# PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL AND ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
**(A Component Unit of the Commonwealth of Puerto Rico)**

*BASIC FINANCIAL STATEMENTS*

June 30, 2012

**PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL AND ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY**
**(A Component Unit of the Commonwealth of Puerto Rico)**
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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Puerto Rico Industrial, Tourist, Educational,
Medical, and Environmental Control
Financing Authority San Juan, Puerto Rico

We have audited the accompanying statement of net assets of Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (the "Authority"), a component unit of the Commonwealth of Puerto Rico, as of June 30, 2012, and the related statements of revenues, expenses and changes in net assets and of cash flows for the year then ended. 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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, such financial statements present fairly, in all material respects, the financial position of the Authority as of June 30, 2012, and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

BDO Puerto Rico, P.S.C.

San Juan, Puerto Rico

October 4, 2012

Certified Public Accountants
(of Puerto Rico)
License No. 53 expires December 1, 2012
Stamp 2643278 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

**PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL AND ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY**
**(A Component Unit of the Commonwealth of Puerto Rico)**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**AS OF AND FOR THE YEAR ENDED ON JUNE 30, 2012**

This section presents the management's discussion and analysis of the Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (the "Authority") financial performance for the fiscal year ended June 30, 2012, and is presented as a narrative overview and analysis in conjunction with the basic financial statements.

The Authority was created to issue revenue bonds and to lend the proceeds thereof to finance the acquisition, construction, and equipping of industrial, tourist, educational, medical, and environmental control facilities. The Authority charges a placement fee based on the face value of the bonds issued. The Authority is exempt from taxation in Puerto Rico.

## 1. Financial Highlights

- The Authority's total net assets increased $13.4 million or 329% during the fiscal year 2012.

- During the year ended June 30, 2012, conduit debts were issued for the financing of the Auxilio Mutuo Hospital Project amounting to approximately $112.6 million and Ana G. Méndez Project amounting to approximately $78.3 million. The Authority earned approximately $1.03 million as placement fees from both bond issuances.

- The Authority's net income from operations for the year ended June 30, 2012 amounted to approximately $843,000 representing an increase of $782,000, or 1,282% when compared to the year ended June 30, 2011.

- The Authority's net assets for the year ended June 30, 2012 increased to $9.4 million, or 329%, when compared with prior year. During the course of the fiscal year 2012, the Authority collected amounts receivable from and sold capital assets to the Puerto Rico Electric Power Authority ("PREPA") and Puerto Rico Aqueduct and Sewer Authority ("PRASA") resulting from the Southern Gas Pipeline Project transaction.

## 2. Financial Statements Overview

The financial statements include the management's discussion and analysis narrative, the independent auditors' report, and the basic financial statements of the Authority. The notes to the basic financial statements provide additional information not disclosed in this section.

## 3. Required Financial Statements

The accompanying financial statements of the Authority present information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The statement of net assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the net deficit of the Authority and assessing its liquidity and financial flexibility.

Current year revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered its costs through its user fees and other charges.

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

## 4. Financial Analysis

The statement of net asset (deficit) and the statement of revenues, expenses, and changes in net assets (deficit) present information about the Authority's activities in a way that will help determine whether the Authority as a whole is better or worse financially as a result of this year's activities. Both statements present the net assets of the Authority and the changes in them. One can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors must be considered such as changes in economic conditions and new or changed government legislation.

PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL AND ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED ON JUNE 30, 2012

## 5. Unrestricted Net Assets (Deficit) and Changes in Net Assets

Condensed financial information on assets, liabilities and unrestricted net deficit are presented below (dollar amount in thousands):

| | June 30, | | Change | |
|---|---|---|---|---|
| | 2012 | 2011 | Amount | Percent |
| ASSETS: | | | | |
| Current assets | $ 9,667 | $ 11,963 | $ (2,296) | (19)% |
| Noncurrent assets | - | 47,357 | (47,357) | (100)% |
| Total assets | $ 9,667 | $ 59,320 | $ (49,653) | (84)% |
| LIABILITIES: | | | | |
| Current liabilities | $ 278 | $ 4,099 | $ (3,821) | (93)% |
| Noncurrent liabilities | - | 59,314 | (59,314) | (100)% |
| Total liabilities | 278 | 63,413 | (63,135) | (100)% |
| Unrestricted net assets (deficit) | $ 9,389 | $ (4,093) | $ 13,482 | (329)% |

- The Authority's net assets for the year ended June 30, 2012 increased to $13.4 million, or 329%, when compared with prior year. During the course of the fiscal year 2012, the Authority collected amounts receivable from and sold capital assets to PREPA and PRASA resulting from the Southern Gas Pipeline Project transaction and recognized gains and other income of approximately $12.8 million.

Condensed financial information on revenues, expenses, and changes in net deficit are presented below (dollar amount in thousands):

| | June 30, | | Change | |
|---|---|---|---|---|
| | 2012 | 2011 | Amount | Percentage |
| OPERATING REVENUES: | | | | |
| Placement fees | $ 1,013 | $ 430 | $ 583 | 136% |
| Financing fees | 488 | - | 488 | 100% |
| Total operating revenues | 1,501 | 430 | 1,071 | 249% |
| OPERATING EXPENSES: | | | | |
| Service fees | 507 | 215 | 292 | 136% |
| General and administrative | 133 | 145 | (12) | -8% |
| Other | 18 | 9 | 9 | 100% |
| Total operating expenses | 658 | 369 | 289 | 78% |
| INCOME FROM OPERATIONS | 843 | 61 | 782 | 1282% |
| NON-OPERATING REVENUES/(EXPENSES): | | | | |
| Interest income from: | | | | |
| Note receivable | 652 | 1,605 | (953) | -59% |
| Deposits | 10 | 9 | 1 | 11% |
| Revenue from disposition of assets | 9,358 | - | 9,358 | 100% |
| Other Income | 3,500 | - | 3,500 | 100% |
| Interest expense | (882) | (3,602) | 2,720 | 76% |
| | 12,638 | (1,988) | 14,626 | 736% |
| CHANGES IN NET ASSETS | 13,481 | (1,927) | 15,408 | 800% |
| NET DEFICIT, beginning of year | $(4,093) | $ (2,166) | $ (1,927) | 89% |
| NET ASSETS, end of year | $ 9,388 | $ (4,093) | $ 13,481 | 329% |

Comparative statements of net assets show the changes in the Authority's financial position and the statements of revenues, expenses and changes in net assets provide guidance as to the nature and source of these changes.

The Authority's operating income increase by $1 million when compared with fiscal year 2011 due to the placement fees collected on the Auxilio Mutuo and Ana G. Méndez projects.

The Authority's non-operating activities increase by $14.6 million or 736% when compared with fiscal year 2011 due to the collection of amounts due from and capital assets sold in 2012 in connection with the transaction entered with PRASA and PREPA related to the Southern Gas Pipeline Project transaction made during fiscal year 2009.

## 6. Debt Administration – Conduit Debt

The Authority's main operations consist of issuing revenue bonds that are considered conduit debt and, therefore, neither these bonds nor the related loans granted by the Authority are presented in the accompanying basic financial statements. Revenue is earned from the collection of a placement fee which generally represents 1% of the face value of the bonds issued, except for bonds issued to finance educational, medical, or environmental control facilities or other projects otherwise eligible to be financed in the U.S. tax-exempt bond market, for which the placement fee charged is one half of 1%. The revenue bonds are special and limited obligations of the Authority and, except to the extent payable from bond proceeds and investments thereof, will be payable solely from and secured by a pledge and assignment of the amounts receivable under the loan agreements between the Authority and the borrowers.

Furthermore, payment of the principal and interest on the revenue bonds is unconditionally guaranteed by the borrowers, their parent companies, or letters of credit generally issued by major U.S. banks or U.S. branches of international banks. The revenue bonds do not constitute a debt or a pledge of the good faith and credit of the Authority or the Commonwealth of Puerto Rico or any political subdivision thereof.

At June 30, 2012, the Authority has issued revenue bonds in an aggregate amount of approximately $1,598 million, which $1,349 million are outstanding. See Note 7 to the basic financial for the composition of the revenues bonds outstanding.

## 7. Contacting the Authority's Financial Management

This financial report is designed to provide all interested with a general overview of the Authority's finances and to enhance the Authority's accountability for the resources it manages. If you have questions about this report or need additional financial information, contact the Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority, P.O. Box 42001, San Juan, Puerto Rico, 00940-2001.

**PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL AND ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY**
**(A Component Unit of the Commonwealth of Puerto Rico)**
**STATEMENT OF NET ASSETS**
**AS OF JUNE 30, 2012**

## ASSETS

| | | |
|---|---|---|
| Cash | $ | 9,664,934 |
| Other receivable | | 1,045 |
| Accrued interest receivable from depostis | | 778 |
| Total assets | $ | 9,666,757 |

## LIABILITIES AND NET DEFICIT

| | | |
|---|---|---|
| Accounts payable and accrued liabilities | $ | 278,800 |
| UNRESTRICTED NET ASSETS | | 9,387,957 |
| | $ | 9,666,757 |

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

PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL AND ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

| | |
|---|---|
| OPERATING REVENUES: | |
| Placement fees | $ 1,012,975 |
| Financing fees | 488,660 |
| Total operating revenues | 1,501,635 |
| OPERATING EXPENSES: | |
| Service fees | 506,488 |
| General and administrative | 133,481 |
| Other | 18,456 |
| Total operating expenses | 658,425 |
| INCOME FROM OPERATIONS | 843,210 |
| NON-OPERATING REVENUES/(EXPENSES): | |
| Interest income from: | |
| Note receivable | 651,871 |
| Deposits | 9,484 |
| Revenue from disposition of assets | 9,358,325 |
| Other Income | 3,500,000 |
| Interest expense | (882,160) |
| | 12,637,520 |
| CHANGES IN NET ASSETS | 13,480,730 |
| NET DEFICIT, beginning of year | (4,092,773) |
| NET ASSETS, end of year | $ 9,387,957 |

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

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# PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL AND ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
## (A Component Unit of the Commonwealth of Puerto Rico)
## STATEMENT OF CASH FLOWS
## YEAR ENDED ON JUNE 30, 2012

| | | |
|---|---|---|
| Cash flows from operating activities: | | |
| Placement fees collected | $ | 1,012,975 |
| Financing fees | | 488,660 |
| Payments to employees and service provider | | (472,776) |
| Net cash provider by operating activities | | 1,028,859 |
| Cash flows from capital and related financing activities: | | |
| Borrowings from line of credit | | 3,519,200 |
| Payment to line of credit - principal | | (32,828,585) |
| Payment to line of credit - interest | | (4,888,234) |
| Net cash used by capital and related financing activities | | (34,197,619) |
| Cash flows from investing activities: | | |
| Proceeds on sale of capital assets | | 32,828,478 |
| Interest received | | 910,850 |
| Net cash provided by investing activities | | 33,739,328 |
| Net increase in cash | | 570,568 |
| Cash at beginning of year | | 9,094,366 |
| Cash at end of year | $ | 9,664,934 |
| Reconciliation of operating income to net cash provided by: | | |
| Income from operations | $ | 843,210 |
| Adjustment to reconcile operating income to net cash used by operating activities: | | |
| Increase in accounts payable and accrued liabilities | | 185,649 |
| Total adjustments | | 185,649 |
| Net cash provided by operating activities | $ | 1,028,859 |
| Non-cash transactions: | | |
| Transfer of Account Receivable from PRASA to the Government Development Bank (GDB) to reduce line of credit with GDB | $ | 30,014,022 |

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

## 1. REPORTING ENTITY

The Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (the "Authority") is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth") and an affiliate of the Government Development Bank for Puerto Rico (the "Bank"), created by Act No. 121 (the "Act") of the Legislature of the Commonwealth on June 27, 1977, as amended.

The Authority was created to issue revenue bonds and to lend the proceeds thereof to finance the acquisition, construction, and equipping of industrial, tourist, educational, medical, and environmental control facilities. The Authority charges a placement fee based on the face value of the bonds issued. The Authority is exempt from taxation in Puerto Rico.

## 2. 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 Authority follows Governmental Accounting Standards Board ("GASB") under the hierarchy established by Statement No. 55, *The Hierarchy of Generally Accepted Principles for State and Local Governments*, in the preparation of its financial statements. The Authority elected to apply all Financial Accounting Standards Board's pronouncements issued after November 30, 1989, in accounting and reporting for its enterprise funds and business type activities to the extent they did not conflict with GASB pronouncements. Following is a description of the more significant accounting policies followed by the Authority:

***Measurement Focus and Basis of Accounting*** - The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. The Authority's placement fee income is recognized upon the issuance of the bonds.

***Financial Statements Presentation*** - The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") applicable to a governmental enterprise fund, which are similar to those applied to a private entity. The Governmental Accounting Standards Board is the organization in charge of providing such accounting standards for governmental entities. The accounting principles require the Authority to apply certain accounting standards similar to those applied in the private sector.

***Income Tax*** - The Authority is exempt from taxation in Puerto Rico.

***Use of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Operating Revenues and Expenses*** - Operating revenues and expenses are distinguished from non-operating items. The only operating revenue of the Authority is the placement fees charged to borrowers. Operating expenses include administrative expenses and other costs associated with the issuance of bonds, such as servicing fees charged to the Authority by the Bank, another component unit of the Commonwealth.

***Revenue Bonds and Related Loans*** - Revenue bonds issued by the Authority are considered conduit debt and, therefore, neither these bonds nor the related loans granted by the Authority are presented in the accompanying basic financial statements.

***Recently Issued Accounting Guidance:***

(a) In November 2010, the GASB issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements.* The objective of this statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this statement, a SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. As of June 30, 2012 this Statement has no impact in the Authority.

(b) In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34.* This statement modifies existing requirements for the assessment of the potential component units in determining what should be included in the financial reporting entity and financial reporting entity display and disclosure requirements. It applies to financial reporting by primary governments and other stand-alone governments, and to the separately issued financial statements of governmental components units. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2012. This Statement applies to the Authority but the impact of this statement in the Authority's basic financial statements has not been determined.

(c) In December 2010, the GASB issued GASB Statement No. 62, *Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) FASB Statements and Interpretations; (2) Accounting Principles Board Opinions; and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. This Statement applies to the Authority but the impact of this statement in the Authority's basic financial statements has not been determined.

(d) In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. This Statement applies to the Authority but the impact of this statement in the Authority's basic financial statements has not been determined.

(e) In March 2012 the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. In addition, this Statement amends or supersedes requirements for the determination of major funds and addresses other statement of net position and governmental funds balance sheet presentation issues. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. This Statement applies to the Authority but the impact of this statement in the Authority's basic financial statements has not been determined.

(f) In March 2012 the GASB issued Statement No. 66 Technical Corrections 2012 an amendment of GASB Statements No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. This Statement applies to the Authority but the impact of this statement in the Authority's basic financial statements has not been determined.

(g) On June 2012 the GASB issued Statement No. 67 Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2013.This Statement does not apply to the Authority.

*(h)* In June 2012 the GASB issued Statement 68 Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of this statement are effective for financial statements for periods beginning after June 30, 2014. This Statement does not apply to the Authority.

## 3. CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Currently, the Authority does not have a custodial credit risk policy. At June 30, 2012, the Authority maintained interest-bearing demand deposits with the Bank, which is not covered by federal depository insurance, of approximately $9.7 million uninsured and uncollateralized.

## 4. TRANSACTIONS WITH GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

The Bank provides certain services to the Authority and charges fifty percent (50%) of the placement fees billed by the Authority to borrowers. At June 30, 2012, the Authority paid to the Bank approximately $506 thousand as service fees.

## 5. TRANSACTION WITH OTHER COMPONENTS UNITS OF THE COMMONWEALTH

On August 17, 2009, the Authority entered into an agreement with the Government Development Bank for Puerto Rico ("Bank"), Puerto Rico Electric Power Authority ("PREPA"), and Puerto Rico Aqueduct and Sewer Authority ("PRASA") for the acquisition of certain assets originally intended to be used by PREPA for its Southern Gas Pipeline Project (the "Project"). The Project was being built by Skanska Energy Services LLC and Skanska Puerto Rico Pipeline LLC ("Skanska") under an agreement with PREPA. The parties agreed that it was in the best interest of the Government of Puerto Rico that the Skanska agreement be terminated and that the Project assets be utilized for the construction of an aqueduct by PRASA. PREPA paid $59 million to Skanska in exchange for the transfer of the Project assets to PREPA and the termination of the agreement. The Authority acquired most of these assets from PREPA for $32.8 million and made a $26.3 million subordinated loan to PREPA to finance PREPA's acquisition of these assets from Skanska. Assets received by the Authority from PREPA are materials amounting to approximately $22.4 million, plans and design amounting to approximately $4.2 million and right of way amounting to approximately $6.2 million. During 2010, the Authority fully reserved $6.2 million related to the right of way and 75% of the design amounting to approximately $3.1 million.

On August 17, 2009 the Authority entered into a line of credit with the Bank amounting to $67 million from which $59.1 million were borrowed to finance the above purchase and the related loan made to PREPA. During fiscal year 2012, the Authority borrowed $3.5 million relating to accrued interest owed to the Bank from the line of credit. Both the line of credit from the Bank to the Authority and the loan from the Authority to PREPA provide for an annual interest rate of 6% and were due on August 17, 2011.

On August 16, 2011, the Authority executed a purchase agreement with PRASA for $20.9 to acquire the project's assets. Assets acquired by PRASA were approximately $19.8 million of materials and approximately $1.1 million of plans and design. The subordinated loan bears interest annually at 150 basis points over U.S. Prime Rate, with a floor of 6%, due on August 16, 2012.

Also, on August 16, 2011, PRASA executed an agreement amounting to $30 million in which PRASA assumed PREPA's subordinated loan with the Authority which had an outstanding balance amounting to approximately $26.3 million, plus $3.5 million in accrued interest of the line of credit owe by the Authority to the Bank and approximately $1 million to be used for other related costs. The Authority recognized $3.5 million of other income as part of this transaction.

On August 16 2011, the Authority also entered into a bill of sale with PREPA of approximately $12.5 million to cover the remaining balance owed to the Bank attributable to this transaction. Among the assets reacquired by PREPA are: (1) 75% of the Project's design amounting to approximately $3.1 million, (2) right-of-way amounting to approximately $6.2 million, (3) inventory used by PREPA amounting to approximately $2.6 million, and (4) financing costs associated with this transaction of approximately $489,000. The subordinated loan bears interest at 150 basis points over U.S. Prime Rate, with a floor of 6%, due on September 29, 2011. The Authority recognized a gain amounting to approximately $9.3 million.

On November 16, 2011, the Authority transferred the rights of the loan ($30 million were outstanding at the time of the transfer) to the Bank in exchange for the cancellation of the line of credit given by the Bank to finance this transaction. On February 29, 2012 PRASA paid the entire outstanding loan balance to the Bank.

As of June 30, 2012, the Authority had fully collected both subordinated notes for $30 million and $12.5 million with PRASA and PREPA, respectively.

## 6. PLACEMENT FEES

The Authority generally charges a placement fee of one percent (1%) of the face value of bond issued or as deemed appropriate for the specific issue, except for bonds issued to finance educational, medical, or environmental control facilities or other projects otherwise eligible to be placed in the U.S. tax-exempt bond market, for which the placement fee charged is one half percentage (0.50%). During the year ended June 30, 2012, the Authority charged approximately $1 million as placement fees for bonds issued to finance Auxilio Mutuo Hospital Project and Ana G. Méndez Project.

## 7. REVENUE BONDS

The revenue bonds are special and limited obligations of the Authority and, except to the extent payable from bond proceeds and investments thereof, will be payable solely from and secured by a pledge and assignment of the amounts payable under the loan agreements between the Authority and the borrowers. Furthermore, payment of principal and interest on the revenue bonds is unconditionally guaranteed by the borrowers, their parent companies, or letters of credit generally issued by major U.S. banks or U.S. branches of international banks.

The revenue bonds are considered conduit debt and do not constitute a debt or a pledge of the good faith and credit of the Authority or the Commonwealth or any political subdivision thereof.

In connection with the issuance of revenue bonds, the Authority enters into trust agreements, whereby the Authority assigns and pledges to the trustees, for the benefit of the holders of the revenue bonds, (1) all amounts receivable by the Authority in repayment of the amounts due under the loan agreements; (2) any rights, title, and interest of the Authority in the proceeds derived from the issuance of the revenue bonds and of any securities in which moneys in any fund or account created by the trust agreements or loan agreements are invested and the proceeds derived therefrom; and (3) the Authority's rights, title, and interest in and to the loan agreements, subject to the Authority's retention of certain rights, including the right to collect moneys payable to the Authority, which are not received with respect to repayment of the loans.

At June 30, 2012, the Authority has issued revenue bonds in an aggregate amount of approximately $6,271 million of which approximately $1,349 million are outstanding. Outstanding revenue bonds as of June 30, 2012, are as follows:

| Revenue Bonds | Original Amount | Outstanding Amount |
|---|---|---|
| Industrial | $ 840,738,346 | $ 713,302,410 |
| Educational | 425,130,000 | 349,325,000 |
| Medical | 221,960,000 | 183,270,000 |
| Tourtist | 110,725,000 | 103,460,000 |
| | $ 1,598,553,346 | $ 1,349,357,410 |

## 8. SUBSEQUENT EVENT

On October 2012, the Authority issued the Puerto Rico Industrial, Educational, Medical and Environmental Control Facilities Financing Authority Higher Education Revenue and Refunding Bonds, Series 2012 (Interamerican University of Puerto Rico project). The 2012 Series of bonds are being issued to provide moneys, together with other available moneys for the financing of the acquisition, construction, remodeling, improvement and equipping of certain educational facilities by the University.

Management evaluated subsequent events through October 4, 2012, the date on which the financial statements were available to be issued. There were no additional material subsequent events, that would require further disclosure in the Authority's financial statement.