Financial Statements

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

Basic Financial Statements and Required Supplementary Information as of and
for the Year Ended June 30, 2012, and
Independent Auditors' Report

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

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-6
BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2012:	
Statement of Net Deficit	7
Statement of Revenues, Expenses, and Change in Net Deficit	8
Statement of Cash Flows	9-10
Notes to Basic Financial Statements	11-18

Aquino, De Córdova, Alfaro & Co., LLP
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Jorge Aquino Barreto, CPA, CVA
Jerry De Córdova, CPA, JD
Eduardo González Green, CPA, CFE

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of net deficit of Puerto Rico Public Private Partnerships Authority (the "Authority"), a component unit of the Commonwealth of Puerto Rico, as of June 30, 2012, and the related statements of revenues, expenses, and change in net deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Authority as of June 30, 2012, and its changes in net deficit and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in notes 1, 3 and 4 to the financial statements, the Authority is an affiliate of Government Development Bank for Puerto Rico (the "Bank"). The Authority has material transactions with the Bank to finance its operations.

P.O. Box 70262, San Juan, Puerto Rico 00936-8262 • Cecilia's Place Suite C-1, #7 Rosa Street
Isla Verde, P.R. 00979 • Phone (787) 253-9595 • Fax (787) 253-9511

CORRESPONDENT of Praxity™
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

October 20, 2012

Aquino, De Córdova, Alfaro + Co., LLP

by

Lic. FI 3171

Stamp No. 2667746
affixed to original

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

1. FINANCIAL HIGHLIGHTS

- Total assets and total liabilities of the Authority at June 30, 2012 amounted to approximately $1.9 million and $8.5 million, respectively, for a net deficit of approximately $6.6 million.

- The Authority collected approximately $20.6 million in professional fees for the services provided as part of the Toll Roads PR-22 and PR 5 concession agreement. This amount is presented as professional fees in the accompanying Statement of Revenues, Expenses and Changes in Net Deficit.

- The Authority's revenues from the Local Stimulus Fund (*Plan de Estímulo Criollo* or *PEC* by its Spanish acronym) pursuant to Executive Order No. 5 of 2010 amounted to approximately $2.9 million for the year ended June 30, 2012.

- The Authority's general and administrative expenses amounted to approximately $15.5 million for the year ended June 30, 2012.

- The Authority's operations were financed with a $20 million revolving line of credit facility with the Government Development Bank for Puerto Rico, as established by the Public Private Partnerships Act of June 8, 2009, which created the Authority. Management expects to finance the Authority's operations with fees charged upon the establishment of public-private partnerships ("Partnerships").

2. OVERVIEW OF THE FINANCIAL STATEMENTS

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

3. REQUIRED FINANCIAL STATEMENTS

The financial statements of the Authority report information using accounting methods similar to those used by private sector entities. The statement of net deficit includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities).

3. REQUIRED FINANCIAL STATEMENTS - CONTINUED

It also provides the basis for evaluating the capital structure of the Authority and assessing its liquidity and financial flexibility.

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

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

4. FINANCIAL ANALYSIS

The Authority's condensed financial information as of and for the year ended June 30, 2012 is as follows:

	June 30,		Change	
	2012	2011	Amount	Percent
Assets	$ 1,916,427	$ 3,605,022	$ (1,688,595)	(46.8%)
Liabilities	8,532,483	14,880,975	(6,348,492)	(42.7%)
Net deficit	$ (6,616,056)	$(11,275,953)	$ 4,659,897	(41.3%)
Revenues	$ 23,510,851	$ 10,750,516	$ 12,760,335	118.7%
Expenses:				
Operating expenses	18,852,541	19,312,843	(460,302)	(2.4%)
Nonoperating income, net	(1,587)	(662)	925	139.7%
Total expenses	$ 18,850,954	$ 19,312,181	$ (461,227)	(2.4%)
Change in net deficit	$ 4,659,897	$ (8,561,665)	$ 13,221,562	(154.4%)

The Authority's most significant expenses correspond to professional services and payroll and payroll related expenses amounting to approximately $14.7 million and $682 thousand, respectively.

4. FINANCIAL ANALYSIS - CONTINUED

The Authority's principal activities for the year ended June 30, 2012 were primarily related to the development of Partnership projects, completion of studies of desirability and convenience for proposed Partnerships, the identification and qualification of potential proponents and the evaluation of proposals. The decrease in assets is mainly related to the decrease in cash and the receivable from the Commonwealth of approximately $1.6 million. The decrease in the liabilities is the result of a decrease of approximately $3.7 million in the line of credit and $2.7 million in accrued liabilities. Operating revenues during the year ended June 30, 2012 amounted to approximately $2.9 million from the PEC and $20.6 million from professional and administrative fees related to partnership projects.

5. PUBLIC PRIVATE PARTNERSHIPS

On June 1, 2010, the Authority launched the first Partnership project directed at improving the infrastructure conditions of a selected number of public schools. Under the name *Schools for the 21st Century*, the Authority, in collaboration with the Puerto Rico Department of Education ("DE"), the Puerto Rico Infrastructure Financing Authority ("PRIFA"), and the Puerto Rico Public Buildings Authority ("PBA"), developed a Partnership project under which qualified private contractors are to be responsible for the design, construction and conservation of at least one school per municipality.

As of June 30, 2012, *The Schools for the 21st Century Program* had made significant progress in the modernization of the selected schools. Data from *Schools for the 21st Century* reveals that by fiscal's year end, over fifty Partnership contracts were awarded for ninety-eight (98) schools. By this date, approximately ninety-six (96) schools were under construction and five (5) schools were completed and turned over to the DE. An additional number of nineteen (19) schools were scheduled to be turned over the DE on the month of August 2012, on time for the new academic year 2012-2013. As of fiscal year 2012, a total of approximately $634 million in investment were committed or awarded part of the *Schools for the 21st Century Program.*

On November 19, 2010, the Authority issued a Request for Proposal and a draft concession agreement for a 40-year administrative concession for the operation, management, maintenance, rehabilitation, tolling and expansion of toll roads PR-22 and PR-5 (the "Toll Roads Project"). On May 31, 2011, the Puerto Rico Highway and Transportation Authority ("PRHTA") and the Authority received two proposals for the Toll Roads Project. On June 22, 2011, the preferred proponent was announced, *Autopistas Metropolitanas de Puerto Rico, LLC* ("*Metropistas*"), and on June 27, 2011, the Authority coordinated the execution of the concession agreement between PRHTA and *Metropistas*. This Partnership Project represents an estimated total investment of over $1.4 billion. The financial close was successfully completed on September 22, 2011.

5. PUBLIC PRIVATE PARTNERSHIPS - CONTINUED

On the date of the financial close the PRHTA received a fund transfer of $1,136.16 million. Moreover, *Metropistas* will be responsible for investing between $56 to $75 million during the first three years and recurring investment to comply with the Operating Standards included in the concession agreement. On October 13, 2011, the Authority received a reimbursement of $15.8 million corresponding to all the costs incurred during the procurement process of the Toll Roads Project, including a professional fee charged by the Authority.

In June 2010, the Authority released a Desirability and Convenience Study to establish a Partnership Project for the Luis Muñoz Marín International Airport (the "Airport"). On July 6, 2011, the Authority issued a Request for Qualifications for a long-term lease to finance, operate, maintain, and improve the Airport (the "Airport Project"). On August 8, 2011, the Puerto Rico Ports Authority ("PRPA") and the Authority received Statements of Qualifications from twelve (12) interested consortia. On September 23, 2011, the Authority announced the shortlisting of six (6) consortia to proceed with the Request for Proposals ("RFP") for the Airport Project. The RFP document was approved by the Partnership Committee and issued to Shortlisted Proponents on October 10, 2011. On March 15, 2012, Indicative Bids from Shortlisted Proponents were received. On July 19, 2012, subsequent to the fiscal year 2012, the consortium known as Aerostar Airport Holdings, LLC ("Aerostar") was selected as Preferred Proponent for the Project.

6. REQUESTS FOR INFORMATION

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

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

STATEMENT OF NET DEFICIT
AS OF JUNE 30, 2012

ASSETS		
CURRENT ASSETS		
Cash	$	384,715
Due from Commonwealth of Puerto Rico		1,529,267
Accrued interest receivable		35
Prepaid expenses		1,008
Total current assets		1,915,025
NONCURRENT ASSETS		
Capital assets, net		1,402
Total assets		1,916,427
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities		2,482,462
Due to Government Development Bank for Puerto Rico		426
Note payable to Government Development Bank for Puerto Rico		6,049,595
Total current liabilities		8,532,483
NET DEFICIT		
Invested in capital assets		1,402
Unrestricted		(6,617,458)
	$	(6,616,056)

See notes to basic financial statements.

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET DEFICIT
FOR THE YEAR ENDED JUNE 30, 2012

REVENUES:	
Program revenues	$ 2,911,213
Professional fees	20,599,638
Total revenues	23,510,851
OPERATING EXPENSES:	
Program expenses	(2,911,213)
General and administrative	(15,530,464)
Interest expense	(410,864)
Total operating expenses	(18,852,541)
OPERATING INCOME	4,658,310
NONOPERATING REVENUES	
Interest income	1,587
CHANGE IN NET DEFICIT	4,659,897
NET DEFICIT - Beginning of year	(11,275,953)
NET DEFICIT - End of year	$ (6,616,056)

See notes to basic financial statements.

Aquino, De Córdova, Alfaro & Co., LLP
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A component unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

NET CASH FLOWS FROM OPERATING ACTIVITIES	
Program revenues received	$ 2,911,213
Fees collected	20,599,638
Cash paid to suppliers for goods and services	(19,603,403)
Cash paid to employees for services	(634,858)
Net cash provided operating activities	3,272,590
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	1,610
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from note payable	16,044,362
Payments to notes payable	(20,126,421)
Net cash used in noncapital financing activities	(4,082,059)
NET DECREASE IN CASH	(807,859)
Cash at beginning of the year	1,192,574
Cash at end of year	$ 384,715

See notes to basic financial statements.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A component unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2012

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 4,658,310
Adjustments to reconcile operating income to net cash provided operating activities:	
Interest expense	410,864
Depreciation and amortization	179
Decrease in due from Commonwealth of Puerto Rico	875,125
Decrease in other assets	5,409
Decrease in due to Government Development Bank	(18)
Decrease in accounts payable and accrued liabilities	(2,677,279)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,272,590
Noncash investing and noncapital financing activities:	
Capitalized interest on loans and other	$ 427,306

See notes to basic financial statements.

1. REPORTING ENTITY

Puerto Rico Public Private Partnerships Authority (the "Authority") is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth") and an affiliate of the Government Development Bank for Puerto Rico (the "Bank"), another component unit of the Commonwealth. The Authority was created by virtue of Act No. 29 of June 8, 2009 (the "Act 29").

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Authority conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"), as applicable to governmental entities. The Authority follows Governmental Accounting Standards Board ("GASB") under the hierarchy established by Statement No. 55, *The Hierarchy of Generally Accepted Principles for State and Local Governments*, in the preparation of its financial statements. The Authority has elected to apply all Financial Accounting Standards Board's pronouncements issued after November 30, 1989, to the extent they did not conflict with GASB pronouncements.

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

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

Measurement Focus and Basis of Accounting — The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Operating Revenues and Expenses — Operating revenues and expenses are distinguished from nonoperating items. The Authority's operating revenues will be primarily derived from fees earned from services provided as part of the process to establish partnerships, including fees to other governmental entities, as defined in Act 29, for specialized services and prospective proposers for their involvement in any process of qualification, award or both. Operating expenses are those related to the administration of the Authority. All revenues and expenses not meeting these criteria are reported as nonoperating revenues and expenses.

Custodial Credit Risk related to deposits — Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk. As of June 30, 2012, all of the Authority's bank balance, aggregating to $839,549, was exposed to custodial credit risk since all such deposits, which are maintained at the Bank, are uninsured and uncollateralized.

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

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

Recently Issued Accounting Pronouncement – The GASB has issued the following accounting pronouncements that are effective for periods beginning after June 30, 2012.

- **GASB Statements No. 65,** Items Previously Reported as Assets and Liabilities, which is effective for periods beginning after December 15, 2012.
- **GASB Statements No. 66,** Technical Corrections-2012 - an amendment of GASB Statements No. 10 and No. 62, which is effective for periods beginning after December 15, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- **GASB Statements No. 67,** Financial Reporting for Pension Plans – and amendment of GASB Statements No. 25, which is effective for periods beginning after June 15, 2013.

- **GASB Statements No. 68,** Accounting and Financial Reporting for Pensions – an amendment of GASB Statements No. 27, which is effective for periods beginning after June 15, 2014.

3. NOTE PAYABLE

On November 18, 2009, the Authority entered into a $20 million revolving line of credit facility with the Bank to provide financing for the Authority's operations. The credit facility is due on January 31, 2013, and bears interest at 150 basis points over the prime rate or 6%, whichever is higher. The source of repayment of this line of credit are the fees charged by the Authority for services provided as part of the process to establish the Partnerships. As of June 30, 2012, the principal balance outstanding under the line of credit amounted to approximately $6 million. Interest expenses for the year ended June 30, 2012 amounted to approximately $411 thousand.

4. TRANSACTIONS WITH GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

During the year ended June 30, 2012, the Bank provided certain management and administrative services to the Authority at no cost. Furthermore, the Bank made payments on behalf of the Authority to cover certain Authority's operating expenses. At June 30, 2012, the balance due to the Bank amounted to $426.

5. CONTRIBUTION FROM THE COMMONWEALTH

During the year ended June 30, 2010, the Commonwealth, through the Local Economic Stimulus Program, assigned $20.5 million to the Authority to provide funding for certain pre-development costs for projects to be conducted as Partnerships as described in Note 6. Contributions from the Commonwealth amounted to approximately $2.9 million during the year ended June 30, 2012 and are presented as program revenues in the accompanying statement of revenues, expenses and change in net deficit.

6. INTER-GOVERNMENTAL AGREEMENTS

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

6. INTER-GOVERNMENTAL AGREEMENTS - CONTINUED

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

Schools for the 21ST Century Program

On April 9, 2010, the Authority signed an agreement with the Puerto Rico Public Buildings Authority (PBA), in which the Authority agrees to transfer funds to cover the pre-development costs for general repairs, including technical advisory and evaluation, design, surveying, soil and site analysis, environmental impact statement, development of construction draft, search of structural information of public facilities, and permit documentation, among others, related to the Schools for the 21st Century Program (the "Program"). The Program consists of the modernization of at least one (1) public school in each municipality. The Program is positively affecting schools covering all academic levels and is benefiting approximately 45,000 students. The agreement with PBA expired on April 9, 2012.

On June 21, 2010, the Authority signed an agreement with the Puerto Rico Infrastructure Financing Authority (PRIFA), in which PRIFA agrees to provide the Authority administrative and technical assistance to fulfill its responsibilities in the evaluation of prospective bidders and proposals for the establishment of Partnership contracts and other functions in relation to the Program. The agreement with PRIFA expired on June 30, 2012.

On October 29, 2010, the Authority entered into a memorandum of understanding with PBA, PRIFA, the Puerto Rico Department of Education (DE), the Puerto Rico Department of Transportation and Public Works, and the Bank in which PRIFA agrees to provide administrative and technical assistance in the overall management of the Program.

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

6. INTER-GOVERNMENTAL AGREEMENTS - CONTINUED

On July 14, 2011, the Authority, PRIFA and the DE entered into an agreement in which the Authority agreed to provide financial support for certain improvements in schools that served as "receiving" schools for students moving or coming from those schools that are to be modernized under the Program. While the Authority agreed to cover certain costs associated with improving "receiving" schools, PRIFA agreed to conduct and manage the work related to such improvements. This agreement expired on September 30, 2011.

Public Schools Structural Repairs Program

On May 28, 2010, the Authority signed an agreement with the Office for the Improvements of Public Schools ("OMEP", for its Spanish acronym), in which the Authority agrees to transfer the funds to cover the pre-development costs of the structural repairs for certain facilities of public schools managed by OMEP. The pre-development costs for general repairs include technical advisory and evaluation, design, surveying, soil and site analysis, environmental impact statement, development of construction draft, search of structural information of public facilities, and permit documentation, among others. The agreement with OMEP expired on May 28, 2012.

Toll Roads Partnerships Program

On April 28, 2010, the Authority signed an agreement with the Puerto Rico Highway and Transportation Authority (PRHTA), in which the Authority agrees to transfer the funds to cover the pre-development costs of environmental mitigation, technical advisory, design, surveying, soil and site analysis, and environmental impact statement, among others, for the PR-66 highway. Under the same agreement, the Authority expects to provide financial support for the initial pre-development efforts related to the extension of highway PR-22. The extension of the existing PR-22 to the west between the Municipalities of Hatillo and Aguadilla is a large scale project that requires significant pre-development work. The Authority foresees that the extension of the PR-22 will eventually be delivered as a public-private partnership project. This agreement is still in full force.

Airport Project

On May 27, 2010, the Authority signed an agreement with the Puerto Rico Statistics Institute, the Puerto Rico Planning Board, and the Puerto Rico Tourism Company in order to provide financial support for the Travelers' Survey. The Travelers' Survey is a survey conducted in all the airports of Puerto Rico, which had been discontinued due to the lack of the necessary funds. This inter-agency agreement allows for the combination of funds from all the signatory agencies in order to launch a renewed Travelers' Survey.

6. INTER-GOVERNMENTAL AGREEMENTS - CONTINUED

The Authority requested that the Survey included specific questions regarding customer service and quality of infrastructure of the Luis Muñoz Marin International Airport. This agreement expired on December 31, 2011.

7. RETIREMENT SYSTEM

Defined Contribution Plan – The Legislature of the Commonwealth of Puerto Rico enacted Act No. 305 on September 24, 1999 to established, among other things, as defined contribution savings plan program (the "Savings Plan Program") to be administered by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the "Retirement System"). All regular employees hired for the first time on or after January 1, 2000, become member of the Savings Plan Program as a condition to their employment.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Savings Plan 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 Savings Plan Program. Participants have three options to invest their contributions to the Savings Plan Program. Investment income is credited to the participant's account semiannually.

The Authority is required by Act No. 305 to contribute 10.275% of each participant's gross salary. The Retirement System will use these contributions to increase its assets level.

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

Total employee contributions for the defined contribution plan during the year ended June 30, 2012 amounted to approximately $35,000. The Authority's contributions during the year ended June 30, 2012 amounted to approximately $43,000. These amounts represented 100% of the required contribution for the corresponding year.

Additional information on the Retirement System is provided in its stand alone financial statements for the year ended June 30, 2012, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan, PR 00940-2004.

8. CONTINGENCIES

The Authority entered into a professional services agreement with a consultant to provide services in connection with the Partnership project for the Airport. This agreement provides for monthly installments of $70,000 regardless of the time incurred in the project. Payment for services rendered exceeding $70,000 monthly is contingent upon the approval from the FAA of the project. As of June 30, 2012, the Authority has a contingent liability for services rendered by this consultant over the threshold set in the agreement of approximately $611 thousand. This amount has not been recorded in the accompanying financial statements since the criteria for such has not been met.

9. SUBSEQUENT EVENTS

Schools for the 21st Century Program

Data for September 2012 reveals additional significant progress by the Schools for the 21st Century Program with fifty-two (52) Partnership contracts awarded for ninety-nine (99) schools. By this date, seventy (70) schools were under construction and twenty-nine (29) schools were completed and turned over to the DE. The fifty-two (52) Partnership contracts awarded by September 2012 represented a total investment amount of approximately $650 million.

Toll Roads Partnerships Program

On July 7, 2012, the Authority signed an agreement with PRIFA, to provide design management and evaluation services related to the proposed extension of toll road PR-22 from the Municipality of Aguadilla to the Municipality of Hatillo.

Airport Project

On July 19, 2012, subsequent to the fiscal year 2012, the consortium known as Aerostar Airport Holdings, LLC ("Aerostar") was selected as Preferred Proponent for the Project. Aerostar proposal for the long-term lease of the Airport represents a total value of $2.6 billion. Specifically, Aerostar's proposal contains a lump-sum payment of $615 million, an estimated revenue sharing payable to the Ports Authority of $552.5 million, a capital improvement program of $1,400 million and a tourism and passenger incentive fund of $6 million.

On September 6, 2012, the Authority and the Ports Authority submitted the Final Application for the Federal Aviation Administration ("FAA") Pilot Program. On September 19, 2012, the FAA commenced a public comment period of 60 days related to the Airport Project. On September 28, 2012, the FAA conducted a Public Meeting in Puerto Rico as required by the Pilot Program. The public comment period closes on November 19, 2012.

9. SUBSEQUENT EVENTS - CONTINUED

Other Projects

The Authority has been collaborating with the Puerto Rico Police Department, the Office of the Chief Information Officer, the Department of Transportation and Public Works, the Department of Treasury and the Department of Justice in developing two projects related to public security and safety. Specifically, the Authority collaborated and funded costs related to professional advisory services of two projects: 1) the installation of video cameras for video surveillance along the Baldorioty de Castro Avenue and, 2) integration of hand-held devices for the usage of Police officers in the intervention with individual drivers and issuance of traffic fines.

For the year ended June 30, 2012, subsequent events were evaluated through October 20, 2012, the date the financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the financial statements. Management has determined that other than those already disclosed above, there are no material events or transactions that would affect the Authority's financial statements through such date.