RSM ROC & Company
Certified Public Accountants & Consultants

# Puerto Rico Infrastructure Financing Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information
For the Fiscal Year Ended June 30, 2014

AFI
PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
Commonwealth of Puerto Rico

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# INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of the
Puerto Rico Infrastructure Financing Authority

We have audited the accompanying financial statements of the governmental activities and each major fund of the Puerto Rico Infrastructure Financing Authority, a Component Unit of the Commonwealth of Puerto Rico, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority'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 misstatements, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express opinions 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 from 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 auditor's judgment, including the assessment of the risk 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 that we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Puerto Rico Infrastructure Financing Authority as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of a Matter

As discussed in Note 2 to the financial statements, effective July 1, 2013, the Puerto Rico Infrastructure Financing Authority adopted the provisions of Governmental Accounting Standard Board (GASB) Statement 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## Other Matter

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 8 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses 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
November 26, 2014.

RSM ROC & Company

Stamp E138134 was affixed
to the original of this report.

This section presents a narrative overview and analysis of the financial performance of the Puerto Rico Infrastructure Financing 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, identify changes in the Authority's financial position, 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

- During the fiscal year ended June 30, 2014, the restricted investment in bonds of Puerto Rico Sales Tax Financing Corporation (COFINA, for its acronym in Spanish) has a net decrease in market value of approximately $90.3 million.
- During the fiscal year ended June 30, 2014, the Authority implemented the Governmental Accounting Standard Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities.* As a result of the implementation of Statement No. 65, the deferred bond issue cost was recognized as an expense in the beginning balance of the unrestricted net deficit, the deferred loss from refunding is presented as a deferred outflows of resources and not as part of bonds payable, net, and the deferred revenue is presented as a deferred inflows of resources and not as a liability. The financial information included in the Management's Discussion and Analysis (MD&A) was adjusted to reflect the impact of the implementation of Statement No. 65.

## 2. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is required supplementary information to the basic financial statements and is intended to serve as an introduction to the basic financial statements of the Authority. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and, (3) notes to the basic financial statements.

**Government-wide Financial Statements** – The government-wide financial statements provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. The statement of net position (deficit) provides information on the Authority's assets, deferred outflow of resources, liabilities and deferred inflow of resources, with the difference between the two reported as net position (deficit). Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The statement of activities presents information on how the Authority's net position changed during the reporting period. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

**Fund Financial Statements** – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All the Authority's funds are governmental funds.

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of financial decisions related to the Authority's governmental activities. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**Notes to the Basic Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements and the fund financial statements.

## 3. GOVERNMENT-WIDE FINANCIAL ANALYSIS

Governmental entities are required by accounting principles generally accepted in the United States of America (US GAAP) as prescribed by the Governmental Accounting Standard Board (GASB), to report on their net position/deficit. The Statement of Net Position (Deficit) presents the value of all of the Authority's assets and deferred outflow of resources, and liabilities and deferred inflow of resources, with the difference between them reported as net position (deficit).

The following was derived from the Statement of Net Position (Deficit) as of June 30, 2014 and 2013:

| | 2014 | 2013 *(As Restated)* | Change | Percentage |
|---|---|---|---|---|
| **Assets:** | | | | |
| Current assets | $ 14,317,338 | $ 3,765,147 | $ 10,552,191 | 280.3% |
| Capital assets, net | 38,340,303 | 35,331,039 | 3,009,264 | 8.5% |
| Noncurrent assets | 381,374,973 | 522,134,102 | (140,759,129) | -27.0% |
| Total assets | 434,032,614 | 561,230,288 | (127,197,674) | -22.7% |
| **Deferred outflow of resources** | 50,873,735 | 54,507,902 | (3,634,167) | -6.7% |
| **Liabilities:** | | | | |
| Liabilities due within one year | $ 169,049,044 | $ 211,045,586 | $ (41,996,542) | -19.9% |
| Liabilities due after one year | 1,972,281,834 | 1,990,243,231 | (17,961,397) | -0.9% |
| Total liabilities | 2,141,330,878 | 2,201,288,817 | (59,957,939) | -2.7% |
| **Net position:** | | | | |
| Net investment in capital assets | 979,153 | 3,252,225 | (2,273,072) | -69.9% |
| Restricted for: | | | | |
| Debt Service | 117,820,011 | 122,972,581 | (5,152,570) | -4.2% |
| Other purposes | 134,843,851 | 225,608,313 | (90,764,462) | -40.2% |
| Unrestricted (Deficit) | (1,910,067,544) | (1,937,383,746) | 27,316,202 | -1.4% |
| Total deficit, as restated | $ (1,656,424,529) | $ (1,585,550,627) | $ (70,873,902) | 4.5% |

In overall, the Authority's deficit increased by approximately $71 million, or 4.5%, mainly as a result of the decrease in market value of COFINA bonds (approximately $90.3 million).

Total assets decreased by $127.2 million, or 22.7%, mainly driven by an unrealized loss of the investment in COFINA Bonds of approximately $90.3 million, and the full amortization of bonds and debt issuance costs for approximately $32.7 million, as a result of the implementation during this fiscal year of Governmental Accounting Standard Board Statement No. 65.

Condensed program net revenues or expenses and changes in net position/(deficit) are presented below:

| | 2014 | 2013 (As Restated) | Change | Percentage |
|---|---|---|---|---|
| Revenues - | | | | |
| Program revenues - operating grants and contributions, and earnings on investments | $ 37,573,288 | $ 107,490,291 | $ (69,917,003) | -65.0% |
| General revenues - | | | | |
| Proceeds from legal settlements | - | 1,028,562 | (1,028,562) | -100.0% |
| Investment earnings | 290,347 | 341,861 | (51,514) | -15.1% |
| Total revenues | 37,863,635 | 108,860,714 | (70,997,079) | -65.2% |
| Expenses: | | | | |
| Functions/Programs: | | | | |
| General government | 9,160,340 | 6,273,134 | 2,887,206 | 46.0% |
| Education, aqueduct and sewers, and transportation | 1,008,681 | 1,450,669 | (441,988) | -30.5% |
| Economic development program | 4,713,018 | 2,360,904 | 2,352,114 | 99.6% |
| Recreation and sports | 287,615 | 3,791,542 | (3,503,927) | -92.4% |
| Arts and entertainment | 426,517 | 19,652,387 | (19,225,870) | -97.8% |
| Public safety | - | 24,435 | (24,435) | -100.0% |
| Weatherization program | 457,497 | 2,882,624 | (2,425,127) | -84.1% |
| Interest on long-term debt | 92,683,869 | 96,020,338 | (3,336,469) | -3.5% |
| Total expenses | 108,737,537 | 132,456,033 | (23,718,496) | -17.9% |
| Change in net deficit | (70,873,902) | (23,595,319) | (47,278,583) | 200.4% |
| Beginning deficit, as restated | (1,585,550,627) | (1,561,955,308) | (23,595,319) | 1.5% |
| Ending deficit | $ (1,656,424,529) | $ (1,585,550,627) | $ (70,873,902) | 4.5% |

**Revenues** – Program revenues decreased approximately $69.9 million or 65% mainly because the restricted investment in COFINA's bonds incurred an unrealized loss of approximately $90.3 million. During the fiscal year ended June 30, 2013, this investment incurred an unrealized loss of approximately $31.8 million.

**Expenses** – Major change in expenses were caused by the retirement of completed construction projects on prior year in the recreation and sports, and arts and entertainments functions.

## 4. GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

**General Fund** – Total assets in the general fund decreased approximately $86 million as a direct result of the negative investment yield of the restricted nonspendable investment that had a market value of approximately $225.1 million in fiscal year ended June 30, 2013, to approximately $134.8 million in fiscal year ended June 30, 2014. This reduction results from the effect of the overall municipal market negative valuation of COFINA bonds.

Other assets and liabilities remained significantly similar in fiscal year ended June 30, 2014 when compared to fiscal year ended June 30, 2013. The fund balance decreased from approximately $230 million to approximately $143 million, or 38%, specifically due to this decrease in valuation of the COFINA bonds.

Revenues in the general fund decreased from approximately $88.6 million to approximately $29.4 million directly by the effect of the valuation of the nonspendable investment. Investment losses during fiscal year ended June 30, 2013 was approximately $31.8 million, while in fiscal year ended June 30, 2014 there was a net investment loss of approximately $90.3 million, for a total net decrease of $58.5 million. General government expenditures decreased from approximately $8.7 million, in fiscal year ended June 30, 2013, to approximately $6.3 million, or 27% due to cost control measures implemented for the administrative and operating expenses of the Authority. Capital outlays decreased by approximately $1.2 million because during fiscal year ended June 30, 2014 there were no construction and modernization activities for the building facilities acquired during fiscal year ended 2012.

The Authority is not required to present a budgetary comparison statement for the General Fund since this fund does not have a legally adopted budget.

**ARRA Fund** – The ARRA federal program concluded during fiscal year ended June 30, 2012, however, extensions were provided to grantees for fiscal years ended June 30, 2013 and 2014, in order to complete the projects by which grants were provided. During fiscal years ended June 30, 2013 and 2014, its activities were very limited as compared to 2012. At June 30, 2014, assets were basically the restricted cash on hand that will be used to pay for related program liabilities and repay interfund loans. Assets decreased from approximately $1.8 million to approximately $619 thousand as funding for the year was less than $1 million, and the fund continues paying for corresponding expenditures. Liabilities also decreased in a similar manner from approximately $2 million to approximately $940 thousand.

ARRA program revenues and expenditures decreased approximately $2.1 million and approximately $2.1 million, respectively, because the federal program concluded. Remaining activity is only to conclude pending and administrative matters related to the program.

The Authority is not required to present a budgetary comparison statement for the ARRA Fund since this fund does not have a legally adopted budget.

**Capital Projects Fund** – Total assets decreased from approximately $160.1 million in fiscal year 2013 to approximately $116 million in fiscal year 2014, or 28%. This reduction is in line with the reduction of accounts receivable for approximately $31.5 million.

This reduction relates to the amounts that are receivable from the different Commonwealth agencies for which the Authority carries out construction project management activities of facilities that are later transferred to these governmental entities. This is in line with a reduction in these activities for the fiscal year ended June 30, 2014.

In line with this reduction, total liabilities also decreased from approximately $114.9 million in fiscal year ended June 30, 2013 to approximately $76.9 million in fiscal year ended June 30, 2014, for a net decrease of approximately $38 million, or 33%.

Total revenue decreased from approximately $12.7 million in fiscal year ended June 30, 2013 to approximately $5.0 million in fiscal year ended June 30, 2014, for a decrease of approximately $7.7 million, or 60%, mainly driven by a decrease in contribution from the Commonwealth from approximately $10.9 million to approximately $4.8 million. This decrease resulted because some construction programs funded by the Commonwealth were substantially completed during prior fiscal years.

**Debt Service Fund** – Total assets remained almost similar at approximately $78.8 and $77.7 million in fiscal years ended June 30, 2014 and 2013, respectively. Direct financing lease revenue decreased to $2.9 million from $5.8 for fiscal years ended June 30, 2014 and 2013, respectively, because the debt service decreased and the funding source for the payment of the debt service is the rent charged to the tenant. Accordingly, both revenue and the related debt service have a lineal correlation and these behave similarly. Debt service payments remained similar at approximately $115.4 million and $118.8 million for the fiscal years ended June 30, 2014 and 2013.

## 5. CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets** – Non-depreciable capital assets represent construction work in progress, including land in which infrastructure projects are or will be developed. Depreciable assets include furniture and equipment, vehicles and building. The following is a schedule of the Authority's capital assets as of June 30, 2014:

| | 2014 | 2013 | Change | Percentage |
|---|---|---|---|---|
| Land | $ 11,890,049 | $ 11,968,376 | $ (78,327) | -0.7% |
| Construction in progress | 5,006,659 | 1,301,521 | 3,705,138 | 284.7% |
| Building | 22,561,474 | 22,561,474 | - | 0.0% |
| Furniture and equipment | 1,191,559 | 1,150,818 | 40,741 | 3.5% |
| Vehicles | 57,692 | 57,692 | - | 0.0% |
| Total capital assets | 40,707,433 | 37,039,881 | 3,667,552 | 9.9% |
| Less accumulated depreciation and amortization | 2,367,130 | 1,708,842 | 658,288 | 38.5% |
| Capital assets - net | $ 38,340,303 | $ 35,331,039 | $ 3,009,264 | 8.5% |

Overall capital assets change driven by an increase in construction in process of approximately $3.7 million due to the process of projects financed by legislative appropriations during fiscal year ended June 30, 2014.

**Debt Outstanding** – As of June 30, 2014, the Authority had approximately $2,010 million in long-term liabilities, mainly composed of approximately $1,949 million of bonds payable, net of premiums and discounts. Total long-term liabilities include bonds and loans payable, liability of legal matters, termination benefits, and accrued compensated absences. In general, long-term debt decreased by approximately $22 million, as restated, as a result of the net effect of approximately $6 million of loans used and the repayment of approximately $36 million of bonds, the net effect of the discount accretion and amortization of premiums of approximately $8 million. During fiscal year ended June 30, 2014, the Authority fully amortized the deferred loss on refunding loans for approximately $54.5 as a result of the implementation of the Governmental Accounting Standard Board, Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

## 6. SUBSEQUENT EVENTS

On July 1, 2014, Moody's Investor Services lowered its rating on COFINA senior bonds from Baa1 to Ba3 and subordinate-lien bonds from Baa2 to B1. Also, on July 11, 2014, Standard & Poor's Rating Services lowered its rating on COFINA first lien sales tax bond from AA- to BBB. On the second lien sales tax underlying rating (SPURS) bond from A+ to BBB-.

On July 28, 2014, Standard & Poor's Rating Services (S&P) lowered its rating on the Special Revenue Bonds Series 2011 B issued pursuant to a Loan and Trust Agreement between the Authority and the Puerto Rico Ports Authority (PRPA). The bonds were downgraded from "BB" to "BB-" and the "Credit Watch" was removed and replaced with negative implications on July 1, 2014. These bonds are further guaranteed by an irrevocable transferrable direct-pay letter of credit to secure the payment of principal and interest on the bonds provided by the Government Development Bank for Puerto Rico.

On October 30, 2014, the House of Representative of the Commonwealth of Puerto Rico presented a bill initiative that contemplate the transfer to the Authority of certain debts owed by the Puerto Rico Highway and Transportation Authority to GDB for approximately $2,300 million and the corresponding sources of repayment for that debt service.

Major provisions of this bill initiative include the transfer of the following sources of repayment:

- Total license fees on motor vehicles collected by the Treasury Department
- Taxes over petroleum, finished or partially elaborated products that are derived from petroleum
- Minimum of $ 20 million of the cigarettes excise taxes

## 7. REQUEST FOR INFORMATION

This report is designed to provide all interested with a general overview of the Authority's financial statements. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Puerto Rico Infrastructure Financing Authority, PO Box 41207, Minillas Station, San Juan, PR 00940.

*Puerto Rico Infrastructure Financing Authority*
*(A Component Unit of the Commonwealth of Puerto Rico)*
*Statement of Net Position / (Deficit)*
*June 30, 2014*

| | | Governmental Activities |
|---|---|---|
| **ASSETS:** | | |
| Cash and cash equivalents | $ | 5,085,409 |
| Accounts receivable | | 576,377 |
| Due from Commonwealth | | 8,351,135 |
| Prepaid expenses and other assets | | 304,417 |
| Due from Government Development Bank | | 49,267 |
| Restricted assets: | | |
| Cash and cash equivalents | | 157,729,442 |
| Accrued interest receivable | | 1,968 |
| Investments and investment contracts | | 138,610,059 |
| Due from Commonwealth | | 4,718,595 |
| Due from Municipality of San Juan | | 855,334 |
| Accounts receivable | | 42,310,308 |
| Net investment in direct financing lease | | 37,100,000 |
| Capital assets, net: | | |
| Nondepreciable: | | |
| Land | | 11,890,049 |
| Construction in progress | | 5,006,659 |
| Depreciable, net | | 21,443,595 |
| Total assets | | 434,032,614 |
| **DEFERRED OUTFLOWS OF RESOURCES:** | | |
| Deferred charges on debt refunding | | 50,873,735 |
| Total deferred outflows of resources | | 50,873,735 |
| **LIABILITIES AND NET POSITION** | | |
| Liabilities: | | |
| Accounts payable and accrued expenses: | | |
| Due in one year | | 1,482,432 |
| Due in more than one year | | 8,215,243 |
| Liabilities payable from restricted assets: | | |
| Accounts payable and accrued expenses | | 69,224,770 |
| Accrued interest payable | | 41,858,561 |
| Due to Commonwealth | | 18,687,736 |
| Bonds and loans payable: | | |
| Due in one year | | 37,755,000 |
| Due in more than one year | | 1,964,107,136 |
| Total liabilities | | 2,141,330,878 |
| **NET POSITION / (DEFICIT):** | | |
| Net investment in capital assets | | 979,153 |
| Restricted for: | | |
| Debt service | | 117,820,011 |
| Other purposes | | 134,843,851 |
| Unrestricted | | (1,910,067,544) |
| **TOTAL NET POSITION / (DEFICIT)** | $ | (1,656,424,529) |

The accompanying notes are an integral part of this basic financial statement.

# *Puerto Rico Infrastructure Financing Authority*
## *(A Component Unit of the Commonwealth of Puerto Rico)*
*Statement of Activities*
*For the Fiscal Year Ended June 30, 2014*

| | | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position (Deficit) |
|---|---|---|---|---|---|
| FUNCTIONS / PROGRAMS | Expenses | Operating Grants and Contributions | Charges for Services | Earnings on Investment | Governmental Activities |
| **GOVERNMENTAL ACTIVITIES:** | | | | | |
| General government | $ 9,160,340 | $ 122,586,798 | $ 4,786,302 | $ (90,256,480) | $ 27,956,280 |
| Education, aqueduct and sewers, and transportation | 1,008,681 | - | - | - | (1,008,681) |
| Economic development program | 4,713,018 | - | - | - | (4,713,018) |
| Recreation and sports | 287,615 | - | - | - | (287,615) |
| Arts and entertainment | 426,517 | - | - | - | (426,517) |
| ARRA programs | 457,497 | 456,668 | - | - | (829) |
| Interest on long-term debt | 92,683,869 | - | - | - | (92,683,869) |
| Total governmental activities | $ 108,737,537 | $ 123,043,466 | $ 4,786,302 | $ (90,256,480) | (71,164,249) |
| **GENERAL REVENUES:** | | | | | |
| Unrestricted investment earnings | | | | | 290,347 |
| **CHANGE IN NET POSITION / (DEFICIT)** | | | | | (70,873,902) |
| **NET POSITION (DEFICIT) - Beginning of year, as restated** | | | | | (1,585,550,627) |
| **NET POSITION (DEFICIT) - End of year** | | | | | $ (1,656,424,529) |

The accompanying notes are an integral part of this basic financial statement.

*Puerto Rico Infrastructure Financing Authority*
*(A Component Unit of the Commonwealth of Puerto Rico)*
*Balance Sheet – Governmental Funds*
*June 30, 2014*

| | General Fund | ARRA Fund | Capital Projects Fund | Debt Service Fund | Total Governmental Funds |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and cash equivalents | $ 5,085,409 | $ - | $ - | $ - | $ 5,085,409 |
| Accounts receivable | 576,377 | - | - | - | 576,377 |
| Due from other funds | 3,695,429 | 30 | 219,665 | - | 3,915,124 |
| Due from Commonwealth | 436,576 | - | - | - | 436,576 |
| Due from Government Development Bank | 49,267 | - | - | - | 49,267 |
| Restricted assets: | | | | | |
| Cash and cash equivalents | 13,834,189 | 618,969 | 67,669,989 | 75,606,295 | 157,729,442 |
| Accrued interest receivable | - | - | 811 | 1,157 | 1,968 |
| Investments and investment contracts | 134,843,851 | - | 627,700 | 3,138,508 | 138,610,059 |
| Accounts receivable | - | - | 43,165,642 | - | 43,165,642 |
| Due from Commonwealth | - | 321,498 | 4,318,177 | 22,376 | 4,662,051 |
| | $ 158,521,098 | $ 940,497 | $ 116,001,984 | $ 78,768,336 | $ 354,231,915 |

*Continues*

The accompanying notes are an integral part of this basic financial statement.

# *Puerto Rico Infrastructure Financing Authority*
## *(A Component Unit of the Commonwealth of Puerto Rico)*
*Balance Sheet – Governmental Funds*
*June 30, 2014*

***Continued***

| | General Fund | ARRA Fund | Capital Projects Fund | Debt Service Fund | Total Governmental Funds |
|---|---|---|---|---|---|
| **LIABILITIES AND FUND BALANCES/(DEFICIT)** | | | | | |
| **LIABILITIES:** | | | | | |
| Accounts payable and accrued expenses | $ 1,482,432 | $ - | $ - | $ - | $ 1,482,432 |
| Liabilities payable from restricted assets: | | | | | |
| Accounts payable and accrued expenses | 13,834,189 | 226,355 | 55,164,226 | - | 69,224,770 |
| Due to Commonwealth | - | - | 18,687,736 | - | 18,687,736 |
| Due to other funds | 102,635 | 714,142 | 3,098,347 | - | 3,915,124 |
| Total liabilities | 15,419,256 | 940,497 | 76,950,309 | - | 93,310,062 |
| **FUND BALANCES/(DEFICIT):** | | | | | |
| Non-spendable | 134,843,851 | - | - | - | 134,843,851 |
| Restricted | - | - | 39,051,675 | 78,768,336 | 117,820,011 |
| Unassigned | 8,257,991 | - | - | - | 8,257,991 |
| Total fund balances/(deficit) | 143,101,842 | - | 39,051,675 | 78,768,336 | 260,921,853 |
| | $ 158,521,098 | $ 940,497 | $ 116,001,984 | $ 78,768,336 | $ 354,231,915 |

The accompanying notes are an integral part of this basic financial statement.

## *Puerto Rico Infrastructure Financing Authority*
## *(A Component Unit of the Commonwealth of Puerto Rico)*
*Reconciliation of Balance Sheet – Governmental Funds to*
*Statement of Net Position (Deficit)*
*June 30, 2014*

| | | |
|---|---|---|
| **FUND BALANCES - GOVERNMENTAL FUNDS** | | $ 260,921,853 |
| Amounts reported for governmental activities in the statement of net position/(deficit) are different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These amounts are: | | |
| Non-depreciable capital assets | 16,896,708 | |
| Depreciable capital assets, net | 21,443,595 | 38,340,303 |
| Prepaid expenses are not available to pay current period expenditures and, therefore, are not deferred in the funds | 304,417 | 304,417 |
| Other non-current assets are not available to pay current period expenditures and, therefore, are not deferred in the funds: | | |
| Net investment in direct financing lease | 37,100,000 | |
| Due from Commonwealth | 7,971,103 | 45,071,103 |
| Deferred outflow of resources are not available to pay current period expenditures and, therefore, are not deferred in the funds | | |
| Deferred charges on debt refunding | 50,873,735 | 50,873,735 |
| Liabilities, including bonds payable, loans payable, accrued interest payable, and contingencies are not due and payable currently and, therefore, are not reported in the funds | | |
| Bonds and loans payable | (2,001,862,136) | |
| Accrued interest payable | (41,858,561) | |
| Accounts payable and accrued expenses | (8,215,243) | (2,051,935,940) |
| **DEFICIT OF GOVERNMENTAL ACTIVITIES** | | $ (1,656,424,529) |

The accompanying notes are an integral part of this basic financial statement.

*Puerto Rico Infrastructure Financing Authority*
*(A Component Unit of the Commonwealth of Puerto Rico)*
*Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds*
*For the Fiscal Year Ended June 30, 2014*

| | General Fund | ARRA Fund | Capital Projects Fund | Debt Service Fund | Total Governmental Funds |
|---|---|---|---|---|---|
| **REVENUES:** | | | | | |
| Intergovernmental revenues: | | | | | |
| Contributions from Commonwealth of Puerto Rico | $ 117,269,301 | $ 321,498 | $ 4,794,472 | $ 201,527 | $ 122,586,798 |
| ARRA programs | - | 456,668 | - | - | 456,668 |
| Interest and investment income: | | | | | |
| Interest - bearing demand deposits | 5,120 | 224 | 116,645 | 168,358 | 290,347 |
| Investments and investment contracts | (90,256,480) | - | - | - | (90,256,480) |
| Direct financing lease revenues | - | - | - | 2,946,154 | 2,946,154 |
| Charges for services | 2,311,736 | - | - | - | 2,311,736 |
| Other | 94,278 | - | 134,134 | - | 228,412 |
| Total revenues | 29,423,955 | 778,390 | 5,045,251 | 3,316,039 | 38,563,635 |
| **EXPENDITURES:** | | | | | |
| Current: | | | | | |
| General government | 6,325,136 | 294,458 | - | - | 6,619,594 |
| Education, aqueduct and sewers, and transportation | - | - | 905,354 | - | 905,354 |
| Economic development program | - | - | 4,713,018 | - | 4,713,018 |
| Recreation and sports | - | - | 287,615 | - | 287,615 |
| Arts and entertainment | - | - | 426,517 | - | 426,517 |
| ARRA programs | - | 457,497 | - | - | 457,497 |
| Debt service: | | | | | |
| Payment of maturing bonds | - | - | - | 35,895,000 | 35,895,000 |
| Interest | - | - | - | 79,488,877 | 79,488,877 |
| Capital outlays: | | | | | |
| General government | 40,741 | - | - | - | 40,741 |
| Education, aqueduct and sewers, and transportation | - | - | 1,720,251 | - | 1,720,251 |
| Recreation and sports | - | - | 1,848,758 | - | 1,848,758 |
| Edifications | - | - | 1,404,456 | - | 1,404,456 |
| Total expenditures | 6,365,877 | 751,955 | 11,305,969 | 115,383,877 | 133,807,678 |

*Continues*

The accompanying notes are an integral part of this basic financial statement.

# *Puerto Rico Infrastructure Financing Authority*
## *(A Component Unit of the Commonwealth of Puerto Rico)*

*Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds*
*For the Fiscal Year Ended June 30, 2014*

*Continued*

| | General Fund | ARRA Fund | Capital Projects Fund | Debt Service Fund | Total Governmental Funds |
|---|---|---|---|---|---|
| **REVENUES OVER (UNDER) EXPENDITURES** | $ 23,058,078 | $ 26,435 | $ (6,260,718) | $ (112,067,838) | $ (95,244,043) |
| **OTHER FINANCING SOURCES/(USES):** | | | | | |
| Proceeds from loans payable to Government Development Bank for Puerto Rico | 2,921,186 | 229,881 | 217,151 | - | 3,368,218 |
| Transfers in | 1,112 | - | - | 113,091,430 | 113,092,542 |
| Transfers out | (112,959,084) | (863) | (132,595) | - | (113,092,542) |
| Total other financing sources/(uses) | (110,036,786) | 229,018 | 84,556 | 113,091,430 | 3,368,218 |
| **NET CHANGES IN FUND BALANCES** | (86,978,708) | 255,453 | (6,176,162) | 1,023,592 | (91,875,825) |
| **FUND BALANCES - beginning of year** | 230,080,550 | (255,453) | 45,227,837 | 77,744,744 | 352,797,678 |
| **FUND BALANCES - end of year** | $ 143,101,842 | $ - | $ 39,051,675 | $ 78,768,336 | $ 260,921,853 |

The accompanying notes are an integral part of this basic financial statement.

# *Puerto Rico Infrastructure Financing Authority*
# *(A Component Unit of the Commonwealth of Puerto Rico)*
*Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities for the Year Ended June 30, 2014*

| | | | |
|---|---|---|---|
| **NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** | | $ | (91,875,825) |
| Amounts reported for governmental activities in the statement of activities are different because: | | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. For the year these amounts are: | | | |
| Capital outlays | 5,014,206 | | |
| Depreciation expense | (658,288) | | 4,355,918 |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long - term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. For the year, these amounts were: | | | |
| Principal payments | 35,895,000 | | |
| Amortization of bonds premium and deferred charges on debt refunding, net | (11,230,962) | | |
| Accretion on notes payables | (2,361,150) | | |
| Proceeds from long - term debt | (3,368,218) | | 18,934,670 |
| Some revenues reported in governmental funds were previously recognized at the government -wide level. | | | (700,000) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | | | (1,588,665) |
| **CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** | | $ | (70,873,902) |

The accompanying notes are an integral part of this basic financial statement.

## 1. REPORTING ENTITY

Puerto Rico Infrastructure Financing Authority (the "Authority") is a Component Unit of the Commonwealth of Puerto Rico (the "Commonwealth") created by Law 44 of June 21, 1988, as amended (the "Act No. 44") and an affiliate of Government Development Bank for Puerto Rico ("GDB"). The Authority was organized to provide financial, administrative, and other types of assistance to public corporations, municipalities, and other governmental instrumentalities or political subdivisions of the Commonwealth that develop and operate infrastructure facilities. The accompanying financial statements present the net position and results of operations of the entity as a whole and by major funds that are governed by the Authority.

## 2. BASIS OF PRESENTATION AND 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 (US GAAP) for governments, as prescribed by the Governmental Accounting Standard Board (GASB).

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

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

***Government-Wide Financial Statements*** – The statement of net position/(deficit) and the statement of activities report information on all activities of the Authority. The Authority has only governmental activities. The effect of interfund balances has been removed from the statement of net position (deficit). Governmental activities are financed through intergovernmental revenues and other revenues.

Following is a description of the Authority's government - wide financial statements:

The statement of net position (deficit) presents the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position (deficit), which in turn is reported in three categories:

- Net investment in capital assets – consists of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of related debt, when such debt is attributed to the acquisition, construction, or improvement of such assets.

- Restricted net position – result when constraints placed on certain asset's use are either externally imposed by creditors, grantors, contributors, or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and the unrestricted resources when they are needed.

- Unrestricted net position – consist of amounts that do not meet the definition of the two preceding categories. Unrestricted position often is designated to indicate that management does not consider them available for general operations. Unrestricted net position often has constraints on resources that are imposed by management, but may be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) interest and investment income, including the changes in the fair value of investments and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function (3) and certain charges for services to customers that purchase, use or directly benefit from services given by a particular function. Other items not meeting the definition of program revenue are instead reported as general revenues.

***Governmental Funds Financial Statements*** – Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All funds of the Authority are major funds.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation:**

***Government-Wide Financial Statements*** – The government-wide 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 a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

***Governmental Funds Financial Statements*** – The governmental funds' financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues available if they are collected within 60 days after the end of the current fiscal year. Other revenues are considered measurable and available only when cash is received by the Authority. Expenditures generally are recorded when a liability is incurred. However, principal and interest on long-term debt, loans and notes payable are recorded only when payment is due.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long term debt, notes and loans and acquisitions under capital leases are reported as other financing resources.

***Fund Accounting*** – The financial activities of the Authority are recorded in individual funds, each of which is deemed to be a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the Authority that are reported in the accompanying basic financial statements have been classified into the following major governmental funds:

- ***General Fund*** – The General Fund is the general operating fund of the Authority that is used to account for all financial resources, except those required to be accounted for in another fund.
- ***ARRA Fund*** – The ARRA fund accounts for resources used or contributed to meet the specific purposes established by this specific federal financial assistance program.
- ***Capital Projects Fund*** – The Capital Projects Fund accounts for resources used or contributed for the acquisition or construction of capital assets and capital improvements.
- ***Debt Service Fund*** – The Debt Service Fund accounts for the accumulation of resources for payment of interest and principal on long-term obligations.

The Authority is not required to present a budgetary comparison statement for the General Fund and ARRA Funds since those funds do not have legally adopted budgets.

***Cash Equivalents*** – Cash equivalents are defined as highly liquid investments with original maturities at the date of purchase of 90 days or less.

***Investments and Investment Contracts*** – Investments are reported at fair value, except for money market investments and nonparticipating investment contracts, which are carried at cost that approximates fair value. Fair value is determined based on quoted market prices, whenever available. For securities without a quoted price, fair value is determined based on quoted market prices for comparable instruments. Realized gains and losses from the sale of investments and unrealized changes in fair value are recorded as investment income.

***Accounts Receivable*** – Accounts receivable are stated net of estimated allowances for uncollectible accounts. The allowance is based on the evaluation of the risk characteristics of the receivable, including past collection experience and current economic conditions. Charge-offs is recorded against the allowance when management believes that collectability is unlikely. Recoveries of amounts previously charged off are credited to the allowance. Because of uncertainties inherent in the estimation process, management's estimate may change in the future.

***Prepaid Expenses*** – Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

***Restricted Assets*** – Certain resources are set aside for the repayment of bonds payable, construction of capital projects and other purposes, such as future contributions to the revolving loan funds. All of these assets are classified as restricted assets on the accompanying statement of net position/(deficit) and governmental funds balance sheet because these resources are limited for these purposes by applicable agreements.

***Direct Financing Lease*** – Aggregate rental payment due over the term of the lease less unearned income are included in direct financing lease receivable. Unearned income is amortized to lease income using systematic and rational methods that approximate the interest method.

***Capital Assets*** – Capital assets include land, construction in progress, furniture and equipment, vehicles, and leasehold improvements. The threshold for capitalizing furniture and equipment, vehicles, and leasehold improvements is $750. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets are recorded at cost or estimated historical cost. Contributed assets are recorded at estimated fair value at the time received. Capital assets and related depreciation are recognized in the government-wide financial statements. Depreciation is determined using the straight-line method over the related asset's estimated useful lives. In governmental funds financial statements, capital assets are recorded as expenditures, and no depreciation is recognized in governmental funds. There is no depreciation recorded for land and construction in progress.

The ranges of the useful lives are as follows:

| Description | Years |
|---|---|
| Building | 40 |
| Furniture and equipment | 3–5 |
| Vehicles | 3–5 |

The costs of normal maintenance and repairs that do not add value to the asset or materially extend assets' lives are expensed.

Capital assets are evaluated for impairment, using the guidance provided by Governmental Accounting Standards Board (the "GASB") Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly.

This statement also clarifies and establishes accounting requirements for insurance recoveries. Under this statement, governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of capital assets has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations, or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of capital assets, and construction stoppage among others.

***Compensated Absences*** – Employees are granted 30 days of vacation and 18 days of sick leave annually. Vacations and sick leave may be accumulated up to a maximum of 60 and 90, respectively. In the event of an employee resignation, it is reimbursed for accumulated vacation days up to the maximum allowed.

For sick leave, in the event of an employee resignation, the employee is paid up to the maximum allowed if the employee has worked for the Authority or other instrumentality of the Commonwealth for 10 years or more and up to 40% of the accumulated amount if the employee has worked between 1 to 10 years. The governmental fund financial statements record expenditures when employees are paid for leave, except for certain applicable sick leave portions that have matured and are payable in July, which are consequently accrued at June 30.

During fiscal year ended June 30, 2014, the Commonwealth signed into law Act No. 66 in which it eliminated the payment of balances in excess over maximum days of sick leave and vacations.

The government-wide financial statements present the cost of accrued compensated absences as part of other accrued long-term liabilities. The liability for compensated absences reported in the government-wide financial statements has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., social security and Medicare tax).

***Early retirement*** – The Authority records in the government-wide financial statements an expense for termination benefits when an offer is accepted by the employee and the benefit amount is determined.

***Bond Premiums/Discounts*** – In the government-wide financial statements, premiums and discounts costs related to long-term debt are deferred and are amortized or accreted over the life of the related debt, using a systematic and rational methods that approximate the interest method. Loans payable, Special Tax Revenue Bonds, Special Obligation Bonds, and Mental Health Infrastructure Revenue Bonds in the government-wide financial statements, are shown net of unamortized premium or discount.

Governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued, as well as any related premium is reported as other financing source while discounts on debt issuances are reported as other financing use. Issuance costs are recorded as expenditures when paid.

***Interfund Transactions*** – The Authority executes legally required transfers among its funds. These are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursement fund. Interfund receivables, payables and transfers are eliminated from the statement of net position/(deficit).

***Fund Balance*** –Fund balances for each governmental fund are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- **Non-spendable** – amounts that cannot be spent because they are legally or contractually required to be maintained intact.

- **Restricted** – amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of the resource providers.
- **Committed** – amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board of Directors (the "Board"). Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts, no later than the end of the fiscal year.
- **Assigned** – amounts that are intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed. Currently, the Authority has not assigned any amounts under this category.
- **Unassigned** – represent the residual classification for the general funds, and includes all spendable amounts not contained on the other classifications. In the other funds, the unassigned classification is only to report a deficit balance resulting from overspending for specific purposes for which the amounts have been restricted, committed or assigned.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then, unrestricted resources as they are needed.

***Risk Management*** – The Authority is responsible for assuring that the Authority's property is properly insured. Annually, the Authority compiles the information of all property owned and its respective replacement value and purchases property and casualty insurance policies. Insurance coverage for fiscal year ended June 30, 2014 remained similar to those of prior years. For the last three years, insurance settlements have not exceeded the amount of coverage.

***Termination Benefits*** – The Authority accounts for termination benefits in accordance with the provisions of GASB Statement No. 47, *Accounting for Termination Benefits*, which require employers to recognize a liability and an expense for voluntary termination benefits when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

. ***Adoption of recent accounting pronouncements*** – In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The Statement established accounting and reporting standards that reclassified certain items that were previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources and that recognized certain items previously reported as assets and liabilities as outflows and inflows of resources. In addition, it limits the use of the term deferred in the financial statement presentation. In fiscal year 2014, the Authority implemented GASB Statement No. 65, which required the Authority to retroactively recognize bond issuance costs as outflows of resources and restate its fiscal year 2013 financial statements by eliminating any carrying amounts of bond issuance costs and related amortization thereof, or when the restatement is not practical, the cumulative effect of applying this Statement should be reported as a restatement of beginning net position. Refer to Note 3 of the financial statements for current year impact of this implementation.

***Future Adoption of Accounting Pronouncements*** – The GASB has issued the following Statements that may have a future impact on the accounting and financial reporting practices and policies of the Authority:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27,* which is effective for fiscal years beginning after June 15, 2014.
- GASB Statement No. 69, *Government Combinations and Disposal of Government Operations,* which is effective for financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.
- GASB Statement No. 70, *Accounting and Financial Reporting for Non Exchange Financial Guarantees*, which is effective for periods beginning after June 15, 2013.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*, which is effective simultaneously with GASB Statement No. 68.

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

## 3. RESTATEMENT OF NET POSITION

During fiscal year ended June 30, 2014, the Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The following table summarizes the impact on the Statement of Net Position as of June 30, 2013:

| Financial Statement Line Item | As Originally Reported | Restated Balance | Description of Change |
|---|---|---|---|
| **ASSETS** | | | |
| Bond and debt issuance costs | $ 32,732,247 | $ - | Issuance cost are expensed as incurred |
| **DEFERRED OUTFLOW OF RESOURCES** | | | |
| Deferred charges on debt refunding | $ - | $ 54,507,902 | Previously reflected as an offset to long-term debt |
| **LIABILITIES** | | | |
| Bonds and loans payable: Due in more than one year | $ 1,927,416,833 | $ 1,981,924,735 | Deferred charges on debt refunding reclassified to deferred |
| **NET POSITION / DEFICIT)** | | | |
| Net investment in capital assets | $ 3,252,225 | $ 3,252,225 | |
| Restricted for: | | | |
| Debt service | 122,972,581 | 122,972,581 | |
| Other purposes | 225,608,313 | 225,608,313 | |
| Unrestricted | (1,904,651,499) | $ (1,937,383,746) | Effect of expensing bond and debt issuance costs |
| | $ (1,552,818,380) | $ (1,585,550,627) | |

## 4. DEFICITS

***Governmental Activities*** – The accompanying statement of net position presents an accumulated deficit of approximately $1.7 billion. This situation occurs because the Authority's normal operation is to acquire and/or construct capital assets that will be transferred to the Commonwealth's agencies or other Component Units. The acquisition is mainly conducted through the issuance of long term obligations that will be funded by the Commonwealth with future appropriations. Accordingly, the Authority is completely dependent from the Commonwealth to effectively reverse the deficit position.

## 5. DEPOSITS AND INVESTMENTS

The Authority is authorized to deposits funds in GDB, an affiliate and Component Unit of the Commonwealth, and/or in the custody of financial institutions approved by the Commonwealth. Commonwealth's regulations required domestic commercial banks to maintain collateral securities pledged for the security of public deposits at an amount not less than 100% of the amounts in excess of federal insurance coverage. GDB is exempt from collateral requirements established by the Commonwealth.

In accordance with investment guidelines promulgated by the Bank for agencies and public corporations of the Commonwealth under the provisions of Act No. 113 of August 3,1995, and Executive Order 1995-50A (the "Investment Guidelines"), the Authority is authorized to purchase or enter into the following investment instruments:

- U.S. Government and agencies obligations
- Certificates of deposit
- Bankers acceptances
- Commercial paper
- Participations in the Puerto Rico Government Investment Trust Fund
- Obligations of the Commonwealth of Puerto Rico, its agencies, municipalities, public corporations, and instrumentalities
- Obligations of state and local governments of the United States of America
- Mortgage and asset-backed securities
- Corporate debt, including investment contracts

The Investment Guidelines also establish limitations and other guidelines. Investments related to bond issuances are purchased in accordance with the related bond indenture.

As of June 30, 2014, the Authority held cash, cash equivalents, and investments and investment contracts as follows:

| | |
|---|---|
| Unrestricted assets: | |
| Cash | $ 5,085,409 |
| Restricted assets: | |
| Cash | 41,821,204 |
| Cash equivalents and investments and investments contracts: | |
| Cash equivalents | 115,908,238 |
| Investments and investment contracts, temporarily restricted | 3,766,208 |
| Investments, permanently restricted | 134,843,851 |
| Total cash equivalents and investments and investment contracts | 254,518,297 |
| | $ 301,424,910 |

The investment in capital appreciation bonds of COFINA represents a permanently restricted investment, whereby the Authority cannot dispose of the investment unless it is approved by the Legislature of Puerto Rico. In addition, the Authority is not allowed to use the interest earned to support its programs.

The following table summarizes the type and maturities of investments held by the Authority as of June 30, 2014:

| | Due Within One Year | Due After Ten Years | Total |
|---|---|---|---|
| Time deposits: | | | |
| Government Development Bank for Puerto Rico | $ 7,104,404 | $ - | $ 7,104,404 |
| Banco Popular de Puerto Rico | 823,426 | - | 823,426 |
| Money market funds: | | | |
| U.S. Bank Trust National Association | 32,943,813 | - | 32,943,813 |
| Federated Prime Obligations | 75,036,595 | - | 75,036,595 |
| Nonparticipating investment contracts — Calyon | - | 3,766,200 | 3,766,200 |
| Title insurance and mortgage notes | - | 8 | 8 |
| Sales Tax Financing Corporation, Sales Tax Revenue Bonds, Junior Subordinate, Series 2011A | - | 134,843,851 | 134,843,851 |
| | $ 115,908,238 | $ 138,610,059 | $ 254,518,297 |

Based on concentrations of credit risk, investment by type in any one issuer representing 5% or more of total investments have been separately disclosed. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The investment in Sales Tax Revenue Bonds Junior Subordinate, Series 2011A issued by COFINA are not be subject to redemption prior to maturity, which range from August 1, 2046 to August 1, 2050. The Authority may not dispose of this investment or its earnings, unless approved by the Legislature of Puerto Rico.

The credit quality ratings for investments and investment contracts at June 30, 2014, are as follows:

| | Credit Risk Rating | |
|---|---|---|
| Counterparty | Standard & Poor's | Moody's |
| U.S. Bank Trust National Association | AA- | Aa3 |
| Government Development Bank for Puerto Rico | BB | Ba2 |
| Federated Prime Obligations | AAAm | Aaa |
| Calyon | A-1 | A2 |
| Banco Popular de Puerto Rico | BB | Ba3 |
| COFINA Subordinate-lien Bonds | A+ | Baa2 |

The credit quality rating for time deposits and nonparticipating investment contracts are based on the credit quality ratings of the counterparties with whom those contracts are entered into.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The service agreement with GDB provides that the GDB's Asset Liability Management Committee ("ALCO") is responsible for implementing and monitoring the interest risk policies and strategies. The ALCO meets on a monthly basis to coordinate and monitor the interest risk management of interest risk sensitive assets and interest sensitive liabilities, including matching of their anticipated level and maturities, consistent with the Authority's liquidity, capital adequacy risk and profitability goals sent by the Authority's board of directors.

Custodial credit risk is the risk that in the event of a bank failure, the bank's deposits may not be returned. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized. Deposits maintained in the GDB are exempt from collateral requirement established by the Commonwealth and thus, represents custodial credit risk because in the event of the GDB's failure, the Authority may not be able to recover the deposits. The Authority's policy is to deposit funds with either institution which provides insurance or securities as collateral. Such collateral is held by the Department of the Treasury of the Commonwealth.

As of June 30, 2014, approximately $49.2 million, of the depository bank balance of approximately $50.1 million, was exposed to custodial credit risk since such deposits, all of which are maintained at the GDB, are uninsured and uncollateralized.

## 6. ACCOUNTS RECEIVABLE

Accounts receivable presented in the Balance Sheet – Governmental Funds as of June 30, 2014, are as follows:

| Description | General Fund | Capital Projects Fund | Total |
|---|---|---|---|
| Due from other governmental entities | $ 32,353 | $ 42,310,308 | $ 42,342,661 |
| Due from Municipality of San Juan | - | 855,334 | 855,334 |
| Rent and related receivables | 544,024 | - | 544,024 |
| | $ 576,377 | $ 43,165,642 | $ 43,742,019 |

The reconciliation to the government-wide statement of net position/(deficit) as of June 30, 2014, is as follows:

| | |
|---|---|
| Unrestricted receivable | $ 576,377 |
| Restricted receivable: | |
| Due from Municipality of San Juan | 855,334 |
| Other governmental entities | 42,310,308 |
| | $ 43,742,019 |

In December 2011, the Authority entered into an Agreement with the Municipality of San Juan (the "Municipality") to sell a parcel of land owned by the Authority for $5 million. Pursuant to provisions set forth by this agreement, the Municipality committed to settle a legal claim against the Authority in the amount of approximately $3.7 million and will pay the remaining $1.3 million in three equal installments, which were due at the date of closing, in July 2012 and in July 2013. As of June 30, 2014, accounts receivable due from the Municipality related with this transaction amounted to $855,334.

## 7. DIRECT FINANCING LEASE

On April 6, 2006, the Authority entered into a direct financing lease transaction resulting from the acquisition of certain medical facilities. Concurrent with the transaction, the Authority assumed a loan payable to GDB, for $34,225,725 and entered into a lease agreement with Mental Health and Anti-Addiction Services Administration ("MHAASA").

In October 2007, the Authority issued the Mental Health Infrastructure Revenue Bonds, Series A and B in the aggregate amount of $43,330,000 to pay in full the note hereunder, plus accrued interest of $3,305,780. The Authority entered into a trust agreement with Banco Popular de Puerto Rico (the "Trustee"), providing a lease agreement that was assigned to the Trustee requiring that payments by MHAASA under the lease be made directly to GDB to cover the principal and interest required on the bonds.

The lease terms stated that the payments will be for 30 years after the commencement of the bond's term and the lease amount will be equal to the annual principal and interest requirement of the bonds hereunder. MHAASA's annual budget appropriations from the Commonwealth of Puerto Rico and the payments by the sub lessors of MHAASA shall be assigned to the Trustee as security interest for the lease payments. MHAASA has the option to purchase the leased premises for $1 at the end of the lease term.

The total rentals receivable under the lease contract, net of unearned income, were recognized as net investment in direct financing lease and the unearned income on the lease is recognized monthly at a constant periodic rate of return on the unrecovered investment.

The composition of the net investment in direct financing lease at June 30, 2014, is as follows:

| Description | Amount |
|---|---|
| Net minimum lease payments receivable | $ 72,885,100 |
| Less unearned lease income | (35,785,100) |
| | $ 37,100,000 |

At June 30, 2014, the minimum future lease payments due under the direct financing lease are as follows:

| Years Ending June 30 | Principal | Interest | Total Amount |
|---|---|---|---|
| 2015 | $ 700,000 | $ 2,361,100 | $ 3,061,100 |
| 2016 | 700,000 | 2,319,625 | 3,019,625 |
| 2017 | 800,000 | 2,272,750 | 3,072,750 |
| 2018 | 800,000 | 2,222,750 | 3,022,750 |
| 2019 | 900,000 | 2,169,625 | 3,069,625 |
| 2020-2024 | 5,300,000 | 9,923,125 | 15,223,125 |
| 2025-2029 | 7,300,000 | 7,925,125 | 15,225,125 |
| 2030-2034 | 10,000,000 | 5,161,000 | 15,161,000 |
| 2035-2038 | 10,600,000 | 1,430,000 | 12,030,000 |
| | $ 37,100,000 | $ 35,785,100 | $ 72,885,100 |

## 8. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets: | | | | |
| Nondepreciable: | | | | |
| Land | $ 11,968,376 | $ 25,000 | $ (103,327) | $ 11,890,049 |
| Construction in progress | 1,301,521 | 4,948,465 | (1,243,327) | 5,006,659 |
| Depreciable: | | | | |
| Building | 22,561,474 | - | - | 22,561,474 |
| Furniture and equipment | 1,150,818 | 40,741 | - | 1,191,559 |
| Vehicles | 57,692 | - | - | 57,692 |
| Total capital assets | 37,039,881 | 5,014,206 | (1,346,654) | 40,707,433 |
| Less: Accumulated depreciation | | | | |
| Building | 740,199 | 564,039 | - | 1,304,238 |
| Furniture and equipment | 929,432 | 81,133 | - | 1,010,565 |
| Vehicles | 39,211 | 13,116 | - | 52,327 |
| Total accumulated depreciation | 1,708,842 | 658,288 | - | 2,367,130 |
| | $ 35,331,039 | $ 4,355,918 | $ (1,346,654) | $ 38,340,303 |

On February 24, 2012, the Authority entered into an Assistance Agreement with the Puerto Rico Department of Justice ("PRDOJ") and GDB to acquire, refurbish and administration of a real estate ("Property"), to relocate the PRDOJ main offices. In connection with the assistance agreement, GDB provided a $35 million credit facility to the Authority to undertake the acquisition and administration of the Property and manage the initial phase of the rehabilitation and refurbishment of the Property. On March 8, 2012, the Authority acquired the Property for approximately $27 million. Subsequently, on 2014 the PRDOJ decided not to relocate their main offices to the acquired Property. As a result, the Authority is currently in charge of the operating, maintenance and marketing of the Property to make the office spaces available for lease to the private and public sector. The credit facility is payable solely from and secured by any future lease agreement and by a mortgage lien on the Property.

The Authority issued certain bonds and notes that were used to finance the construction of certain capital projects for the benefit of Puerto Rico Aqueduct and Sewer Authority ("PRASA"), municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth. The capital projects include the construction of infrastructure and buildings to be used in the operations of, and managed by, PRASA, municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth in their respective operations.

These capital projects, including land acquired, are included as part of the Authority's capital assets until construction is completed and the conditions for transfers to the ultimate beneficiaries are met, at which time they are recorded as an expense in the statement of activities.

During the year ended June 30, 2014, the Authority incurred construction costs for the benefit of other instrumentalities which are presented as current expenditures in the accompanying statement of revenues, expenditures, and changes in fund balances – governmental funds as follows:

| Function/Programs | | Amount |
|---|---|---|
| Education, aqueduct and sewers, and transportation | $ | 905,354 |
| Economic development program | | 4,713,018 |
| Recreation and sports | | 287,615 |
| Arts and entertainment | | 426,517 |
| | $ | 6,332,504 |

During the year ended June 30, 2014, depreciation expense of approximately $658 thousand was charged to the general government function in the accompanying statement of activities.

## 9. INTERFUND BALANCES AND TRANSFERS

The summary of the amounts due from/to other funds as of June 30, 2014, is as follows:

| Receivable By | Payable By | Purpose | Amount |
|---|---|---|---|
| General Fund | Capital Projects Fund | Reimbursement of administrative costs | $ 3,098,318 |
| General Fund | ARRA Fund | Reimbursement of administrative costs | 597,111 |
| ARRA Fund | Capital Projects Fund | Reimbursement of administrative costs | 30 |
| Capital Projects Fund | General Fund | Reimbursement of administrative costs | 102,634 |
| Capital Projects Fund | ARRA Fund | Reimbursement of administrative costs | 117,031 |
| | | | $ 3,915,124 |

Interfund transfers for the year ended June 30, 2014, consist of the following:

| Transfer Out | Transfer In | Purpose | Amount |
|---|---|---|---|
| General Fund | Debt Service Fund | Debt service payments | $ 112,959,084 |
| Capital Projects Funds | General Fund | Transfer to close bank account | 249 |
| ARRA Fund | General Fund | Transfer to close bank account | 863 |
| Capital Projects Funds | Debt Service Fund | Debt service payments | 132,346 |
| | | | $ 113,092,542 |

## 10. RESTRICTED NET POSITION/FUND BALANCES

Restricted assets of the Authority included in the statement of net position/fund balances at June 30, 2014, consist of cash and cash equivalents, receivables, investments, and other assets, net of its related liabilities payable from those restricted assets, to be used for the following purposes:

| Description | Amount |
|---|---|
| Restricted for investment in capital appreciation bonds of COFINA, whereby the Authority is not allowed to use the interest earned in this investment. In the governmental funds financial statements this amount is presented as non-spendable fund balance. | $ 134,843,851 |
| Restricted for debt service payments for the outstanding debt of capital projects | 117,820,011 |
| | $ 252,663,862 |

## 11. BONDS PAYABLE

**Special Tax Revenue Bonds** – On June 16, 2005, the Authority issued $309,102,577 Special Tax Revenue Bonds, Series 2005 A (the "Series 2005 A Bonds"), $324,625,000 Special Tax Revenue Bonds, Series 2005 B (the "Series 2005 B Bonds"), and $699,235,339 Special Tax Revenue Refunding Bonds, Series 2005 C (the "Series 2005 C Bonds"). The Series 2005 A Bonds mature at various dates from July 1, 2029 through 2045, inclusive, the Series 2005 B Bonds maturing on July 1, 2037 and 2041, and the Series 2005 C Bonds maturing on July 1, 2028. The Series 2005 B Bonds may be redeemed by the Authority prior to maturity upon not less than 30 days prior notice, either in whole or in part, and if in part, as directed by the Authority. The Series 2005 A and C are not subject to redemption prior to maturity, were issued as Capital Appreciation Bonds.

The Series 2005 A, B, and C Bonds bear interest, payable semiannually on January 1 and July 1 at rates ranging from 4% to 5.5%. Accrued interest on the Capital Appreciation Bonds will be paid at maturity as part of the bonds accreted value.

The Series 2005 A and B Bonds were issued primarily for the purpose of providing approximately $292 million in financial assistance to PRASA and other Commonwealth instrumentalities and municipalities in connection with certain capital projects. This includes the repayment of approximately $26 million for certain advances made to the Authority by GDB for the purpose of providing funds to pay certain capital improvements of the Authority or other Commonwealth's instrumentalities. The Series 2005 A and B Bonds were also issued to provide approximately $317 million in working capital assistance to the Commonwealth and to cover interest and costs of issuance of the Series 2005 A and Series 2005 B Bonds. The bond proceeds earmarked for PRASA and non-PRASA projects were deposited in the Authority's Capital Projects Fund.

The Series 2005 C Bonds were issued for the purpose of refunding all of the Authority's Special Tax Revenue Bonds, Series 1997 A Bonds, including capitalized interest and to cover costs of issuance of the Series 2005 C Bonds. This refunding permitted the Authority to realize present value savings on its debt service requirements. Such transaction resulted in a deferred loss on refunding of $76,267,097.

The Authority deposited the net proceeds of the Series 2005 C Bonds, together with certain other available moneys, with the Trustee, as escrow agent, in a special redemption fund under the terms of an escrow deposit agreement. Such net proceeds, together with such other available moneys, were invested in government obligations, whose principal and interest when due, together with any moneys deposited with the Trustee remaining uninvested, will provide moneys sufficient to pay the principal redemption of premium and interest on the refunded bonds through the date of redemption.

On September 28, 2006, the Authority issued $469,770,000 Special Tax Revenue Bonds, Series 2006 (the "Series 2006 Bonds"), for the purpose of developing the infrastructure necessary for the XXI Central American and Caribbean Games (the "Games"). The proceeds of this issuance provided for: (1) the acquisition, improvements and construction of sports and other facilities necessary for the Games; (2) the construction of capital projects of certain Commonwealth's instrumentalities and municipalities; and (3) the payment of capitalized interest and cost of issuance of the Series 2006 Bonds. The proceeds of the Series 2006 Bonds were deposited into a Special Construction Fund administered by the Authority on behalf of the applicable benefited entities. The Series 2006 Bonds bear interest, payable on July 1 and January 1 of each year, at various rates ranging from 4.50% to 5.00%, and mature on various dates from July 1, 2010 to July 1, 2046.

The Special Tax Revenue Bonds are payable solely from and secured by a pledge of federal excise taxes and other moneys deposited to the credit of a sinking fund established pursuant to a trust agreement. Payment of principal and interest is insured by separate municipal bond insurance policies issued by an unrelated insurance company.

Act No. 44, as amended, requires that in each fiscal year through fiscal year 2057, the first $117 million of certain federal excise taxes received by the Commonwealth be transferred to the Authority. Such taxes consist of the federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the U.S. Treasury and returned to the Commonwealth. For the year ended June 30, 2014, of the total of $117 million received by the Authority from the Commonwealth, a total of $113 million was pledged for the debt service of the Special Tax Revenue Bonds. For the year ended June 30, 2014, principal and interest paid on Special Tax Revenue Bonds amounted to approximately $112.2 million.

Rum is the only article currently produced in Puerto Rico subject to federal excise taxes, the proceeds of which are required to be returned to the Commonwealth. The trust agreement requires the Authority to deposit in the sinking fund the federal excise taxes and other moneys deposited as are required to meet the debt service requirements with respect to the Bonds.

The federal excise taxes securing the Bonds are subject to a number of factors, including the continued imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. The level of federal excise taxes to be received by the Commonwealth is currently expected to fall, although the exact amount cannot be determined. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient, Act No. 44 requires that the Authority request and the Director of the Office of Management and Budget of the Commonwealth include in the budget of the Commonwealth for the corresponding fiscal year, an appropriation necessary to cover such deficiency. The Legislature of the Commonwealth, however, is not obligated to make the necessary appropriation to cover such deficiency.

The Authority was required under the trust agreement to establish a reserve account in the sinking fund to deposit and maintain therein an amount equal to the reserve requirements, as defined. Alternatively, the Authority may deposit to the credit of such reserve account an insurance policy or a letter of credit in lieu of any required deposit or in substitution of moneys on deposit in the reserve account.

Additional bonds, secured on parity with the Bonds, may be issued for any purpose authorized by Act No. 44, subject to compliance with certain financial tests in the trust agreement.

As of June 30, 2014, debt service requirements for special tax revenue bonds were as follows:

| Years Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 37,055,000 | $ 74,953,825 | $ 112,008,825 |
| 2016 | 39,030,000 | 72,923,500 | 111,953,500 |
| 2017 | 41,115,000 | 70,795,025 | 111,910,025 |
| 2018 | 43,290,000 | 68,563,363 | 111,853,363 |
| 2019 | 45,580,000 | 66,212,800 | 111,792,800 |
| 2020-2024 | 267,199,999 | 290,553,494 | 557,753,493 |
| 2025-2009 | 348,180,000 | 208,368,375 | 556,548,375 |
| 2030-2034 | 401,350,000 | 162,391,125 | 563,741,125 |
| 2035-3039 | 416,125,000 | 144,997,375 | 561,122,375 |
| 2040-2044 | 490,570,000 | 66,454,500 | 557,024,500 |
| 2045-2047 | 319,560,000 | 15,671,875 | 335,231,875 |
| | 2,449,054,999 | $ 1,241,885,257 | $ 3,690,940,256 |
| Add — Premium | 89,620,133 | | |
| Less: | | | |
| Unaccreted discount on capital appreciation bonds | (627,022,540) | | |
| | $ 1,911,652,592 | | |

**Mental Health Infrastructure Revenue Bonds** — On October 24, 2007, the Authority issued $39,800,000 Revenue Bonds, Series 2007 A, and $3,530,000 Series 2007 B (collectively, the "Series 2007 Bonds"). The Series 2007 A Bonds were issued for the purpose of providing funds, together with other available funds, to repay in full the loan due to the GDB amounting to $34,225,725 related to the acquisition of certain mental health facilities known as MEPSI Center located in the Municipality of Bayamón. The Series 2007 B Bonds were issued for the purpose of providing funds to pay interest accrued on a loan due to the GDB amounting to $3,305,780.

The Series 2007 Bonds were issued under a trust indenture dated October 1, 2007, between the Authority and the GDB, which provides for the assignment of a lease with an option to purchase, dated October 24, 2007, as disclosed in Note 7. The Series 2007 A Bonds are payable semiannually on April 1 and October 1, and bear interest at fixed rates of 5.6% through 2014, 6.25% through 2024, and 6.5% through 2037. The Series 2007 B Bonds mature on October 1, 2012, and bear interest at a variable rate recalculated every October 1 (4.39% at June 30, 2012) payable annually on each October 1. The Series 2007 Bonds are subject to redemption rights at 100% of the principal, plus accrued interest.

As of June 30, 2014, debt service requirements for Mental Health Infrastructure Revenue Bonds were as follows:

| Years Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 700,000 | $ 2,361,100 | $ 3,061,100 |
| 2016 | 700,000 | 2,319,625 | 3,019,625 |
| 2017 | 800,000 | 2,272,750 | 3,072,750 |
| 2018 | 800,000 | 2,222,750 | 3,022,750 |
| 2019 | 900,000 | 2,169,625 | 3,069,625 |
| 2020-2024 | 5,300,000 | 9,923,125 | 15,223,125 |
| 2025-2029 | 7,300,000 | 7,925,125 | 15,225,125 |
| 2030-2034 | 10,000,000 | 5,161,000 | 15,161,000 |
| 2035-2039 | 10,600,000 | 1,430,000 | 12,030,000 |
| | 37,100,000 | $ 35,785,100 | $ 72,885,100 |
| Add — Premium | 489,789 | | |
| | $ 37,589,789 | | |

## 12. LOANS PAYABLE

On January 16, 2002, the Authority entered into a loan agreement (the "Note") with Puerto Rico Public Finance Corporation ("PFC"), a Component Unit of the GDB. The Note was originally a loan granted by the GDB (the "Old Note"), but which, pursuant to Act No. 164 of December 17, 2001, PFC acquired and restructured through the issuance of PFC Commonwealth Appropriation Bonds (the "PFC Bonds"). The PFC Bonds were issued under trust indenture agreements whereby PFC pledged the Old Note, along with other notes under the Act No. 164, to certain trustees and created a first lien on the pledged revenue (consisting of annual Commonwealth appropriations earmarked to repay the Note).

During the fiscal year, PFC refunded the PFC Bonds that were related to the Note, and therefore, the repayment terms were also modified by PFC for the proportionate portion attributable to the Authority. The balance outstanding at June 30, 2014 is $3,606,472 and matures in June 2031. Interest only is payable through June 30, 2015. Afterwards, principal and interest installments are payable annually. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on PFC Bonds. Applicable percentage is the percentage representing the proportion of the amount paid by PFC on the Note to the aggregate amount paid by PFC on all the notes acquired by PFC under Act No. 164.

During the year ended June 30, 2014, the Authority recorded Commonwealth appropriations amounting to $201,527 that were used to pay the interest on the Note included as part of program revenues – operating grants and contributions – general government function in the statement of activities and as part of contributions from Commonwealth of Puerto Rico in the accompanying statement of revenues, expenditures, and changes in fund balances – governmental funds.

On February 18, 2005, the Authority entered into a loan agreement with the GDB related to a nonrevolving line of credit in an amount not to exceed $40 million for the construction of an auditorium for Centro de Bellas Artes Luis A. Ferré. Principal amount of the loan and be due and payable on June 30, 2040. The loan bears interest at 7% as of June 30, 2014 and interest installments are due annually. As of June 30, 2014, the principal balance outstanding under this loan agreement amounted to $4,745,839. During the year ended June 30, 2014, the Authority did not receive contributions from the Commonwealth.

On June 1, 2009, the Authority entered into a revolving line of credit facility (the "Line of Credit") with the GDB to provide interim financing for costs incurred by the Authority under certain American Recovery and Reinvestment Act Programs (the "ARRA Programs"). The Line of Credit will be repaid from the cost reimbursements received from the federal government under the ARRA Programs and contributions from the Commonwealth. The Line of Credit matured on June 30, 2011, and subsequently was extended until January 31, 2016 and bears interest at 150 basis points over the prime rate, with a minimum interest rate of 6%. As of June 30, 2014, the principal balance outstanding under the Line of Credit amounted to $6,841,119.

On March 8, 2012, the Authority entered into a $35 million line of credit with GDB for the acquisition, refurbishment and maintenance of certain real estate property that will be subsequently leased to the Puerto Rico Department of Justice. The credit facility is secured by a mortgage lien on the property, and is payable from future appropriations from the Commonwealth. Currently, the property is under refurbishment and has not been occupied by the intended tenant. The line of credit matures on June 30, 2017 and bears interest at 150 basis points over the prime rate, with a minimum interest rate of 6%. As of June 30, 2014, the principal balance outstanding under the line of credit amounted to $37,361,150, which includes $2,361,150 of capitalized interest on July 1, 2013, as per the loan agreement.

As of June 30, 2014, debt service requirements for loan agreements are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ - | $ 201,527 | $ 201,527 |
| 2016 | 6,947,289 | 992,265 | 7,939,554 |
| 2017 | 37,447,277 | 2,366,845 | 39,814,122 |
| 2018 | 89,097 | 192,481 | 281,578 |
| 2019 | 92,432 | 188,843 | 281,275 |
| 2020-2024 | 442,442 | 880,794 | 1,323,236 |
| 2025-2029 | 2,118,182 | 652,425 | 2,770,607 |
| 2030-2034 | 672,022 | 37,470 | 709,492 |
| 2035-2040 | 4,745,839 | 327,552 | 5,073,391 |
| | 52,554,580 | $ 5,840,202 | $ 58,394,782 |
| Add: Net premium | 65,175 | | |
| | $ 52,619,755 | | |

## 13. CHANGES IN LONG-TERM AND OTHER LIABILITIES

Long-term liability activity in the governmental activities for the year ended June 30, 2014, was as follows:

| Description | Beginning Balance *(As Restated)* | Additions | Deductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Special Tax Revenue Bonds: | | | | | |
| Series 2005 A, B and C Bonds | $ 2,026,844,999 | $ - | $ (31,060,000) | $ 1,995,784,999 | $ 32,715,000 |
| Series 2006 Bonds | 457,405,000 | - | (4,135,000) | 453,270,000 | 4,340,000 |
| Mental Health Infrastructure Revenue Bonds — | | | | | |
| Series 2007 A and B Bonds | 37,800,000 | - | (700,000) | 37,100,000 | 700,000 |
| Subtotal | 2,522,049,999 | - | (35,895,000) | 2,486,154,999 | 37,755,000 |
| Net premium/(discount) | 98,943,375 | - | (8,833,453) | 90,109,922 | - |
| Unaccreted discount on capital appreciation bonds | (643,457,423) | - | 16,434,883 | (627,022,540) | - |
| Total bonds payable | 1,977,535,951 | - | (28,293,570) | 1,949,242,381 | 37,755,000 |
| Loans payable: | | | | | |
| Principal | 46,825,212 | 5,729,368 | - | 52,554,580 | - |
| Net premiums | 69,810 | - | (4,635) | 65,175 | - |
| Other Liabilities: | | | | | |
| Liability for legal matters | 7,550,000 | - | - | 7,550,000 | - |
| Accounts payables | - | 179,993 | - | 179,993 | - |
| Termination benefits | 318,385 | - | (62,693) | 255,692 | 40,545 |
| | $ 2,032,299,358 | $ 5,909,361 | $ (28,360,898) | $ 2,009,847,821 | $ 37,795,545 |

Long-term liabilities are presented in the government-wide statement of net position/(deficit) as of June 30, 2014, as follows:

| Description | Amount |
|---|---|
| Bonds and loans payable - due in more than one year | $ 1,964,107,136 |
| Bonds and loans payable - due in one year | 37,755,000 |
| Accounts payable and accrued liabilities - due in more than one year | 7,945,140 |
| Accounts payable and accrued liabilities - due in one year | 40,545 |
| | $ 2,009,847,821 |

On June 17, 2014, the Commonwealth signed into law Act No. 66 (also known as Fiscal Operation and Sustainability Act), which declared a state of fiscal emergency in order to adopt a plan to manage the economic consequences of the Commonwealth credit rating downgrade, and to establish expenditures reduction measures and a structured management in order to satisfy the commitments of the Commonwealth. This Act establishes as public policy the restoration of the Commonwealth's investment-grade credit rating through the short term elimination of the Commonwealth's general fund deficit and the improvement of the public corporations fiscal condition. Act No. 66 imposes on the public corporations cost reduction measures such as: (i) reduction of at least 10% of external professional services contracts; (ii) authorization to adjust unilaterally the professional services rates; (iii) reduction of at least 10% of the trusted employees; (iv) freezing period for new recruitment of employees; (v) the public corporations cannot provide salary increases or increase benefits to the employees; (vi) establishment of a maximum amount of $600 for Christmas bonus and $200 for summer bonus; (vii) elimination of payment of balances in excess over a maximum days of sick and vacation accruals; (viii) and other cost reduction measures.

**Compensated Absences** — The activity for compensated absences, included within accounts payable and accrued liabilities in the accompanying statement of net position/(deficit), during the year ended June 30, 2014, is as follows:

| | Beginning Balance | Additions | Deductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Compensated absences | $ 134,380 | $ 247,380 | $ (152,202) | $ 229,558 | $ 229,558 |

Compensated absences are available to be liquidated by the employees during the year.

## 14. ARBITRAGE

The interest paid by the Authority in the Special Tax Revenue Bonds 2005 Series A and B, Special Tax Revenue Refunding Bonds 2005 Series C and Special Tax Revenue Bond Series 2006 are exempt from federal income tax. As a result, the Authority is subject to Federal Arbitrage Regulations ("FAR"). FAR requires that arbitrage be calculated and rebated to the federal government at the end of each five-year period that tax exempt debt is outstanding (90 percent of the amount due) and at maturity. Arbitrage calculation for the Special Tax Revenue Bonds 2005 Series A and B, Special Tax Revenue Refunding Bonds 2005 Series C was made on June 16, 2010 the next calculation is schedule to be performed on June 16, 2015. An arbitrage calculation for the special revenue bonds, Series 2006, was made on September 28, 2011 and the next calculation is scheduled on September 28, 2016. As of June 30, 2014 there is no arbitrage exposure.

## 15. TERMINATION BENEFITS

On October 13, 2010, the Authority announced to its employees a voluntary termination plan (the "Plan") based on Act No. 70 enacted on July 2, 2010. Act No. 70 provides that eligible employees may retire from employment with the Commonwealth in exchange for an early pension, an economic incentive and other benefits. The Plan only applied to employees who were ten years or less from retirement in accordance with their applicable retirement plans as of December 31, 2010.

The Plan approved by the Authority's board of directors provides the following:

- The employee will receive an annuity of fifty percent (50%) of salary in effect at September 30, 2010. The Authority is responsible for the payment of the annuity in addition to the related employee and employer contributions to the Employees' Retirement System of the Commonwealth of Puerto Rico ( the "Retirement System") for a maximum period of ten years.
- The employee will receive an economic incentive of six month's salary. This incentive is exempt from income taxes as established by Act No. 70.
- The employee will receive the benefits of health and dental insurance for a period of one year.

Only one employee was voluntarily separated from employment under the Plan. Total cost related to this termination benefits was $424 thousand. Employee and employer contributions to the Retirement System and the employee annuity for the applicable period were discounted based on the average interest rate of unpledged investments. As of June 30, 2014, the total liability related to this plan was approximately $256 thousand.

## 16. REVOLVING LOAN FUNDS

Act No. 44 provided for the establishment of the Puerto Rico Water Pollution Control Revolving Fund (the "Revolving Fund"), a proprietary fund of the Commonwealth, which is administered by the Puerto Rico Environment Quality Board ("EQB") and by the Authority in accordance with Title VI of the Water Pollution Control Act (the "Clean Water Act") of 1972. The EQB, as the designated instrumentality of the Commonwealth, is empowered to enter into capitalization grant agreements with the U.S. Environmental Protection Agency ("EPA"), to accept capitalization grant awards made under Title VI of the Clean Water Act and, in conjunction with the Authority, to manage the Revolving Fund in accordance with the requirements of the Clean Water Act, Act No. 44, and the Memorandum of Understanding entered into by and among EQB, PRASA, GDB, and the Authority.

On July 7, 1997, the Legislature of the Commonwealth enacted legislation, which, among other things, established the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (the "Drinking Water Fund") with the purpose of receiving financial assistance under the Clean Water Act and provides for the participation of the Authority in the administration of said fund.

The net position, revenues, and expenses of these loan funds are not included in the accompanying basic financial statements since the Authority acts only as administrator of the Revolving Fund and the Drinking Water Fund. As of June 30, 2014, the Authority holds cash in a custodian capacity for approximately $13.8 million which is presented as part of restricted cash and cash equivalents with a corresponding liability for the same amount, which is included as part of liabilities payable from restricted assets – accounts payable and accrued expenses in the accompanying statement of net position/(deficit).

## 17. CONDUIT DEBT OBLIGATION

In December 2011, the Authority issued $699,215,000 Special Revenue Bonds, comprised of $340,000,000 Special Revenue Bonds, Series 2011 A (the Series 2011 A), $192,830,000 Series 2011 B (the Series 2011 B) and $136,385,000 Series 2011 C (the Series 2011 C), pursuant to a Loan and Trust Agreement dated December 1, 2011, between the Authority and the Puerto Rico Ports Authority (PRPA), another Component Unit of the Commonwealth. The proceeds from the bonds were lent to PRPA to refinance certain obligations, acquire real estate for airport and seaport facilities, provide working capital, finance certain operating and capital costs, and finance the cost of issuing the bonds. These bonds are limited obligations of the Authority and are payable solely from and secured by the revenues to be received under the Loan and Trust Agreement. The PRPA shall make loan payments sufficient to cover the payment of principal and interest due on the bonds. The bonds are also secured by two irrevocable, transferable direct pay letters of credit issued by GDB.

Upon repayment of the bonds, ownership of the acquired facilities is retained by the PRPA. The Authority is not obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the basic financial statements of the issuing entity. Series 2011 A for $340,000,000 and 2011 C for $136,385,000 were retired during the years ended June 30, 2013 and 2014, respectively. The Series 2011 B for $192,830,000 remains outstanding as of June 30, 2014.

## 18. RELATED-PARTY TRANSACTIONS AND OTHER INTERGOVERNMENTAL TRANSACTIONS

During the year ended June 30, 2014, the Authority entered into the following related party transactions:

- Legislative appropriations from the Commonwealth of $117 million of which approximately $116.9 million were used for debt service payments of the bonds and operating expenses.
- Interest income on interest-bearing demand and time deposits with GDB amounted to approximately $84 thousand.
- GDB provided payroll services to the Authority at fixed amount of $50 thousand.

## 19. COMMITMENTS – OPERATING LEASES

The Authority leases office space and equipment under noncancelable operating leases. Rent expense for the year ended June 30, 2014, amounted to approximately $325 thousand.

At June 30, 2014, the minimum annual future rentals under noncancelable leases are as follows:

| Years Ending June 30 | Amount |
|---|---|
| 2015 | $ 10,184 |

## 20. COMMITMENTS – CONSTRUCTION

The Authority has active construction projects as of June 30, 2014, under various bond issuances. At June 30, 2014, the Authority's commitments with contractors are as follows:

| Description | Commitment | Spent-to-Date | Remaining Commitment |
|---|---|---|---|
| Special Tax Revenue Bonds, Series 2005 | $ 114,267,276 | $ 95,686,643 | $ 18,580,633 |
| Special Tax Revenue Bonds, Series 2006 | 240,117,179 | 222,147,272 | 17,969,907 |
| | $ 354,384,455 | $ 317,833,915 | $ 36,550,540 |

## 21. CONTINGENCIES

At June 30, 2014, the Authority is a defendant in various legal proceedings arising from its normal operations. Management, based on the advice of its legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on the Authority's financial statements. However, management is of the opinion that they will reach settlements in certain cases. A liability to cover claims and other contingencies amounting to $7,550,000 has been reflected as part of accounts payable and accrued expenses in the accompanying statement of net position/(deficit).

## 22. ARRA FUND

The Authority is a sub-grantee of the Office of the Governor of the Commonwealth of Puerto Rico (the "Governor's Office") under the State Fiscal Stabilization Fund Program, which was authorized under Title XIV of Division A of the American Recovery and Reinvestment Act of 2009 (the "ARRA Act"). The Authority was awarded a $20 million grant for the ARRA Act implementation costs and a $55 million grant for school renovations.

Under these ARRA Programs, the Authority is responsible to oversee the administration of all resources awarded to the Commonwealth under the ARRA Act. The Authority will also act as coordinator of efforts and tasks to ascertain ARRA Act funds are properly managed. Additionally, the Authority is responsible for contracting, managing, and providing oversight to the school renovations or improvements projects.

Pursuant to the provisions of the ARRA Act, the Authority entered into a sub-grant agreement with the Puerto Rico Energy Affairs Administration ("EAA") to administer approximately $62 million of a grant to be received from the United State Department of Energy ("DOE") under the Weatherization Assistance Program ("WAP"). WAP helps low-income families attain a reduction in household energy expenditures, while securing and enhancing the health and safety of the home. This program was established to provide assistance to the elderly, families with children, persons with disabilities, and those with a high-energy burden in their household.

In addition, pursuant to the provisions of the ARRA Act, the Authority entered into a sub-grant agreement with the EAA to assist in the administration of approximately $27 million of a grant to be received from the DOE under the State Energy Program ("SEP"). SEP was established to advance energy efficiency and renewable energy technologies throughout the Puerto Rico with various initiatives for government, commercial, and residential sectors.

The ARRA federal program concluded during fiscal year ended June 30, 2012, however, extensions were provided to grantees for fiscal year ended June 30, 2013 and 2014, in order to complete the projects by which grants were provided. The remaining activity reflected in the fund is related to the conclusion of pending and administrative matters related to the federal program.

## 23. RETIREMENT SYSTEM

**Defined Benefit Pension Plan** — The Retirement System created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing, multiple-employer defined benefit pension plan sponsored by and reported as a pension trust fund of the Commonwealth. All regular employees of the Authority hired before January 1, 2000, and less than 55 years of age at the date of employment became members of the Retirement System as a condition to their employment. No benefits are payable if the participant receives a refund of accumulated contributions.

The Retirement System provides retirement, death, and disability benefits pursuant to legislation enacted by the Legislature of the Commonwealth. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after 10 years of plan participation. Disability benefits are available to members for occupational and nonoccupational disabilities. However, a member must have at least 10 years of service to receive nonoccupational disability benefits.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, are entitled to an annual benefit payable monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than $400 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined; otherwise, they will receive 75% of the average compensation, as defined.

Commonwealth legislation requires employees hired on or before March 31, 1990 to contribute 5.775% for the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. Employees hired on or after April 1, 1990 are required to contribute 8.275% of their monthly salary. The Authority is required by the same statute to contribute 11.52% of their participant's gross-salary.

**Defined Contribution Plan** — The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to establish, among other things, a defined contribution savings plan program (the "Savings Plan") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the defined benefit pension plan, received a refund of their contributions, and were rehired on or after January 1, 2000, become members of the Program as a condition to their employment. In addition, employees who at December 31, 1999, were participants of the defined benefit pension plan had the option, up to March 31, 2000, to irrevocably transfer their contributions to the defined benefit pension plan, plus interest thereon to the Program.

Act No. 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 No. 305 to contribute 10.275% of the participant's gross salary, with annual increases of 1% to contributions from July 1, 2012 to June 30, 2016. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the 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 will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump sum to any beneficiaries. Participants have the option of a lump-sum payment or purchase of 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, 2014, amounted to approximately $103,800 thousand. The Authority's contributions for the years ended June 30, 2014, 2013, and 2012, amounted to approximately $130,900, $115,500, and $88,000, respectively. These amounts represented 100% of the required contribution for the corresponding year.

Furthermore, on April 4, 2013 the Governor of Puerto Rico signed in to Law Act No. 3 of 2013, which represents a comprehensive reform of the Employee Retirement System (ERS). Act No. 3 became effective on July 1, 2013 and amends the provisions of the different structures under the ERS, including, but not limited, the following:

- For active participants of the contributory defined benefits program under Act No. 447 of 1951 and Act No. 1of 1990, all retirement benefits accrued through June 30, 2013 will be frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
- Increases the minimum pension for current retirees from $400 to $500 per month.
- The retirement age for Act No. 447 participants will be gradually increase from age 58 to 61.
- The retirement age for current System 2000 participants is increased gradually from age 60 to 65.

- Eliminates the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.
- The retirement age for new employees is increased to age 67, except for new state and municipal officers, firefighters and custody officers, which will be age 58.
- The employee contribution rate will increase from 8.275% to 10%.
- For System 2000 participants, the retirements benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees is reduced from $600 to $200 and is eliminated for future retirees. The summer bonus will be eliminated.
- Disability benefits will be eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits will be notified.

Additional information on the Retirement System is provided in its standalone financial statements for the year ended June 30, 2014, 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.

## 24. SUBSEQUENT EVENTS

On July 1, 2014, Moody's Investor Services lowered its rating on COFINA senior bonds from Baa1 to Ba3 and subordinate-lien bonds from Baa2 to B1. Also, on July 11, 2014, Standard & Poor's Rating Services lowered its rating on COFINA first lien sales tax bond from AA- to BBB. On the second lien sales tax underlying rating (SPURS) bond from A+ to BBB-.

On July 28, 2014, Standard & Poor's Rating Services (S&P) lowered its rating on the Special Revenue Bonds Series 2011 B issued pursuant to a Loan and Trust Agreement between the Authority and the Puerto Rico Ports Authority (PRPA). The bonds were downgraded from "BB" to "BB-" and the "Credit Watch" was removed and replaced with negative implications on July 1, 2014. These bonds are further guaranteed by an irrevocable transferrable direct-pay letter of credit to secure the payment of principal and interest on the bonds provided by the Government Development Bank for Puerto Rico.

On October 30, 2014, the House of Representative of the Commonwealth of Puerto Rico presented a bill initiative that contemplate the transfer to the Authority of certain debts owed by the Puerto Rico Highway Authority to GDB for approximately $ 2,300 million and the corresponding sources of repayment for that debt service.

Major provisions of this bill initiative include the transfer of the following sources of repayment:

- Total license fees on motor vehicles collected by the Treasury Department
- Taxes over petroleum, finished or partially elaborated products that are derived from petroleum
- Minimum of $20 million of the cigarettes excise taxes

Management has evaluated subsequent events through November 26, 2014, the date on which the financial statements were available to be issued.