

**RECREATIONAL DEVELOPMENT COMPANY
OF PUERTO RICO**

**AUDITORS' REPORT AND
FINANCIAL STATEMENTS**

JUNE 30, 1998

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

June 30, 1998

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To the Board of Directors
of the Recreational Development Company
of Puerto Rico

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying general-purpose financial statements of the Recreational Development Company of Puerto Rico (the Company), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 1998, as listed in the accompanying table of contents. These general-purpose financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully explained in Note 2 to the accompanying financial statements, we were unable to form an opinion on the total net amount of \$1,102,529 consisting of the non-interest bearing accounts and included in the cash balances of the general and capital project funds, due to deficiencies in the accounting records and internal controls.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the records concerning cash in the General and Capital Project Funds be adequate, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Recreational Development Company of Puerto Rico as of June 30, 1998, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

As discussed in Note 16 to the accompanying general-purpose financial statements, the Company is a defendant or a co-defendant in various complaints. A provision was made for the estimated losses on these litigations. However, the ultimate amount payable in excess of the amount provided, if any, cannot be determined.

San Juan, Puerto Rico
October 7, 1998

Valdes, Garcia + Marin

Stamp 1540133 was affixed
to the original.

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1998

ASSETS AND OTHER DEBITS	Governmental Fund Types			Fiduciary Fund Type	Account Groups		
	General	Capital Projects	Debt Service	Expendable Trust	General Long-term Debt	General Fixed Assets	Total (Memorandum only)
Cash, cash equivalents and short-term investmerts	\$21 706 563	\$50 727 510	\$	\$	\$	\$	\$ 72 434 073
Cash with fiscal agent	177 834	1 202 634					1 380 463
Receivables							
Other funds				1 046 028			1 046 028
Other	158 973	54 223					213 196
Due from other funds		56 105	312 188				368 293
Due from other governmental entities	190 969						190 969
Other asset	244 493					91 895 182	244 493
Fixed assets							91 895 182
Amount available in debt service fund					312 188		312 188
Amount to be provided for retirement of general obligation note payable							
Amount to be provided for payment of compensated absences					107 300		107 300
Amount to be provided for payment of legal claims					1 793 075		1 793 075
					1 000 000		1 000 000
	\$22 478 832	\$52 040 472	\$312 188	\$1 046 028	\$3 212 563	\$91 895 182	\$170 985 263

(Continues)

See accompanying notes to financial statements.

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED) JUNE 30, 1998

	Governmental Fund Types			Fiduciary Fund Type	Account Groups		
	General	Capital Projects	Debt Service	Expendable Trust	General Long-term Debt	General Fixed Assets	Total (Memorandum only)
LIABILITIES, FUND EQUITY (DEFICIT) AND OTHER CREDITS							
LIABILITIES							
Accounts payable and accrued expenditures	\$ 971 119	\$ 4 415 035	\$	\$	\$	\$	\$ 5 386 154
Due to other funds	368 293						368 293
Due to other entities		1 080 651		1 046 028			2 126 679
Due to other governmental entities	40 164 395						40 164 395
Accrued legal claims	492 345				1 000 000		1 492 345
General obligation note					419 488		419 488
Accrued compensated absences					1 793 075		1 793 075
Total liabilities	41 996 152	5 495 686		1 046 028	3 212 563		51 750 429
FUND EQUITY (DEFICIT) AND OTHER CREDITS							
Investment in general fixed assets						91 895 182	91 895 182
Fund balance (deficit)							
Reserved for other specified purposes		46 544 786	312 188				46 856 974
Reserved for encumbrances	83 491						83 491
Deficit	(19 600 811)						(19 600 811)
Total fund balance (deficit) and other credits	(19 517 320)	46 544 786	312 188			91 895 182	119 234 836
Commitments and contingencies							
	\$22 478 832	\$52 040 472	\$312 188	\$1 046 028	\$3 212 563	\$91 895 182	\$170 985 263

See accompanying notes to financial statements.

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE (DEFICIT) - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1998

	Governmental Fund Types			Total (Memorandum only)
	General	Capital Projects	Debt Service	
Revenues				
Taxes on occupancy of hotel and motel rooms, guest houses and apartment hotels	\$ 14 946 367	\$	\$	\$14 946 367
Governmental				
Federal contributions	76 450			76 450
Legislative appropriations from the Commonwealth of Puerto Rico		24 707 500	1 000 000	25 707 500
Contributions from the Sports and Recreation Department	910 668	400 000		1 310 668
Charges for services from operation of recreational facilities	4 785 597			4 785 597
Interest	913 533	2 513 015		3 426 548
Other income	586 132			586 132
Miscellaneous	6 437	2 780		9 217
Total revenues	22 225 184	27 623 295	1 000 000	50 848 479
Expenditures				
Salaries and fringe benefits	11 909 352			11 909 352
Utilities	716 694			716 694
Purchases of materials and equipment	1 246 671			1 246 671
Maintenance of facilities and equipment	812 478	1 545		814 023
Other expenditures	2 317 460			2 317 460
Capital projects		14 505 039		14 505 039
Contributions to municipalities		9 880 609		9 880 609
Interest expenses	12 989	6 666		19 655
Debt service				
Principal retirement and interest			1 137 450	1 137 450
Total expenditures	17 015 644	24 393 859	1 137 450	42 546 953
Excess of revenues over expenditures (expenditures over revenues)	5 209 540	3 229 436	(137 450)	8 301 526
Other financing sources (uses)				
Operating transfers in (out)	(6 815 691)	6 815 691		-
Total other financing sources (uses)	(6 815 691)	6 815 691		-
Excess of revenues and other sources over expenditures (expenditures over revenues and other sources)	(1 606 151)	10 045 127	(137 450)	8 301 526
Unfunded balance (deficit) at beginning of year	(18 158 679)	39 499 661	449 638	18 790 620
Increase in reserve for encumbrances	(57 918)			(57 918)
Decrease in reserve for prepaid insurance	221 937			221 937
Unfunded balance (deficit) at end of year	\$(19 600 811)	\$46 544 788	\$ 312 188	\$27 256 165
	=====	=====	=====	=====

See accompanying notes to financial statements.

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND
BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 1998

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues			
Taxes on occupancy of hotel and motel rooms, guest house and apartment hotels	\$15 000 000	\$14 946 367	\$ (53 633)
Surplus from prior years	1 396 500		(1 396 500)
Contributions from the Sports and Recreation Department	910 668	910 668	-
Charges for services from the operation of recreational facilities	4 919 630	4 785 597	(134 033)
Interest income	2 100 000	913 533	(1 186 467)
Miscellaneous	<u>30 370</u>	<u>6 437</u>	<u>(23 933)</u>
Total revenues	<u>24 357 168</u>	<u>21 562 602</u>	<u>(2 794 566)</u>
Expenditures			
Salaries and fringe benefits	11 992 899	11 892 551	100 348
Utilities	1 329 770	716 694	613 076
Purchases of materials and equipment	1 609 699	1 178 019	431 680
Maintenance of facilities and equipment	1 269 900	774 282	495 618
Other expenditures	3 114 900	2 309 108	805 792
Transfers to capital project fund	<u>5 040 000</u>	<u>6 815 691</u>	<u>(1 775 691)</u>
Total expenditures	<u>24 357 168</u>	<u>23 686 345</u>	<u>670 823</u>
Excess of expenditures over revenues	\$ -	\$ (2 123 743)	\$ (2 123 743)
	=====	=====	=====

See accompanying notes to financial statements.

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and reporting entity

The Recreational Development Company of Puerto Rico (the Company) is a public corporation and an instrumentality of the Commonwealth of Puerto Rico, created by Law Number 114 of 1961, amended by Law No. 90 of November 17, 1993, for the development and maintenance of recreational facilities in Puerto Rico.

The Company is a component unit included in the financial statements of the Commonwealth of Puerto Rico.

The Company is administered through a Board of Directors composed of five members. The Secretary of the Sports and Recreation Department of Puerto Rico is a member and the President of the Board. The other four members are selected by the Governor of Puerto Rico for a four-year period.

Significant accounting policies

The accounting policies of the Company conform to generally accepted accounting principles as applicable to governmental units, except as described in Note 1 (c). The following is a summary of the significant accounting policies:

a) Basis of presentation - fund accounting

The Company reports its financial position and results of operations in funds and account groups, each of which is considered an independent fiscal entity. The operations of each fund are accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

(Continues)

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. They are not considered funds because they do not report expendable available financial resources and related liabilities. The various funds are summarized by type in the financial statements.

The following fund types and account groups are used by the Company:

GOVERNMENTAL FUND TYPES

Governmental funds are those through which most governmental functions of the Company are financed. The acquisition, use and balances of the Company's expendable financial resources and the related current liabilities are accounted for through governmental funds. The measurement focus is upon determination of financial position and changes in financial position, rather than upon net income determination. The following are the Company's governmental fund types:

General Fund - The general fund is the general operating fund of the Company. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Project Fund - The capital project fund is used to account for the financial resources used for acquisition or construction of major capital facilities.

Debt Service Fund - The debt service funds is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Long-term debt principal and interest due on July 1 of the following fiscal year are accounted for as a fund liability if resources are available as of June 30 for its payment.

(Continues)

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

FIDUCIARY FUND TYPE

The fiduciary fund is used to account for assets held by the Company in a trustee capacity for other governmental units.

Trust Fund - Trust fund includes expendable funds accounted for and reported as governmental funds.

ACCOUNT GROUPS

Account groups establish control and accountability over the Company's general fixed assets and general long-term obligations. The following are the Company's account groups:

General Fixed Assets Account Group - This account group is used to account for all fixed assets of the Company.

General Long-term Debt Account Group - This account group is used to account for all long-term obligations of the Company including notes payable, compensated absences and legal claims.

b) Basis of accounting

The modified accrual basis of accounting is followed by the governmental and fiduciary funds. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to pay liabilities of the current period. Expenditures and related liabilities are recorded in the accounting period in which the liability is incurred except for (1) principal payment and interest on long-term obligations, which is recorded when due, except for interest due on July 1 of the following year which is recorded when resources are available in the debt service fund and (2) vacation, sick leave, and accrued legal claims which are recorded in the general long-term debt account group.

(Continues)

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

In applying the susceptible to accrual concept to governmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended by the Company on the specific purpose or project before any amounts will be reimbursed. Revenues are, therefore, recognized as expenditures are incurred. In the other, monies are virtually unrestricted as to purpose of expenditure and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria is met.

Most charges for services and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

c) Statutory (budgetary) accounting

The Company prepares an annual operating budget which is approved by its Board of Directors. The budget includes proposed expenditures and the means of financing them. Subsequent changes to the budget must be approved by the Board of Directors.

The Company's budget is adopted in accordance with a statutory basis of accounting which is not in accordance with generally accepted accounting principles (GAAP).

The actual results of operations are presented in the Statement of Revenues and Expenditures - Budget and Actual - General Fund on the budgetary basis to provide a comparison of actual results with the budget.

(Continues)

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal differences between the GAAP and budgetary basis and the necessary adjustments to convert the results of operations of the general fund from the GAAP basis of accounting to the budgetary basis of accounting are as follows:

	For the year ended <u>June 30, 1998</u>
Excess of expenditures over revenues per Statement of Revenues, Expenditures and Changes in Fund Balance; accounting basis	(\$1 606 151)
Prior year encumbrances recognized as current year expenditures on the accounting basis	25 573
Federal funds recognized as revenue in the current year on the accounting basis	(76 450)
Current year revenues related with prior year carryover fund balance	(586 132)
Current year expenditures related with prior year carryover fund balance	202 908
Current year encumbrances of annually budgeted funds recognized as expenditures on the budgetary basis	<u>(83 491)</u>
Excess of expenditures over revenues per the Statement of Revenues, and Expenditures - Budget and Actual; budgetary basis	(\$2 123 743) =====

(Continues)

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

d) Encumbrances

Encumbrances accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation, is used in the governmental funds. Available appropriations and encumbrances generally lapse three years immediately after the end of the fiscal year.

Open encumbrances at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities of the current year because the commitments will be honored in the subsequent year.

e) General fixed assets

General fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures in the governmental funds and capitalized at historical cost in the general fixed assets account group in the year purchased. Donated fixed assets are recorded at their estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized.

No depreciation is provided on general fixed assets.

f) Compensated Absences

The employees of the Company are granted thirty (30) days of vacation annually up to a maximum of sixty (60) days and eighteen (18) days of sick leave annually up to a maximum of ninety (90) days. Vacation time accumulated is fully vested to the employees from the first day of work. In the event of resignation, an employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation of employment prior to the use of all or part of the sick leave terminates all rights for compensation except that, in the event of retirement an employee is reimbursed for accumulated sick leave days up to the maximum allowed.

(Continues)

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As per Law Number 156 of August 20, 1996, for fiscal years beginning on July 1, 1997, the employees have the right to accumulate the excess of 60 and 90 days in vacation and sick leaves, respectively, until December 31st of each year. That excess should be paid to the employee before March 31st. of the following year.

In governmental funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and fund liability in the fund that will pay for the compensated absences. The remainder of the compensated absences liability is reported in the general-long term debt account group.

g) Cash, cash equivalents and short-term investments

During prior fiscal year the Company segregated the processing of its cash receipts and disbursements from the Department of Treasury of Puerto Rico, and the operational and capital project cash accounts were transferred to several commercial banks. However, the Company still maintains several accounts with the Department of Treasury and the Government Development Bank for Puerto Rico (GDB), an internal service fund of the Commonwealth of Puerto Rico. The GDB maintains separate codes at the general government account to identify each governmental unit. Cash accounts with fiscal agent are deposited with the GDB on which no collateral is maintained.

Cash and cash equivalents include certificates of deposit with original maturities of ninety days or less. Short-term investments are maintained in a separate bank account with the GDB and are stated at cost.

h) Reservations of fund balance

Reservations of fund balance represent portions of fund balance that are legally segregated for a specific future use or are not appropriable for expenditure. The Company has the following reservations of fund balance:

(Continues)

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Other specified purposes - Represents the reservation of monies set aside for construction and other long-term commitments.

Debt service - Represents net assets available to finance future debt service payments.

Encumbrances - Represents future expenditures under purchase orders and other commitments.

i) Use of estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

j) Risk management

The Company is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, errors and omissions, employee injuries and illnesses natural disasters, environmental and other losses. Commercial insurance coverage is obtained for claims arising from such matters. The commercial insurance coverage and premium are negotiated by the Department of Treasury of the Commonwealth of Puerto Rico. The cost is paid by the Department of Treasury, and reimbursed by the Company.

k. Accounting for pension costs

The Company accounts for pension costs in accordance with the provisions of Governmental Accounting Standards Board Statement (GASBS) No. 27 "Accounting for Pensions by States and Local Governmental Employers".

(Continues)

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

The statement establishes standards of accounting and financial reporting for pension expenditures/expense and related pension liabilities, pension assets, note disclosures, and required supplementary information in the financial reports of state and local governmental employers. The statement defines that the pension expense is equal to the statutory required contribution to the employees' retirement system.

1) Total column (memorandum only)

Total column on the combined statements is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

NOTE 2 CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

The Company is authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico, and such deposits should be kept in separate accounts in the name of the Company. Also, the Company has short-term investments in securities administered by the Government Development Bank for Puerto Rico.

The Company's deposits as of June 30, 1998 in commercial banks were entirely covered by the federal depository insurance or by collateral held by the Puerto Rico Department of Treasury in the Company's name. The amounts deposited in the Government Development Bank are uncollateralized. (Refer to Note 1-g).

(Continues)

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS
(CONTINUED)

A summary of the Company's cash deposits, cash equivalents (including cash with fiscal agent), and short-term investments and the respective credit risk category as of June 30, 1998, are as follows:

	Bank Balance	Carrying amount	Credit risk category		
			1	2	3
<u>General Fund</u>					
Unrestricted					
Cash					
Interest bearing account	\$	\$ 2,931,409	\$	\$	\$
Non-interest bearing accounts	<u>1,684,947</u>	<u>1,323,155</u>	<u>1,082,994</u>		<u>601,953</u>
	\$ 1,684,947	\$ 4,254,564	\$ 1,082,994	\$	\$ 601,953
	=====	=====	=====	=====	=====
Certificate of deposit	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000	\$	\$
	-----	-----	-----	-----	-----
Short-term investment	\$13,629,834	\$13,629,834	\$	\$	\$13,629,834
	=====	=====	=====	=====	=====
<u>Capital Project Fund</u>					
Restricted					
Cash					
Interest bearing account	\$ 158,974	\$ 158,974	\$	\$	\$ 158,974
Non interest bearing accounts	<u>1,259,626</u>	<u>(220,626)</u>	<u>238,657</u>		<u>1,020,969</u>
	\$ 1,418,600	\$ (61,652)	\$ 238,657	\$	\$ 1,179,943
	=====	=====	=====	=====	=====
Certificate of deposit	\$ 3,643,068	\$ 3,643,068	\$ 3,643,068	\$	\$
	=====	=====	=====	=====	=====
Short-term investment	\$48,348,728	\$48,348,728	\$	\$	\$48,348,728
	=====	=====	=====	=====	=====

Category Description

1

The deposits are collateralized by Federal Deposit Insurance Corporation or collateralized by securities pledged with the Department of the Treasury of the Commonwealth of Puerto Rico.

(Continues)

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS
(CONTINUED)

2 The deposits are collateralized by securities held by the pledging financial institution's trust department or agent.

3 The deposits are uncollateralized.

During the year ended June 30, 1998, the management of the Company performed an analysis of the cash accounts of the General and the Capital Project Funds. The total cash balance in books of the General Fund reflects a net difference of \$210,191 (including several cash accounts) over the total reconciled bank accounts as of June 30, 1998. The total cash balance in books of the Capital Project Fund reflects a net difference of \$196,149 (including several cash accounts) under the total reconciled bank accounts as of the above mentioned date. The management of the Company expects to continue the analysis of the cash accounts and have adequate records for the next fiscal year ended June 30, 1999.

NOTE 3 DUE FROM OTHER GOVERNMENTAL ENTITIES

Due from other governmental entities in the general fund represents payments of utilities made by the Company on behalf of the Sports and Recreation Department of Puerto Rico in the amount of \$190,969 during prior years.

NOTE 4 TAXES ON OCCUPANCY OF HOTEL AND MOTEL ROOMS, GUEST HOUSES AND APARTMENT HOTELS

The Department of Treasury of Puerto Rico is responsible for the collection of taxes on occupancy of hotel and motel rooms, guest houses and apartment hotels in Puerto Rico. The total tax rate is 7% of which 3.5% belongs to the Company. The minimum amount to be received annually by the Company is \$3,000,000, the Department of Treasury being the source of payment for any deficiency in the amount collected.

A portion of the tax revenue belonging to the Company is withheld by the Department of Treasury for the debt service requirements of the general obligation debts of the Company. This amount is accounted for in the debt service fund of the Company. The remaining amount is transferred to the Company where it is appropriated for general purposes and accounted for in the general fund.

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

NOTE 5 GOVERNMENTAL REVENUES

Sources of governmental revenues consist primarily of legislative appropriations from the Commonwealth of Puerto Rico, Federal grants and contributions from the Sports and Recreation Department of Puerto Rico.

All of these governmental revenues are accounted for through the general fund, except those related to capital improvements and recreational facilities sponsored by the municipalities, which are accounted for through the capital projects fund and expendable trust fund, respectively.

NOTE 6 CHARGES FOR SERVICES FROM THE OPERATION OF RECREATIONAL FACILITIES

The following is a detail of the charges for services from the operation of recreational facilities for the year ended June 30, 1998:

Rent of cabins	\$2 932 462
Parking	798 629
License	62 424
Sale of tickets:	
Admission fees	165 398
Lockers	41 967
Swimming pool	43 692
Boat ramp	11 681
Camping	139 261
Rent of facilities	256 981
Cafeteria	89 143
Restaurant income	49 680
Trailers income	183 671
Sale of plants	<u>10 608</u>
Total	\$4 785 597
	=====

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

NOTE 7 GENERAL FIXED ASSETS

The activity in the investment in general fixed assets for the fiscal year ended June 30, 1998 was as follows:

	Balance July 1, 1997	Additions	Retirements and Adjustments	Balance June 30, 1998
Land	\$ 6 610 939	\$	\$	\$ 6 610 939
Buildings and improvements	57 182 437	6 109 212		63 291 649
Equipment	4 002 922	305 642	(534 261)	3 774 303
Autos	1 960 678	271 895	(169 329)	2 063 244
Construction in progress	<u>6 723 223</u>	<u>15 541 036</u>	<u>(6 109 212)</u>	<u>16 155 047</u>
	\$76 480 199	\$22 227 785	\$ (6 812 802)	\$91 895 182
	-----	-----	-----	-----

NOTE 8 GENERAL OBLIGATION NOTE PAYABLE

During prior fiscal year, the Department of the Treasury of Puerto Rico paid on behalf of the Company the amount of \$1,556,937 representing notes payable principal due in prior years to the Government Development Bank for Puerto Rico plus accrued interest. The notes payable represented lines of credit used in prior years for the acquisition of land, construction and development of recreational facilities.

The balance of \$419,488 of the note payable to the Department of Treasury as of June 30, 1998, will be paid with legislative appropriations from the Commonwealth of Puerto Rico that will be received during the fiscal year 1998-99.

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

NOTE 9 DUE TO OTHER GOVERNMENTAL ENTITIES

The following is a detail of the amount due by the general fund to other governmental entities as of June 30, 1998:

Puerto Rico Department of Treasury	\$31 058 469
Puerto Rico Sports and Recreation	
Department	8 632 979
Puerto Rico Electric Power Authority	39 177
Puerto Rico Water and Sewer Authority	100 858
Puerto Rico Telephone Company	22 468
Puerto Rico Department of Labor	101 926
Puerto Rico General Services	
Administration	198 202
Other	<u>10 316</u>
Total	\$40 164 395 =====

Liabilities to the Department of Treasury and to the Sports and Recreation Department relate to unpaid advances used for salaries and fringe benefits up to June 30, 1990. However, the management of the Company performed a thorough analysis of the balance due to the Department of Treasury and determined that the estimated amount of \$19,121,295 corresponds to the Sports and Recreation Department (SRD) for salaries and fringe benefits of employees of the SRD charged to and paid by the Company in prior years.

Utilities expenditure in the general fund for the year ended June 30, 1998 was as follows:

Electricity	\$ 228 919
Water	264 565
Telephone	<u>223 210</u>
Total	\$ 716 694 =====

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

NOTE 10 DEBT SERVICE FUND

The debt service fund revenue is generated from a legislative appropriation received from the Commonwealth of Puerto Rico. Principal and interest on line of credit were paid by the Government Development Bank for Puerto Rico from funds transferred by the Department of Treasury.

NOTE 11 SALARIES AND FRINGE BENEFITS

Salaries and fringe benefits expenditures in the general fund for the year ended June 30, 1998 were as follows:

Salaries (regular, irregular and transitory personnel)	\$ 8 803 147
Social security	701 203
Retirement plan	735 376
Medical insurance	866 494
State insurance fund	697 188
Unemployment insurance and other	<u>105 944</u>
Total	\$11 909 352 =====

NOTE 12 PURCHASES OF MATERIALS AND EQUIPMENT

Purchases of materials and equipment in the general fund for the year ended June 30, 1998 were as follows:

Construction materials	\$ 305 257
Facilities equipment	142 513
Vehicles	272 025
Maintenance materials	145 477
Office supplies and equipment	223 686
Animal food and agricultural supplies	139 102
Uniforms and other	<u>18 611</u>
Total	\$ 1 246 671 =====

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

NOTE 13 MAINTENANCE OF FACILITIES AND EQUIPMENT

Maintenance of facilities and equipment in the general fund for the year ended June 30, 1998 was as follows:

Repairs and maintenance of:	
Vehicles	\$ 156 642
Facilities	319 203
Office equipment	22 530
Building	<u>50 338</u>
	548 713
Gas	60 694
Garbage pickup and extermination services	143 294
Other	<u>59 777</u>
Total	\$ 812 478
	=====

NOTE 14 OTHER EXPENDITURES

Other expenditures in the general fund for the year ended June 30, 1998 were as follows:

Insurance	\$ 411 700
Professional and security services	656 510
Advertising	405 511
Rent of facilities and equipment	187 104
Meal allowance, mileage and tolls	52 028
Indemnity to others	492 345
Miscellaneous	<u>112 262</u>
Total	\$ 2 317 460
	=====

NOTE 15 PENSION PLAN

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

(Continues)

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

NOTE 15 PENSION PLAN (CONTINUED)

The System provides retirement, death and disability benefits pursuant to Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained age of at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least thirty years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service. No benefit is payable if the participant receives a refund of his accumulated contributions.

Act number 1 of February 16, 1990, made certain amendments applicable to new participants joining the System effective on April 1, 1990. Changes mainly consisted of an increase of the retirement age to 65 years, the elimination of the Merit Annuity and a reduction of the percentage for disability and death benefits.

(Continues)

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

NOTE 15 PENSION PLAN (CONTINUED)

Commonwealth legislation requires employees to contribute 5.775% for the first \$6,600 of their annual gross salary and 8.275% for the annual salary in excess of \$6,600 for employees hired on or before March 31, 1990. For employees hired on or after April 1, 1990 the required contribution is 8.275% of gross salary. The Company's contributions are 9.275% of gross salary. Total employee and employer contributions during the year ended June 30, 1998 amounted to approximately \$584,000 and approximately \$725,000, respectively. Total payroll covered for the year was approximately \$7,800,000.

For the two preceding fiscal years the Company contributed \$672,000 and \$693,000, respectively, which represented 100% of required contributions.

No pension liability or asset was recorded at the beginning of the year measured in accordance with GASBS No. 27. Prior to the adoption of GASBS No. 27 at the beginning of this fiscal year no pension liability or asset was reported.

Additional information on ERS is provided in its financial statements for the year ended June 30, 1998, a copy of which can be obtained from Mr. Andrés A. Barbeito, Administrator, Retirement System Administration, PO Box 42003, San Juan, Puerto Rico 00949.

On July 28, 1998, subsequent to the date of the general-purpose financial statements, the Legislature of Puerto Rico approved the Act No. 182. The Act provides to certain employees of the Commonwealth of Puerto Rico the option for early retirement. To qualify the employee should make an election between August 1, 1998 and November 2, 1998 and, among other requirements, must have twenty-five (25) years of creditable service or fifty-five (55) years or more of age. After November 2, 1998, the Company has a period of 30 days to determine the feasibility to implement the Early Retirement Plan.

NOTE 16 CONTINGENCIES

The Company is a defendant or a co-defendant in various complaints alleging damages for a total amount of approximately \$28 million. The Company's management, after consultation with legal counsel, has made a provision for losses on these litigations. However, the ultimate amount payable in excess of the amount provided, if any, cannot be determined.

RECREATIONAL DEVELOPMENT COMPANY OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

NOTE 17 YEAR 2000 ISSUE

In 1994, the Recreational Development Company began computerizing its financial and operational systems and has assured that the majority of its software and hardware, acquired since that date, are compatible with the year 2000. That is, to recognize the difference between '99 and '00 as one year instead of negative 99 years. During the fiscal year ended June 30, 1998, the Company upgraded its basic software acquired through the Office of Management and Budget of the Government of Puerto Rico.

The Company has projected for the next fiscal year the upgrade of the attendance system, a server and the operating system for that server. The total estimated cost of the upgrades is approximately \$32,000. It is the opinion of the management that once the upgrades are completed, the Company's computer system will be year 2000 compliant.

NOTE 18 SUBSEQUENT EVENT

On September 21st, 1998, Puerto Rico was affected by the Hurricane Georges causing substantial losses on the Company's facilities and unearned revenues from taxes occupancy of hotel, and from charges for services from the operations of the recreational facilities. As of the date of the issuance of the Company's financial statements the estimated losses incurred have not been determined.