,182,707	3,354,583
	<u>3,176,177</u>	<u>3,896,762</u>	<u>187,404,207</u>	<u>194,477,146</u>
Current liabilities payable from restricted assets:				
Current portion of bonds payable	-	3,000,000	-	3,000,000
Interest	-	11,108,882	-	11,108,882
	-	<u>14,108,882</u>	-	<u>14,108,882</u>
Non-current liabilities:				
Bond payable	-	478,722,175	-	478,722,175
Deferred revenues	-	1,534,405	3,783,773	5,318,178
	-	<u>480,256,580</u>	<u>3,783,773</u>	<u>484,040,353</u>
Net assets:				
Invested in capital assets, net of related debt	7,285,367	(30,126,058)	67,796,127	44,955,436
Restricted assets	-	68,333,301	-	68,333,301
Unrestricted	11,762,818	29,417,523	(20,077,543)	21,102,798
	<u>19,048,185</u>	<u>67,624,766</u>	<u>47,718,584</u>	<u>134,391,535</u>
	<u>\$ 22,224,362</u>	<u>\$ 565,886,990</u>	<u>\$ 238,906,564</u>	<u>\$ 827,017,916</u>

Puerto Rico Convention Center District Authority
Schedule of Revenues, Expenses and Change in Net Assets
For the year ended June 30, 2007

	Convention Center District Authority	Convention Center	Coliseum	Total
OPERATING REVENUES:				
Operating rental and services income	\$ -	\$ 1,673,866	\$ 3,517,390	\$ 5,191,256
Food, beverage and novelty income	-	9,709,633	5,236,816	14,946,449
Suite and club income	-	-	3,493,693	3,493,693
Advertising income	-	388,121	3,385,584	3,773,705
Ticket incentive rebates income	-	-	1,103,148	1,103,148
	<u>-</u>	<u>11,771,620</u>	<u>18,736,631</u>	<u>28,508,251</u>
OPERATING EXPENSES:				
Food, beverage and novelty expenses	-	3,584,270	2,876,301	6,460,571
Services expenses	-	1,877,275	1,905,673	3,782,948
	<u>-</u>	<u>5,461,545</u>	<u>4,781,974</u>	<u>10,243,519</u>
Gross Profit	<u>-</u>	<u>6,310,075</u>	<u>11,954,657</u>	<u>18,264,732</u>
OPERATING AND ADMINISTRATIVE EXPENSES:				
Professional and contracted services	2,366,120	3,297,021	3,725,324	9,387,465
Depreciation	198,814	6,230,047	5,408,453	11,837,314
Bad debt	-	59,218	129,145	188,363
Utilities	1,068,059	2,383,378	3,153,065	6,604,502
Salaries and related benefits	1,689,443	-	-	1,689,443
Advertising	375,878	1,860,320	388,900	2,625,098
Insurance	574,746	1,946,169	1,257,475	3,778,390
Repairs and maintenance	35,161	1,742,828	1,701,455	3,479,444
General and administrative expenses	276,688	560,904	365,194	1,302,786
Allocation of administrative expenses	(2,277,792)	1,265,100	1,012,692	-
	<u>4,306,117</u>	<u>19,444,985</u>	<u>17,141,703</u>	<u>40,892,805</u>
OPERATING INCOME (LOSS)	<u>(4,306,117)</u>	<u>(13,134,910)</u>	<u>(5,187,046)</u>	<u>(22,628,073)</u>
NON OPERATING INCOME:				
Interest expense	-	(22,217,763)	(8,693,223)	(30,910,986)
Interest income	509,015	3,918,701	289,931	4,717,647
Amortization of bond issuance cost	-	730,822	-	730,822
Room tax revenue	-	30,582,469	-	30,582,469
Other income	58,964	5,907	-	64,871
	<u>567,979</u>	<u>13,020,136</u>	<u>(8,403,292)</u>	<u>5,184,823</u>
INCOME (LOSS) BEFORE TRANSFER	<u>(3,738,138)</u>	<u>(114,774)</u>	<u>(13,590,338)</u>	<u>(17,443,250)</u>
TRANSFER IN:				
Land received from Department of Transportation and Public Work	-	39,500,000	-	39,500,000
NET INCREASE IN NET ASSETS	<u>(3,738,138)</u>	<u>39,385,226</u>	<u>(13,590,338)</u>	<u>22,056,750</u>
NET ASSETS, beginning of year	<u>22,786,323</u>	<u>28,239,540</u>	<u>61,308,922</u>	<u>112,334,785</u>
NET ASSETS, end of year	<u>\$ 19,048,185</u>	<u>\$ 67,624,766</u>	<u>\$ 47,718,584</u>	<u>\$ 134,391,535</u>