RSM ROC & Company
Certified Public Accountants & Consultants

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

ESTADO LIBRE ASOCIADO DE
PUERTO RICO
Autoridad para las Alianzas
Público Privadas de Puerto Rico

Basic Financial Statements and Required Supplementary Information as of and for the Year Ended June 30, 2013, and Independent Auditors' Report

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-9
BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2013:	
Statement of Net Position	10
Statement of Revenues, Expenses, and Changes in Net Position	11
Statement of Cash Flows	12
Notes to Basic Financial Statements	13-19

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INDEPENDENT AUDITORS' REPORT

To: The Members of the Board of Directors of
Puerto Rico Public Private Partnerships Authority

We have audited the accompanying financial statements of Puerto Rico Public-Private Partnerships Authority, a Component Unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Puerto Rico Public-Private Partnerships Authority as of June 30, 2013, and the changes in financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Juan, Puerto Rico
December 10, 2013.

Stamp No. E83614 was affixed to
the original of this report.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND DURING THE YEAR ENDED JUNE 30, 2013

This section presents a narrative overview and analysis of the financial performance of the Puerto Rico Public Private Partnerships Authority (the "Authority") and is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, and identify individual issues or concerns. The information presented here should be read in conjunction with the basic financial statements, including the notes thereto.

1. FINANCIAL HIGHLIGHTS

- Total assets and total liabilities of the Authority at June 30, 2013, amounted to approximately $4.7 million and $1.3 million, respectively, for a net position of approximately $3.4 million. Total liabilities decreased by approximately $7.2 million when compared to prior year due to repayment of the revolving line of credit to the Government Development Bank for Puerto Rico (the "Bank") of approximately $6.1 million and a decrease in accrued expenses of approximately $1.1 million.

- The Authority earned approximately $19.6 million in revenue during the year ended June 30, 2013. This amount includes approximately $14.4 million in reimbursement of expenses and approximately $2.5 million as professional fees for the services provided as part of the Luis Muñoz Marín Airport Public Private Partnership. These amounts are presented as Service Charges in the accompanying statement of revenues, expenses, and changes in net position.

- The Authority's revenues from the Local Stimulus Fund ("*Plan de Estímulo Criollo*" or "*PEC*" by its Spanish acronym) pursuant to Executive Order No. 5 of 2010 amounted to approximately $2.7 million for the year ended June 30, 2013.

- The Authority's professional services expense amounted to approximately $5.7 million for the year ended June 30, 2013.

- During the year ended June 30, 2013, the Authority's operations were financed with a $20 million revolving line of credit facility with the Bank, as established by the Public Private Partnerships Act 29 of June 8, 2009, which created the Authority. For upcoming years management will finance the Authority's operations with fees charged upon the establishment of public-private partnerships (the Partnerships).

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This report includes this management's discussion and analysis section, the independent auditors' report and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail information pertinent to the financial statements.

3. REQUIRED FINANCIAL STATEMENTS

The financial statements of the Authority report information using accounting methods similar to those used by private sector entities. The statement of net position includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investment in resources (assets) and obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing its liquidity and financial flexibility.

Revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the results of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered its costs from the revenue it generates.

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 operating, 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 Authority's condensed financial information as of and for the year ended June 30, 2013, is as follows:

	June 30,		Change	
	2013	2012	Amount	Percentage
Assets	$ 4,734,761	$ 1,916,427	$ (2,818,334)	-147.06%
Liabilities	1,349,742	8,532,483	(7,182,741)	-84.18%
Net position	$ 3,385,019	$ (6,616,056)	$ 10,001,075	151.16%
Revenues	$ 19,596,588	$ 23,510,851	$ (3,914,263)	16.65%
Expenses and nonoperating income:				
Operating expenses	9,597,638	18,852,541	(9,254,903)	-49.09%
Nonoperating income	(2,125)	(1,587)	(538)	33.90%
Total expenses and nonoperating income	9,595,513	18,850,954	(9,255,441)	-49.10%
Change in net position	$ 10,001,075	$ 4,659,897	$ 5,341,178	114.62%

The Authority's most significant expenses correspond to professional services and payroll related expenses amounting to approximately $5.6 million and $597 thousands, respectively. Decrease in operating expenses of approximately $9.3 million, when compared to prior year, is mainly related to a decrease in professional services of approximately $8.5 million related to the Authority's Partnership projects.

The Authority's principal activities are related to the development of Partnership projects, completion of studies of desirability and convenience for proposed Partnerships, the identification and qualification of potential proponents and the evaluation, selection, negotiation and award of Partnership transactions.

The increase in assets is mainly related to the increase in cash of approximately $3.6 million. The decrease in the liabilities is the result of the repayment of approximately $6.1 million to the revolving line of credit facility. Operating revenues during the year ended June 30, 2013, include approximately $2.7 million from the PEC and $16.9 million from Service Charges.

5. PUBLIC PRIVATE PARTNERSHIPS

Completed During Current Year

Luis Muñoz Marín Airport Public Private Partnership

On June 2010, the Authority released a Study of Desirability and Convenience to establish a partnership project for the Luis Muñoz Marín International Airport (the "Airport"). On July 6, 2011, the Authority issued a Request for Qualifications ("RFQ") for a long-term lease to finance, operate, maintain, and improve the Airport (the "Airport Project"). On August 8, 2011, the Puerto Rico Ports Authority ("PRPA") and the Authority received statements of qualifications from twelve (12) interested consortia. On September 23, 2011, the Authority announced the shortlist of six (6) consortia to proceed with the Request for Proposals ("RFP") for the Airport Project. The RFP was approved by the partnership committee and issued to shortlist proponents on October 10, 2011. On March 15, 2012, indicative bids from shortlist proponents were received.

On July 19, 2012, the consortium known as Aerostar Airport Holdings, LLC ("Aerostar") was selected as preferred proponent for the Airport Project. In order to complete the transaction, it must be endorsed by the Federal Aviation Administration ("FAA"). On September 6, 2012, the Authority and the PRPA submitted the final application for the pilot program to the FAA. On September 19, 2012, the FAA commenced a public comment period of 60 days related to the Airport Project. On September 28, 2012, the FAA conducted a public meeting in Puerto Rico as required by the pilot program. The public comment period closed on November 19, 2012. The FAA approved the application on February 25, 2013.

Finally, on February 27, 2013, the financial close was successfully completed. The Authority received approximately $14.4 million for the reimbursement of transactions costs and approximately $2.5 million as professional fees for services rendered.

Expired or Detained During Current Year

Toll Roads Partnerships Program

On April 28, 2010, the Authority signed an agreement with the Puerto Rico Highway and Transportation Authority ("PRHTA"), in which the Authority agrees to transfer the funds to cover the pre-development costs of environmental mitigation, technical advisory, design, surveying, soil and site analysis, and environmental impact statement, among others, to the PR-66 highway. Under the same agreement, the Authority expects to provide financial support for the initial development efforts related to the extension of the highway PR-22. The extension of the existing PR-22 to the west between the municipalities of Hatillo and Aguadilla, is a large scale project that requires significant pre-development work. This agreement expired on December 31, 2012. The Authority foresees that the extension of the PR-22 will eventually be delivered as a Partnership project. The pre-development efforts are currently under the responsibility of the Puerto Rico Infrastructure Financing Authority ("PRIFA").

Juvenile Detention and Treatment Facility

On March 18, 2011, the Board of Directors (the "Board") authorized the Authority to conduct a Study of Desirability and Convenience for the establishment of a juvenile detention and treatment facility. On October 28, 2011, the Board approved this study and authorized the Authority to commence the process of request of proposals and selection of financial, technical, and legal advisors. On March 22, 2012, the Authority submitted a RFQ for the project to be developed as a design, build, finance, and maintain Partnership model. The Authority received eleven (11) proposals. By December 2012 the Authority had a shortlist of four (4) bidders. However, on April 8, 2013, the Secretary of Correction notifies the Authority that the Puerto Rico Department of Correction is not interested in continuing with the project. On August 13, 2013, the Board cancelled the project.

Other Projects

The Authority collaborated with the Puerto Rico Police Department, the Office of the Chief Information Officer, the PRHTA, the Department of Treasury and the Department of Justice on the development of two projects related to public security and safety: 1) the installation of video cameras for video surveillance along the Baldorioty de Castro Avenue, and 2) integration of hand-held devices for the usage of police officers in the intervention with individual drivers and issuance of traffic fines. Specifically, the Authority collaborated and funded costs related to professional advisory services of two projects. The agreement with the professional advisory services expired on January 15, 2013. As of June 30, 2013, these projects are still pilot projects which have been not converted to Partnerships.

Currently in Progress

Schools for the 21st Century Program

On June 1, 2010, the Authority launched a Partnership project called the Schools for the 21st Century Program (the "Program") directed at improving the infrastructure conditions of a selected number of public schools. Under the Program, the Authority, in collaboration with the Puerto Rico Department of Education ("DE"), PRIFA, and the Puerto Rico Public Buildings Authority ("PBA"), developed the Program under which qualified private contractors are to be responsible for the design, construction, and conservation of at least one school per municipality. This project is funded by an issuance of bonds made by PBA under the Qualified School Contract Bonds ("QSCB"), a program from the American Recovery and Reinvestment Act ("ARRA"). As of June 30, 2013, the program has impacted ninety nine (99) schools, sixty nine (69) of them are completed and in use and thirty (30) are currently active in construction phase.

Caguas- San Juan Commuter Train Project

On May 21, 2013, the Board authorized the process of request of proposals and selections of financial, technical, and legal advisors to review the Study of Desirability and Convenience for the possible Partnership project for the establishment of a commuter train between the municipalities of Caguas and San Juan. On September 17, 2013, the Study of Desirability and Convenience was approved by the Board.

Correctional Facilities

On May 21, 2013, the Board authorized the process of request for proposals and selections of financial, technical, and legal advisors to prepare the Study of Desirability and Convenience for the establishment of a possible Partnership project for the establishment of two (2) correctional facilities: one for women and the other of maximum security for men.

Liquid Natural Gas Supply and Development of Related Infrastructure for the Puerto Electric Power Plant Authority

On June 5, 2013, the Board authorized the process of request for proposals and selections of financial, technical, and legal advisors to prepare the Study of Desirability and Convenience for the establishment of a possible Partnership project to supply natural gas and the development of related infrastructure.

6. LOCAL ECONOMIC STIMULUS PROGRAM ASSIGNMENTS

During the year ended June 30, 2010, the Commonwealth of Puerto Rico, through the PEC, assigned $20.5 million to the Authority to provide funding for certain pre-development costs for projects to be conducted as Partnerships.

Following is a summary of all projects completely or partially funded from this assignment during the year ended June 30, 2013:

Schools for the 21st Century Program

On June 21, 2010, the Authority signed an agreement with PRIFA, in which PRIFA agrees to provide the Authority administrative and technical assistance to fulfill its responsibilities in the evaluation of prospective bidders and proposals for the establishment of Partnership contracts and other functions in relation to the Schools for the 21st Century Program. During the year ended June 30, 2013, the Authority disbursed $45 thousands from the PEC in relation to this agreement.

On June 7, 2011, the Authority entered into an agreement with the DE, in which the Authority agrees to cover certain expenses of the DE associated with the movement of furniture, materials, and equipment out of selected schools to be modernized under the Program. Specifically, the support for moving furniture and equipment included contracting with trucking companies and moving companies. This support is a critical part of the entire logistical arrangements necessary to successfully complete the Program.

Extension to the PR-22 Project

On July 7, 2012, the Authority signed an agreement with PRIFA, in which the Authority agrees to transfer funds from the PEC to cover the pre-development costs of environmental mitigation, technical advisory, design, surveying, soil and site analysis, and environmental impact statement, among others, for the extension of the toll road PR-22 from the municipality of Aguadilla to the municipality of Hatillo. This agreement was amended to extend the due date to June 30, 2014. During the year ended as of June 30, 2013, the Authority disbursed $1.6 million from the PEC in relation to this agreement.

Public Schools Structural Repairs Program

On May 28, 2010, the Authority signed an agreement with the Office for the Improvements of Public Schools ("OMEP", by its Spanish acronym), in which the Authority agrees to transfer the funds to cover the pre-development costs of the structural repairs for certain facilities of public schools managed by OMEP. The pre-development costs for general repairs include technical advisory and evaluation, design, surveying, soil and site analysis, environmental impact statement, development of construction draft, search of structural information of public facilities, and permit documentation, among others. As of June 30, 2013, the Authority accrued approximately $133 thousands for invoices pending to be paid in relation to this agreement.

Juvenile Detention and Treatment Facility

During the year ended as of June 30, 2013, the Authority disbursed $270 thousands for project pre-development costs for the establishment of a juvenile detention and treatment facility. Refer to the Public Private Partnership section for more details of this project.

Extension to the PR-5 Project

On April 28, 2010, the Authority signed an agreement with the PRHTA, in which the Authority agrees to transfer funds to cover for the pre-development costs of environmental mitigation, technical advisory, design, surveying, soil, and site analysis, among others, for developing highways infrastructure projects. During the year ended as of June 30, 2013, the Authority disbursed $44 thousands for project pre-development costs in relation to the extension of road PR-5.

7. REQUESTS FOR INFORMATION

This financial report is designed to provide those interested with a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Puerto Rico Public Private Partnerships Authority P.O. Box 42001, San Juan, Puerto Rico, 00940-2001.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION
AS OF JUNE 30, 2013

ASSETS	
CURRENT ASSETS:	
Cash	$ 3,982,057
Due from Commonwealth of Puerto Rico	736,754
Accrued interest receivable	335
Total current assets	4,719,146
NONCURRENT ASSETS:	
Capital asset, net	1,222
Other assets	14,393
Total noncurrent assets	15,615
TOTAL ASSETS	4,734,761
LIABILITIES	
Accounts payable and accrued liabilities	1,349,742
NET POSITION	
Net investment in capital asset	1,222
Unrestricted	3,383,797
Total net position	$ 3,385,019

See notes to basic financial statements.

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PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
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STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

OPERATING REVENUES:	
Service charges	$ 16,868,408
Program revenues	2,728,180
Total operating revenues	19,596,588
OPERATING EXPENSES:	
Professional services	5,684,801
Program expenses	2,728,180
Other operating expenses	864,981
Interest expense	319,497
Depreciation and amortization expense	179
Total operating expenses	9,597,638
OPERATING INCOME	9,998,950
NONOPERATING REVENUES - Interest income	2,125
CHANGE IN NET POSITION	10,001,075
NET DEFICIT - Beginning of year	(6,616,056)
NET POSITION - End of year	$ 3,385,019

See notes to basic financial statements.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
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STATEMENT OF CASH FLOW
FOR THE YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Program revenues received	$ 3,161,344
Fees collected	17,227,757
Cash paid to suppliers for goods and services	(9,796,384)
Cash paid to employees for services	(695,953)
Net cash provided by operating activities	9,896,764
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Advances from short-term borrowings	4,519,131
Repayments to short-term borrowings	(10,820,379)
Net cash used by noncapital financing activities	(6,301,248)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	1,826
NET INCREASE IN CASH	3,597,342
Cash - beginning of year	384,715
Cash - end of year	$ 3,982,057
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	$ 9,998,950
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	179
Interest expense	319,497
Contribution to the Commonwealth of Puerto Rico	-
Decrease in due from Commonwealth of Puerto Rico	792,513
Increase in other assets	(13,385)
Decrease in accounts payable and accrued liabilities	(1,200,564)
Decrease in due to Government Development Bank	(426)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 9,896,764
NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES:	
Capitalized interest on notes payable	$ 251,653

See notes to basic financial statements.

1. REPORTING ENTITY

The Puerto Rico Public Private Partnerships 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"), another component unit of the Commonwealth. The Authority was created by virtue of Act 29 of June 8, 2009 (the "Act 29").

The Authority is the Commonwealth's governmental entity authorized and responsible for implementing public policy on Public Private Partnerships (the "Partnerships") are established by Act 29 and to determine the functions, services or facilities for which such Partnerships will be established.

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 ("U.S. GAAP") for governments as prescribed by the Governmental Accounting Standards Board ("GASB").

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of changes in net position, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Following is a description of the Authority's most significant accounting policies:

Measurement Focus and Basis of Accounting — The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Expenses are recorded when incurred, regardless of the timing of related cash flows. Operating revenues and expenses are distinguished from nonoperating items.

The Authority's operating revenues is primarily derived from fees earned from contractual agreements with other government entities, as defined in Act 29, to implement public policy and to determine the functions, services or facilities for which the Partnerships are established. The Authority recognizes revenue when earned under the terms of each agreement and when the collection of the fees is reasonably assured. Operating expenses are those related to the administration of the Authority. All revenues and expenses not meeting these criteria are reported as nonoperating revenues and expenses.

The statement of net position presents the Authority's assets and liabilities, with the difference reported as net position. Net positions may be reported in three categories:

- Net investment in capital assets – consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding debt balances attributable to the acquisition, construction, or improvement of those assets.
- Restricted component – consists of restricted assets reduced by liabilities related to those assets. Restrictions are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted component – consists of net amount of the assets and liabilities that do not meet the definition of the preceding category. Unrestricted component of net position often is designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted component of net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

As of June 30, 2013, the Authority's net position was presented as net investment in capital assets and unrestricted.

The statement of activities demonstrates the degree to which the operating expenses are offset by operating revenues.

Custodial Credit Risk Related to Deposits — Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk. As of June 30, 2013, all of the Authority's bank balance, aggregating to approximately $4 million, was exposed to custodial credit risk since all such deposits, which are maintained at the Bank, are uninsured and uncollateralized.

Capital Assets — Capital assets, which consist of equipment, are stated at cost less accumulated depreciation. Capital assets are defined by the Authority as assets that have a cost of $500 or more at the date of acquisition and have an expected useful life of one or more years. Depreciation is charged to operations and included in general and administrative expenses, and is computed on the straight-line basis over the estimated useful lives of the depreciable assets (1 to 5 years). Costs of maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to expense as incurred.

Compensated Absences — The employees of the Authority are granted 30 days of vacation and 18 days of sick leave annually. Vacation and sick leave may be accumulated up to a maximum of 72 and 90 days, respectively. In the event of employee resignation, an employee is reimbursed for accumulated vacation and sick leave days up to the maximum allowed.

Recently Issued Accounting Pronouncement – The GASB has issued the following accounting pronouncements that are effective for periods beginning after June 30, 2013.

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which is effective for fiscal years beginning after December 15, 2012.
- GASB Statement No. 66, *Technical Corrections-2012* - an *amendment of GASB Statements No. 10 and No. 62*, which is effective for fiscal years beginning after December 15, 2012.
- GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, which is effective for fiscal years beginning after June 15, 2013.
- GASB Statement No. 68, Accounting *and Financial Reporting for Pensions – an amendment of GASB Statements No. 27*, which is effective for fiscal years beginning after June 15, 2014.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which is effective for periods beginning after December 15, 2013.
- GASB Statement No. 70, *Accounting and Financial Reporting for Non Exchange Financial Guarantees*, which is effective for periods beginning after June 15, 2013.

Management is evaluating the impact that these statements will have, if any, on the Authority's basic financial statements.

3. SHORT-TERM BORROWINGS

On November 18, 2009, the Authority entered into a $20 million revolving line of credit facility with the Bank to provide financing for the Authority's operations. The credit facility expires on January 31, 2014, and bears interest at 150 basis points over the prime rate (3.25% at June 30, 2013) or 6%, whichever is higher. The source of repayment of this line of credit is the fees charged by the Authority for services provided as part of the process to establish the Partnerships. As of June 30, 2013, the line of credit balance was paid in full. Interest expenses for the year ended June 30, 2013, amounted to approximately $319 thousands that were paid in May 2013.

4. TRANSACTIONS WITH GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

During the year ended June 30, 2013, the Bank provided certain management and administrative services to the Authority at no cost. During the year ended June 30, 2013, the Bank made $950 on payments on behalf of the Authority to cover certain Authority's operating expenses. At June 30, 2013, all balances due were paid.

5. CONTRIBUTION FROM THE COMMONWEALTH OF PUERTO RICO

During the year ended June 30, 2010, the Commonwealth, through the Local Economic Stimulus Program ("*Plan de Estímulo Criollo*" or "PEC", by its Spanish acronym), assigned $20.5 million to the Authority to provide funding for certain pre-development costs for projects to be conducted as Partnerships as described in Note 6. Contributions from the Commonwealth amounted to approximately $2.7 million during the year ended June 30, 2013, and are presented as program revenues in the accompanying statement of revenues, expenses, and changes in net position. As of June 30, 2013, the Commonwealth owes the Authority approximately $737,000, of which approximately $604,000 are owed to the Department of Education ("DE"), and approximately $133,000 to the Office for the Improvements of Public Schools ("OMEP", by its Spanish acronym).

6. INTER-GOVERNMENTAL AGREEMENTS

The Authority has established inter-governmental agreements (the "Agreements") in order to disburse funds assigned by the Commonwealth to specific projects.

Below is a summary of each Agreement that provides the basis and legal context for disbursing the assigned funds. The Authority has reserved its right to amend any of the Agreements in consultation with the corresponding governmental entities in order to take into consideration changes in the specific projects or re-directing the funds to other projects:

Extension to the PR-22 Project

On July 7, 2012, the Authority signed an agreement with the Puerto Rico Infrastructure Financing Authority ("PRIFA"), to provide design management and evaluation services related to the proposed extension of toll road PR-22 from the municipality of Aguadilla to the municipality of Hatillo. During the year ended as of June 30, 2013, under the PEC, approximately $1,632,000 were assigned to and disbursed by the Authority for project pre-development costs for the extension of the PR-22.

Schools for the 21st Century Program

On June 21, 2010, the Authority signed an agreement with PRIFA, in which PRIFA agrees to provide the Authority administrative and technical assistance to fulfill its responsibilities in the evaluation of prospective bidders and proposals for the establishment of partnership contracts and other functions in relation to the Schools for the 21st Century Program. During the year ended June 30, 2013, the Authority disbursed from the PEC approximately $45,000 in relation to this agreement.

On June 7, 2011, the Authority entered into an agreement with the DE, in which the Authority agrees to cover certain expenses of the DE associated with the movement of furniture, materials, and equipment out of selected schools to be modernized under the Program. Specifically, the support for moving furniture and equipment included contracting with trucking and moving companies. As of June 30, 2013, the Authority accrued approximately $604,000 for invoices pending to be paid in relation to this agreement, and the same amount was recorded as Due from Commonwealth of Puerto Rico in the accompanying statement of net position, as discussed in Note 5 to the basic financial statements.

Public Schools Structural Repairs Program

On May 28, 2010, the Authority signed an agreement with the OMEP, in which the Authority agrees to transfer the funds to cover the pre-development costs of the structural repairs for certain facilities of public schools managed by OMEP. The pre-development costs for general repairs include technical advisory and evaluation, design, surveying, soil and site analysis, environmental impact statement, development of construction draft, search of structural information of public facilities, and permit documentation, among others. As of June 30, 2013, the Authority accrued approximately $133,000 for invoices pending to be paid in relation to this agreement, and the same amount was recorded as Due from Commonwealth of Puerto Rico in the accompanying statement of net position, as discussed in Note 5 to the basic financial statements.

Extension to the PR-5 Project

On April 28, 2010, the Authority signed an agreement with the Puerto Rico Highway and Transportation Authority ("PRHTA"), in which the Authority agrees to transfer funds to cover for the pre-development costs of environmental mitigation, technical advisory, design, surveying, soil, and site analysis, among others, for developing highways infrastructure projects. During the year ended as of June 30, 2013, the Authority disbursed approximately $44,000 for project pre-development costs in relation to the extension of road PR-5.

7. RETIREMENT SYSTEM

Defined Contribution Plan – The Legislature of the Commonwealth enacted Act 305 on September 24, 1999 to established, among other things, a defined contribution savings plan program (the "Program") to be administered by the Employees' Retirement System of the Government of the Commonwealth (the "Retirement System"). The Retirement System, created pursuant to Act No. 447 of May 15, 1951, as amended, is sponsored by and reported as a component unit of the Commonwealth. All regular employees hired for the first time on or after January 1, 2000, become member of the Program as a condition to their employment.

Act 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to individual accounts established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semiannually.

The Authority is required by Act 305 to contribute 11.275% of each participant's gross salary. The Retirement System will use these contributions to increase its assets level and reduce the unfunded status of the defined benefit pension plan. On April 4, 2013, the Legislature enacted Act 3 which amended Act 305 to establish a new retirement program.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement date will receive a lump-sum payment.

In case of death, the balance in each participant's account will be paid in a lump sum to the participant's beneficiaries. Participants have the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

Defined Contribution Hybrid Program – On April 4, 2013, the Legislature enacted Act 3 which amended Act 447 and Act 305 to establish, among other things, a defined contribution hybrid program (the "Hybrid Program") to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit pension plan and the defined contribution plan, and were rehired on or after July 1, 2013, become members of the Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Defined Contribution Hybrid Program.

Participants in the defined benefit pension plan who as of June 3, 2013, were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program. Participants who as of June 30, 2013, have not reach the age of 58 and completed 10 years of service or have not reached the age of 55 and completed 25 years of service can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

Participants in the defined contribution plan who as of June 30, 2013 were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding their retirement plan, as well as the annuity accrued under the Hybrid Program. Participants in the Program who as of June 30, 2013, has not reached the age of 60 can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

Act 3 requires employees to contribute ten percent (10%) of their monthly gross salary to the Hybrid Program. Employee contributions are credited to individual accounts established under the Hybrid Program. In addition a mandatory contribution equal to or less than point twenty five percent (.25%) is required for the purchase of disability insurance.

The Authority is required to contribute 12.275% of each participant's gross salary. The Retirement System will use these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2013, and up until June 30, 2016, the employer's contribution rate shall be annually increased by one percent (1%). Beginning July 1, 2016, and up until June 30, 2021, the employer's contribution rate that is in effect on June 30 of every year shall be annually increased on every successive July 1st by one point twenty-five percent (1.25%).

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service, a death benefit will be paid in one lump sum in cash to the participant's beneficiaries.

Participants with a balance of less than $10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability the participants have the option of receiving a lump sum or purchasing an annuity contract.

Total employee contributions for the defined contribution plan during the year ended June 30, 2013, amounted to approximately $28,000. The Authority's contributions during the year ended June 30, 2013, amounted to approximately $37,000. These amounts represented 100% of the required contribution for the corresponding year.

Additional information on the Retirement System is provided in its stand-alone financial statements for the year ended June 30, 2013, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan, PR 00940-2004.

8. SUBSEQUENT EVENTS

Caguas- San Juan Commuter Train Project

On September 17, 2013, the Board approved the Study of Desirability and Convenience for the possible partnership project for the establishment of a commuter train between the municipalities of Caguas and San Juan, and therefore, authorized the Authority to start the processes required by Act 29 for the establishment of a public private partnership.

Subsequent events were evaluated by management through December 10, 2013, the date the financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the financial statements. Management has determined that other than those already disclosed above, there are no material events or transactions that would affect the Authority's financial statements through such date.