

**PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the
Commonwealth of Puerto Rico)**

**BASIC FINANCIAL STATEMENTS AND REQUIRED
SUPPLEMENTARY INFORMATION AS OF AND
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
AND OTHER SUPPLEMENTARY INFORMATION FOR THE YEAR
ENDED JUNE 30, 2010, AND INDEPENDENT AUDITORS' REPORT**

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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(A Component Unit of the Commonwealth of Puerto Rico)
BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY
INFORMATION, AND OTHER SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

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PART I - FINANCIAL SECTION

ORTIZ, RIVERA, RIVERA & CO.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Public Buildings Authority
San Juan, Puerto Rico

We have audited the accompanying basic financial statements as listed in the table of contents of the Public Buildings Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, as of and for the years ended June 30, 2010 and 2009. 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2010 and 2009, and the changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. This

information is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in the audit of the 2010 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2010 basic financial statements taken as a whole.

San Juan, Puerto Rico
September 28, 2010

Ortiz, Rivera, Rivera & Co.

The stamp 2571448 was affixed
to the original of this report.



PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
For the Years Ended June 30, 2010 and 2009

Following is an overview and analysis of the financial activities of the Public Buildings Authority (the Authority) for the fiscal years ended June 30, 2010 and 2009. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. It is intended to serve as an introduction to the Authority's financial statements, which are comprised of the basic financial statements and the notes to the financial statements. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole.

The Statements of Net Assets present information on all of the Authority's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority's is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities, result in increased net assets, which also indicates an improved financial position.

The Statements of Revenues, Expenses and Changes in Net Assets present information showing how the Authority's net assets are reported as soon the underlying event occur, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The Statements of Cash Flows report cash receipts, cash payments, and net changes in cash resulting from operations, non-capital financing activities, capital and related financing activities, and investing activities.

The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the basic financial statements.

In addition to the basic financial statements and accompanying notes, various schedules present certain information concerning changes in bonds sinking funds accounts, activity of operating cash accounts, detail of rental operating revenues and receivable and summary of capital improvements programs compared to budget.

FINANCIAL HIGHLIGHTS:

- The Authority's net assets decreased by \$13,720,272 (11.4%) on June 30, 2010 and \$577,388 (0.5%) on June 30, 2009. For the year ended June 30, 2010, the Authority reported operating income of \$133.2 million however the net effect of non operating revenues and expenses (mainly consisting of contributions from the Puerto Rico Sales Tax Financing Corporation, interest on bonds and notes and the amortization of bond issuance costs) resulted in a decrease in net assets of \$13.7 million.
- The Authority's operating income increased from \$112.5 million for year ended June 30, 2009 to \$133.2 million for year ended June 30, 2010. That increase was mainly due to the net effect of increase in rent revenue and decrease in salaries and employee benefits and decrease in security services.

Overview of the Financial Statements:

Statement of Net Assets – Following is condensed financial information of the statement of net assets of the Authority.

<u>ANALYSIS OF 2010 AND 2009</u>				
	<u>2010</u>	<u>2009</u>	<u>Change</u>	
			<u>In Dollars</u>	<u>Percentage</u>
Current assets	\$ 57,301,917	\$ 154,346,458	\$ (97,044,541)	-62.9%
Capital assets	2,895,140,953	2,868,073,813	27,067,140	0.9%
Other noncurrent assets	618,188,831	538,968,222	79,220,609	14.7%
Total assets	<u>\$ 3,570,631,701</u>	<u>\$ 3,561,388,493</u>	<u>\$ 9,243,208</u>	<u>0.3%</u>
Current liabilities	\$ 342,058,230	\$ 448,404,052	\$ (106,345,822)	-23.7%
Noncurrent liabilities	3,122,127,178	2,992,817,876	129,309,302	4.3%
Total liabilities	3,464,185,408	3,441,221,928	22,963,480	0.7%
Net assets				
Invested in capital assets, net of related debt	101,580,055	148,935,233	(47,355,178)	-31.8%
Restricted	3,165,929	770,500	2,395,429	310.9%
Unrestricted	1,700,309	(29,539,168)	31,239,477	-105.8%
Total net assets	<u>106,446,293</u>	<u>120,166,565</u>	<u>(13,720,272)</u>	<u>-11.4%</u>
Total liability and net assets	<u>\$ 3,570,631,701</u>	<u>\$ 3,561,388,493</u>	<u>\$ 9,243,208</u>	<u>0.3%</u>

<u>ANALYSIS OF 2009 AND 2008</u>				
	<u>2009</u>	<u>2008</u>	<u>Change</u>	
			<u>In Dollars</u>	<u>Percentage</u>
Current assets	\$ 154,346,458	\$ 79,307,892	\$ 75,038,566	94.6%
Capital assets	2,868,073,813	2,841,967,330	26,106,483	0.9%
Other noncurrent assets	538,968,222	542,844,227	(3,876,005)	-0.7%
Total assets	<u>\$ 3,561,388,493</u>	<u>\$ 3,464,119,449</u>	<u>\$ 97,269,044</u>	<u>2.8%</u>
Current liabilities	\$ 448,404,052	\$ 256,280,998	\$ 192,123,054	75.0%
Noncurrent liabilities	2,992,817,876	3,087,094,498	(94,276,622)	-3.1%
Total liabilities	3,441,221,928	3,343,375,496	97,846,432	2.9%
Net assets				
Invested in capital assets, net of related debt	148,935,233	59,561,883	89,373,350	150.1%
Restricted	770,500	2,200,327	(1,429,827)	-65.0%
Unrestricted	(29,539,168)	58,981,743	(88,520,911)	-150.1%
Total net assets	<u>120,166,565</u>	<u>120,743,953</u>	<u>(577,388)</u>	<u>-0.5%</u>
Total liability and net assets	<u>\$ 3,561,388,493</u>	<u>\$ 3,464,119,449</u>	<u>\$ 97,269,044</u>	<u>2.8%</u>

Analysis of Net Assets at June 30, 2010 and 2009

The total net assets at June 30, 2010, compared to prior year, had a decrease of 11.4%. The decrease in balance is mainly the result of increase in interest on bonds and notes and increase in the amortization of bond issuance costs. In addition, for the fiscal year ended June 30, 2009, the Authority recognized a gain on sale of real estate in the amount of \$26.7 million. No such event occurred during fiscal year 2010.

The decrease in current assets when compared June 30, 2010 with June 30, 2009 is mainly the result of collections of the rent revenue related with fiscal year 2009-10. For fiscal year 2009-10, the Authority collected 93% of the contractual amount, as compared to only 65% for prior fiscal year.

When compared June 30, 2010 with June 30, 2009 there was a decrease in current liabilities of 23.7%. This decrease was due to payments made to suppliers and to other governmental entities, principally for utility expenses. During the year ended June 30, 2010, the Authority disbursed \$25 million to the Puerto Rico Electric Power Authority as partial payment of the \$57.9 million in arrears owed to the utility agency as of June 30, 2009. The Authority has continued to pay its current utility expenses. It is expected that the remaining fees owed to the Puerto Rico Electric Power Authority will be substantially paid during fiscal year 2011.

Other non-current assets shows an increase of 14.7% mainly driven by the increase in bonds sinking funds.

Analysis of Net Assets at June 30, 2009 and 2008

The net assets at June 30, 2009, compared to prior year, had a decrease of 0.5%. The balance is the result of the increase in net operating and non operating expenses partially offset by the gain on sale of real estate.

The other non-current assets show a decrease of \$3.876 million (0.7%) mainly driven by decrease in construction funds and bond sinking funds.

Statements of Revenues, Expenses and Changes in Net Assets

	2010	2009	Change	
			In Dollars	Percent
Operating revenues - rent revenue	\$ 332,316,169	\$ 326,119,053	\$ 6,197,116	1.9%
Nonoperating revenue				
Gain on sale of real estate	-	29,699,209	(29,699,209)	-100.0%
Contributions from PR Sales Tax Financing Corporation	12,857,123			
Interest income	185,753	2,075,925	(1,890,172)	-91.1%
Intergovernmental	15,752,411	15,902,637	(150,226)	-0.9%
Float interest, service charges, and others	-	2,468,655	(2,468,655)	-100.0%
Interest on swaps	-	2,502,145	(2,502,145)	-100.0%
Total revenue	<u>361,111,456</u>	<u>378,767,624</u>	<u>(17,656,168)</u>	<u>-4.7%</u>
Operating expenses:				
Salaries and employee benefits	86,958,764	92,040,210	(5,081,446)	-5.5%
Depreciation	66,266,227	66,153,843	112,384	0.2%
Utilities	20,257,372	20,431,222	(173,850)	-0.9%
Repairs and maintenance	6,633,985	10,104,829	(3,470,844)	-34.3%
Security services	7,596,315	14,099,069	(6,502,754)	-46.1%
Rent and insurance	8,207,208	8,157,327	49,881	0.6%
General and administrative	5,360,304	5,132,374	227,930	4.4%
Total operating expenses	<u>201,280,175</u>	<u>216,118,874</u>	<u>(14,838,699)</u>	<u>-6.9%</u>
Less: Administrative expenses applied to CIP	(2,196,439)	(2,495,736)	299,297	-12.0%
Net operating expenses	<u>199,083,736</u>	<u>213,623,138</u>	<u>(14,539,402)</u>	<u>-6.8%</u>
Nonoperating expenses:				
Interest on bonds and notes, net of capitalized interest	159,806,600	156,391,048	3,415,552	2.2%
Float interest, service charges, and others	2,235,078	-	2,235,078	N/A
Amortization of deferred loss on bond defeasance	7,270,561	7,270,561	-	0.0%
Amortization of bond issuance costs	4,407,052	631,140	3,775,912	598.3%
Settlement of legal claim and other contingencies	1,994,334	1,335,400	658,934	49.3%
Loss on disposition of capital assets	34,367	93,725	(59,358)	-63.3%
Total nonoperating expenses	<u>175,747,992</u>	<u>165,721,874</u>	<u>10,026,118</u>	<u>6.0%</u>
Total expenses	<u>374,831,728</u>	<u>379,345,012</u>	<u>(4,513,284)</u>	<u>-1.2%</u>
Change in net assets	(13,720,272)	(577,388)	(13,142,884)	2276.3%
Net assets, beginning of year	120,166,565	120,743,953	(577,388)	-0.5%
Net assets, end of year	<u>\$ 106,446,293</u>	<u>\$ 120,166,565</u>	<u>\$ (13,720,272)</u>	<u>-11.4%</u>

Analysis of Fiscal Years 2010 and 2009

For fiscal years 2010 and 2009, operating revenues were approximately \$332.3 million and \$326.1 million, respectively. This change resulted in a 1.9% increase of the rental income. The increase was mainly due to increase in debt service requirements.

For the year ended June 30, 2010; the net operating expenses decreased compared to prior year ended June 30, 2009. The main reason for decrease was due to decrease in salary and employee benefits. Also there was a decrease in security services. Non-operating expenses for the year ended June 30, 2010 increased due to increase on interest on bonds and notes and the amortization of bond issuance costs.

	2009	2008	Change	
			In Dollars	Percent
Operating revenues - rent revenue	\$ 326,119,053	\$ 295,819,104	\$ 30,299,949	10.2%
Nonoperating revenue				
Gain on sale of real estate	29,699,209	314,000	29,385,209	9358.3%
Contributions from PR Sales Tax Financing Corporation	-	-	-	-
Interest income	2,075,925	5,057,702	(2,981,777)	-59.0%
Intergovernmental	15,902,637	8,764,400	7,138,237	81.4%
Payment from Commonwealth	-	6,074,306	-	-
Interest on swaps	2,502,145	-	2,502,145	-
Float interest, service charges, and others	2,468,655	5,431,941	(2,963,286)	-54.6%
Total revenue	<u>378,767,624</u>	<u>321,461,453</u>	<u>57,306,171</u>	<u>17.8%</u>
Operating expenses:				
Salaries and employee benefits	92,040,210	84,558,237	7,481,973	8.8%
Depreciation	66,153,843	60,514,631	5,639,212	9.3%
Utilities	20,431,222	20,674,658	(243,436)	-1.2%
Repairs and maintenance	10,104,829	7,906,939	2,197,890	27.8%
Security services	14,099,069	12,820,618	1,278,451	10.0%
Rent and insurance	8,157,327	8,042,616	114,711	1.4%
General and administrative	5,132,374	3,477,079	1,655,295	47.6%
Total operating expenses	<u>216,118,874</u>	<u>197,994,778</u>	<u>18,124,096</u>	<u>9.2%</u>
Less: Administrative expenses applied to CIP	(2,495,736)	(2,076,458)	(419,278)	20.2%
Net operating expenses	<u>213,623,138</u>	<u>195,918,320</u>	<u>17,704,818</u>	<u>9.0%</u>
Nonoperating expenses:				
Interest on bonds and notes, net of capitalized interest	156,391,048	125,437,652	30,953,396	24.7%
Interest on swaps	-	2,529,633	-	-
Float interest, service charges, and others	-	-	-	N/A
Amortization of deferred loss on bond defeasance	7,270,561	6,430,711	839,850	13.1%
Amortization of bond issue costs	631,140	557,292	73,848	13.3%
Settlement of legal claim and other contingencies	1,335,400	5,593,648	(4,258,248)	-76.1%
Loss on disposition of capital assets	93,725	85,524	8,201	9.6%
Total nonoperating expenses	<u>165,721,874</u>	<u>140,634,460</u>	<u>25,087,414</u>	<u>17.8%</u>
Total expenses	<u>379,345,012</u>	<u>336,552,780</u>	<u>42,792,232</u>	<u>12.7%</u>
Change in net assets	(577,388)	(15,091,327)	14,513,939	-96.2%
Net assets, beginning of year	120,743,953	135,835,280	(15,091,327)	-11.1%
Net assets, end of year	<u>\$ 120,166,565</u>	<u>\$ 120,743,953</u>	<u>\$ (577,388)</u>	<u>-0.5%</u>

Analysis of Fiscal Years 2009 and 2008

For fiscal years 2009 and 2008, operating revenues were approximately \$326.1 million and \$295.8 million, respectively. This change resulted in a 10.2% increase of the rental income.

The net operating expenses increased compared to prior year 2008. The main reason for the increase was due to increase in salary and employee benefits. Non operating expenses for the year ended June 30, 2009 increased due to increase on interest on bonds and notes.

CAPITAL ASSETS

The Authority's investment in capital assets as of June 30, 2010 and 2009 amounted to approximately \$2.9 billion for both years, net of accumulated depreciation. Capital assets include land, land improvements,

construction in progress, equipment, furniture, and vehicles. Most buildings consist of governmental facilities that are leased to the Commonwealth's agencies and public corporations. For more information, please refer to Note 8 of the basic financial statements.

During the years ended June 30, 2010 and 2009 the Authority invested approximately \$83 and \$90 million respectively, for the construction of buildings that will then be leased to the Commonwealth. This construction activity was financed through interim lines of credit with the Governmental Development Bank (GDB), and the proceeds of the bonds issuances. The rent revenue generated by these buildings is pledged first for the payment of long term debt.

DEBT ADMINISTRATION

As of June 30, 2010 and 2009, the Authority has outstanding bonds payable of \$3.002 billion and \$2.934 billion, respectively. The balance is net of unamortized bond discounts, bond premium, deferred loss on bonds refunding and bonds issuance costs. For more information, please refer to Note 12 of the basic financial statements.

OTHER CURRENTLY KNOWN FACTS

As discussed in note 18, on July 7, 2010 the Board of Directors authorized the Executive Director to obtain a loan of \$36,944,781 from the Government Development Bank for Puerto Rico to refinance the interest component of certain outstanding revenue and revenue refunding bonds. On September 1, 2010, the Board of Directors authorized the Executive Director to accept an increase of \$12,314,927, such that the aggregate amount of the loan will not exceed \$49,259,708. On August 16, 2010, the Board of Directors authorized the Executive Director to request and obtains a line of credit for approximately \$93,000,000 for construction projects development. Also, in conjunction with the Puerto Rico Public Partnerships Authority, the Puerto Rico Department of Education, the Department of Transportation and Public Works and the Puerto Rico Infrastructure Financing Authority, the Authority is undertaking a significant expansive modernization project for the Puerto Rico's Public Schools, known as the Schools for the 21st Century.

Also on June 21, 2010; Public Building Authority renewed the Collective Bargaining Agreement and it will be effective until May 31, 2013.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those interested parties. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Comptroller's Office, Public Buildings Authority, PO Box 41029, San Juan, PR 00940-1029.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009

ASSETS	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents (Note 4)	\$ 35,784,524	\$ 33,579,167
Rent receivable, net (Note 5)	21,114,617	115,004,130
Other receivables, net (Notes 2 and 6)	402,776	5,763,161
Total current assets	<u>57,301,917</u>	<u>154,346,458</u>
Noncurrent assets:		
Restricted cash and cash equivalents (Note 4)		
Bonds sinking funds	161,424,843	112,497,049
Cash to be deposited in sinking funds	43,171,585	42,521,156
Construction funds	72,661,525	84,211,545
Funds for swap transactions	484	3,911,397
Funds for construction of facilities for other governmental agencies	4,965,135	3,628,008
Restricted for the School Renovation Fund	305,136	305,136
Rent receivable (Note 5)	187,517,907	135,257,907
Due from Commonwealth (Note 7)	92,903,697	90,052,056
Notes receivable from other governmental agencies (Note 6)	7,734,568	7,734,568
Land and buildings under construction for other governmental agencies (Note 10)	150,390	152,282
Prepaid insurance on bonds	27,089,162	28,794,463
Deferred charges	17,180,561	15,163,007
Capital assets, net (Notes 2 and 8)	2,895,140,953	2,868,073,813
Property held for sale (Notes 2 and 9)	3,083,838	14,739,648
Total noncurrent assets	<u>3,513,329,784</u>	<u>3,407,042,035</u>
Total assets	<u>\$3,570,631,701</u>	<u>\$3,561,388,493</u>

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

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF NET ASSETS (CONTINUED)
JUNE 30, 2010 AND 2009

LIABILITIES AND NET ASSETS	2010	2009
Liabilities		
Current liabilities:		
Borrowings under credit line (Notes 7 and 13)	\$ 95,749,102	\$ 181,457,894
Accounts payable	10,609,509	13,392,951
Due to other governmental entities (Note 11)	44,788,746	66,780,376
Accrued expenses	4,556,671	8,427,227
Compensated absences, current portion (Notes 2 and 13)	3,041,471	4,409,278
Bonds payable (Note 12)	84,850,000	79,535,000
Interest payable	85,099,503	74,301,231
Due to contractors (Note 13)	13,363,228	20,100,095
Total current liabilities	342,058,230	448,404,052
Non-current liabilities:		
Bonds payable (Note 12)	3,002,504,678	2,933,558,082
Derivative instrument-interest rate swap liability (Note 19)	-	28,395,000
Deferred outflow of resources (Note 19)	-	(28,395,000)
Borrowings under credit line (Note 13)	70,000,000	4,083,411
Due to contractors, including retainage (Note 13)	27,591,376	29,542,054
Advances from governmental agencies (Notes 10 and 13)	1,949,596	3,009,790
Compensated absences (Notes 2 and 13)	8,977,942	9,539,646
Contingencies (Notes 5, 13, and 17)	9,419,778	9,435,534
Due to Commonwealth (Notes 7 and 13)	1,683,808	3,649,359
Total noncurrent liabilities	3,122,127,178	2,992,817,876
Total liabilities	3,464,185,408	3,441,221,928
Commitments (Note 16)		
Net Assets		
Investment in capital assets, net of related debt	101,580,055	148,935,233
Restricted	3,165,929	770,500
Unrestricted	1,700,309	(29,539,168)
Total net assets	\$ 106,446,293	\$ 120,166,565

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

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
OPERATING REVENUE		
Rent revenue	<u>\$ 332,316,169</u>	<u>\$326,119,053</u>
OPERATING EXPENSES		
Salaries and employee benefits	86,958,764	92,040,210
Depreciation	66,266,227	66,153,843
Utilities	20,257,372	20,431,222
Repairs and maintenance	6,633,985	10,104,829
Security services	7,596,315	14,099,069
Rent and insurance	8,207,208	8,157,327
General and administrative	5,360,304	5,132,374
Total operating expenses	<u>201,280,175</u>	<u>216,118,874</u>
Less: Administrative expenses applied to construction in progress	<u>(2,196,439)</u>	<u>(2,495,736)</u>
Net operating expenses	<u>199,083,736</u>	<u>213,623,138</u>
Operating income	<u>133,232,433</u>	<u>112,495,915</u>
NONOPERATING REVENUES (EXPENSES)		
Gain on sale of real estate	-	29,699,209
Contributions from Puerto Rico Sales Tax Financing Corporation (Note 7)	12,857,123	-
Interest income	185,753	2,075,925
Intergovernmental	15,752,411	15,902,637
Float interest, service charges, and other	(2,235,078)	2,468,655
Interest on bonds and notes	(159,806,600)	(156,391,048)
Interest on swaps	-	2,502,145
Amortization of deferred loss on bond defeasance	(7,270,561)	(7,270,561)
Amortization of bond issuance costs	(4,407,052)	(631,140)
Settlement of legal claim and other contingencies	(1,994,334)	(1,335,400)
Loss on disposition of capital assets	(34,367)	(93,725)
Total nonoperating expenses	<u>(146,952,705)</u>	<u>(113,073,303)</u>
CHANGE IN NET ASSETS	<u>(13,720,272)</u>	<u>(577,388)</u>
NET ASSETS, BEGINNING OF YEAR	<u>120,166,565</u>	<u>120,743,953</u>
NET ASSETS, END OF YEAR	<u>\$ 106,446,293</u>	<u>\$ 120,166,565</u>

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

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tenants covering debt service and operating	\$ 371,633,295	\$ 245,655,143
Payments to employees and related benefits	(90,472,401)	(88,790,115)
Payments to suppliers for goods and services	<u>(63,396,547)</u>	<u>(20,555,629)</u>
Net cash provided by operating activities	<u>217,764,347</u>	<u>136,309,399</u>
CASH FLOWS PROVIDED BY NON CAPITAL RELATED FINANCING ACTIVITIES		
Non-operating revenue	<u>13,758,077</u>	<u>15,921,784</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures, excluding interest capitalized of \$9.9 million and \$10.6 million in 2010 and 2009, respectively, and administrative expenses capitalized of \$2.2 million and \$2.5 million in 2010 and 2009, respectively	(101,633,751)	(102,904,555)
Proceeds from sale of real estate	-	29,699,209
Repayment of bonds	(384,290,000)	(53,915,000)
Borrowings under credit lines	86,299,955	110,547,659
Interest paid	(149,008,328)	(156,391,048)
Net advances to governmental agencies	(1,060,194)	(3,882,487)
Proceeds from bonds issue	483,475,000	-
Payment on credit line	(106,092,158)	(4,304,189)
Payment on bonds issue costs	(6,094,056)	-
Intergovernmental grants	<u>12,857,123</u>	<u>7,760,588</u>
Net cash used in capital and related financing activities	<u>(165,546,409)</u>	<u>(173,389,823)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest collected	78,759	402,349
SWAP termination payments	(28,395,000)	-
Net interest (paid) collected on swap agreements	-	(2,502,145)
Net cash used in investing activities	<u>(28,316,241)</u>	<u>(2,099,796)</u>
Net increase (decrease) in cash and cash equivalents	37,659,774	(23,258,436)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>280,653,458</u>	<u>303,911,894</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 318,313,232</u>	<u>\$ 280,653,458</u>

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

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
RECONCILIATION OF CASH AND CASH EQUIVALENTS WITH THE STATEMENT OF NET ASSETS		
Unrestricted	\$ 35,784,524	\$ 44,257,891
Bonds sinking funds	161,424,843	112,497,049
Cash to be deposit in bond sinking funds	43,171,585	31,842,432
Construction funds	72,661,525	84,211,545
Restricted for the School Renovation Fund	305,136	305,136
Funds for swaps transactions	484	3,911,397
Funds available for construction to other governmental agencies	4,965,135	3,628,008
	\$ 318,313,232	\$ 280,653,458
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 132,201,833	\$ 112,495,915
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	66,266,227	66,153,843
Loss on disposal of equipment	34,367	93,725
Capitalized salaries and administrative expenses	(2,196,439)	(2,495,736)
Decrease (increase) in operating assets:		
Rent receivable	57,698,884	(75,490,624)
Other receivables	5,360,385	2,244,242
Note receivable	-	6,000,000
Increase (decrease) in operating liabilities:		
Accounts payable	(11,470,987)	3,417,833
Due to other governmental agencies	(21,991,630)	24,246,204
Accrued expenses	(8,138,293)	(356,003)
Net cash provided by operating activities	\$ 217,764,347	\$ 136,309,399
 SUMMARY OF NON CASH TRANSACTIONS		
Accretion of bonds payable	\$ 11,787,756	\$ 6,578,862

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

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

1. REPORTING ENTITY

The Public Buildings Authority (the Authority) is a component unit of the Commonwealth of Puerto Rico, (the Commonwealth), created on June 19, 1958 by Act No. 56, as amended, of the Legislature of Puerto Rico (the Enabling Act). The Authority designs, constructs, administers, and provides maintenance to office buildings, courts, warehouses, schools, health care facilities, welfare facilities, shops and related facilities leased to the Commonwealth or any of its departments, agencies, instrumentalities or municipalities. The annual rent for each leased building is based on the amounts needed by the Authority to cover the payment of:

- a. principal, interest and other amortization requirements of the notes and bonds issued to finance the buildings;
- b. operating and maintenance expenses of the buildings, including a reasonable proportional share of administrative expenses, excluding depreciation;
- c. cost of equipment replacement and extraordinary repairs.

Components (b) and (c), described above, are subject to escalation to permit the Authority recover the investment incurred. Amounts due from departments and governmental agencies of the Commonwealth may be subject to periodic revisions and/or adjustments based on the availability of funds at the Commonwealth level.

The Enabling Act provides that the full faith and credit of the Commonwealth is pledged for the payment of rent under any lease agreement executed pursuant to the Enabling Act with any department of the Commonwealth. The Enabling Act also provides that the Department of the Treasury of the Commonwealth of Puerto Rico (the Treasury Department) will make advances to the Authority for any unpaid portion of rent payable to the Authority by any agency or instrumentality of the Commonwealth that has entered into lease agreements with the Authority. Such advances are recorded as a reduction of accounts receivable since the responsibility of reimbursement belongs to the agency in accordance to the Enabling Act.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally in the United States of America. Under this method, revenues are recognized when earned, regardless of when received, and expenses when incurred, regardless of when paid.

b. Basis of Presentation

The financial statements are presented as an enterprise fund and conform to the provisions of Governmental Accounting Standards Board Statement No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis - for the State and Local Governments.*" (GASB 34), as amended, establishes standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted, described as follows:

- Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation reduced by the outstanding balance of any bonds, mortgage, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provision or enabling legislation.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

- Unrestricted – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

As permitted by GASB Statement No. 20, *“Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting”* the Authority has elected to apply all Financial Accounting Standards Board Statements and Interpretations, issued after November 30, 1989 that does not conflict with those issued by GASB.

c. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from those estimates.

d. Fair Value of Financial Instruments

The carrying amounts reported in the statement of net assets for cash and cash equivalents and receivables, approximate fair value due to their short-term duration. Amounts deposited in bond sinking funds and construction funds are carried at fair value. The carrying amount of bonds payable approximates fair value since interest rates on such debt approximate the rates currently available in the market for other debt with similar terms and remaining maturities.

e. Cash Equivalents

Cash equivalents are defined as highly liquid investments with original maturities at the date of purchase of 90 days or less, excluding resources held in restricted accounts. The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

f. Custodial Credit Risk

This is the risk, in the event of a bank failure, that the government's deposits may not be returned to it.

g. Allowance for Doubtful Accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing receivables, excluding debt service rentals and maintenance charges that may become uncollectible based on evaluations of the collectability of each balance. Because of uncertainties inherent in the estimation process, management's estimate of losses in the receivables outstanding and the related allowance may change in the near term. As of June 30, 2010 and 2009, the allowance for doubtful accounts for other receivables amounted to \$17.3 million and \$14.4 million, respectively.

h. Investments

The Authority is authorized to invest in Puerto Rico and U.S. government obligations or in obligations guaranteed by the Puerto Rico or U.S. governments or its agencies or instrumentalities. The Authority invests in certificates of deposit with financial institutions rate AA or AAA by Moody's Investor Services. Pursuant to the Investment Guidelines for the Commonwealth, adopted by the Governmental Development Bank for Puerto Rico (GDB), the Authority may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Monies in the sinking funds can only be invested in direct obligations of the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

i. Restricted Assets and Liabilities Payable from Restricted Assets

Restricted assets represent the amounts deposited by the Authority to provide for the amortization of bonds payable and related interest costs and cash available in the related construction fund.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

j. Capital Assets

Capital assets are recorded at cost. The construction costs include indirect administrative costs and interest costs allocated during the construction period. Capital assets are assets with an individual cost of more than \$100 and a useful life in excess of five (5) years. As of June 30, 2010 and 2009 property (excluding cost of land, equipment and construction in progress) with a total cost of \$3,432 million and \$3,309 million, respectively, is leased to other governmental agencies.

Expenditures for major renewals and betterments that extend the useful life of the assets are capitalized and normal repairs and maintenance are expensed when incurred. Depreciation determined using the straight-line method over the estimated useful life of the assets is as follows:

Buildings	50 years
Equipment and automobiles	5-10 years

During the year ended June 30, 2010, the Authority evaluated its capital assets for impairment and did not determine any material impairment amount.

k. Property Held for Sale

Represents the estimated net realizable amount from the sale of certain real estate properties. Capital assets that have been indentified to be for sale are presented net of accumulated depreciation and net of the incidental cost to dispose or sell such assets.

l. Amortization of Discount, Premium and Bond Issuance Costs on Bonds Payable

Discount, premiums and bond issuance costs on bonds payable are amortized over the term of the bond, based on the straight-line method, which approximates the effective interest method.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

m. Operating Revenues and Expenses

Operating revenues and expenses are those that result from the Authority's operations. All leases are deemed to be operating leases. Accordingly, rent revenue is recognized as operating revenue over the term of the lease. Rent revenue is pledged as collateral for the repayment of the Authority's revenue bonds.

n. Risk Financing

The Authority carries commercial insurance to cover casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage during the past three years. The Authority also pays premiums for workers compensation insurance to another component unit of the Commonwealth.

o. Compensated Absences

Compensated absences are accrued when earned by the employees. Employees may carry forward their vacation and sick leave as permitted by statute and may receive a cash payment from the Authority upon termination of employment.

p. Reclassifications

Certain reclassifications have been made to the June 30, 2009 financial statements to conform with current year presentation.

q. Adoption of Future Accounting Pronouncements

The Governmental Accounting Standards Board has issued the following accounting standards that have effective dates after June 30, 2010 for the Authority:

- Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for periods beginning after June 15, 2010.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

- Statement No. 57, OPEB Measurements by Agent Employees and Agent Multi-Employers Plans, which is effective for periods beginning after June 15, 2011.
- Statement No. 59, Financial Instruments Omnibus, which is effective for periods beginning after June 15, 2010.

The Authority is currently studying the statements and evaluating the applicability and possible adoption of the statements on the Authority's future financial statements.

3. MANAGEMENT PLANS

As reflected in the accompanying financial statements, during fiscal year ended June 30, 2009, the Authority faced significant cash flow difficulties arising principally from cash flow constraints experienced by the Government of Puerto Rico which impaired its ability to comply with the lease contract of its agencies and instrumentalities. During the year ended June 30, 2010, the cash flow of the Authority improved significantly as a result of the collection of 93% of current lease contracts and the collection of \$51 million partial payment of the approximately \$250 million in rent in arrears due to the Authority principally by agencies of the Government of Puerto Rico.

For the fiscal year 2011, management plans to continue its policy of strict fiscal and budgetary control and economic measures. In addition, the Authority intends to improve its government office facilities in order retain existing tenants and attract new agencies and instrumentalities. To this effect, its has started an aggressive conservation and maintenance plan at several of its locations including:

- a. Substantial modernization of the Minillas Government Center including, but not limited to:
 - entering into an energy performance contract which will result in significant operational efficiencies through the implementation of several energy consumption measures
 - modernization of voice and data transmission facilities

PUBLIC BUILDINGS AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

- availability of modern common facilities including conference rooms, data centers and public hearing rooms
- b. Improvement of three other major public buildings by engaging into energy performance contracts.
- c. Improvements of mechanical systems on more than 30 other government centers throughout municipalities in Puerto Rico.
- d. Enhancement of its preventive facilities conservation and maintenance services through the acquisition of modern information systems and acquisition of modern vehicles and tools.

4. CASH, RESTRICTED CASH, AND DEPOSITS

The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2010 and 2009, \$90 million and \$66.4 million, respectively, of the Authority's bank balance was exposed to custodial credit risk. However, since these amounts represent deposits at the GDB, a component unit of the Commonwealth, the collateralization requirement does not apply.

Restricted cash consist of the following:

- a. Bond sinking funds
- b. Cash to be deposited in sinking funds
- c. Construction funds
- d. Funds for swap transactions
- e. Funds for construction of facilities for other governmental entities
- f. School renovation funds

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

a. Bond Sinking Funds

The bond sinking funds under Bond Resolutions No. 77, 158 and 468 as of June 30, 2010 and 2009, consist of cash, US Treasury Bills and money market funds carried at fair value, as follows:

<u>Description</u>	<u>June 30, 2010</u>		<u>Total</u>
	<u>Bond Service Account</u>	<u>Reserve and Redemption Accounts</u>	
Resolution No. 77 - Office Buildings - Cash	\$ -	\$ -	\$ -
Resolution No. 158 - Public Education and Health Facilities	33,507,223		33,507,223
Resolution No. 468 - Governmental Facilities - Money Market Funds	127,917,620		127,917,620
	<u>\$ 161,424,843</u>	<u>\$ -</u>	<u>\$ 161,424,843</u>

<u>Description</u>	<u>June 30, 2009</u>		<u>Total</u>
	<u>Bond Service Account</u>	<u>Reserve and Redemption Accounts</u>	
Resolution No. 77 - Office Buildings - Cash	\$ 2,748	\$ -	\$ 2,748
Resolution No. 158 - Public Education and Health Facilities	3,572,975		3,572,975
Resolution No. 468 - Governmental Facilities - Money Market Funds	108,921,326		108,921,326
	<u>\$ 112,497,049</u>	<u>\$ -</u>	<u>\$ 112,497,049</u>

Each bond sinking fund consists of three (3) separate accounts designated as a "Bond Service Account", a "Reserve Account" and a "Redemption Account", except under Resolution No. 468, which has no Reserve Account in its Sinking Fund. Revenues received from debt service rentals with respect to the facilities financed under Bond Resolutions No. 77, No. 158 and No. 468 are deposited with their respective Fiscal Agents for the credit of such accounts in the following order:

- to the Bond Service Account, in such amount as may be required to make the amount equal to the amount of interest then due and payable and the interest

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

which will become due and payable within the next ensuing six months on all bonds of each series then outstanding and the principal of all serial bonds, if any, which will become payable within the next ensuing twelve months;

- to the Redemption Account, in such amount as may be required to make the amounts so deposited in the current fiscal year equal to the amortization requirement, if any, for such fiscal year for the term bonds of each series then outstanding, plus the premium, if any, which would be payable on a like principal amount of bonds if such principal amount of bonds should be redeemed on the next redemption date from monies in their respective Bond Sinking Funds; and
- the remaining balance, if any, is deposited to the credit of the Reserve Account, except under Resolution No. 468, where such balance is deposited to the credit of the Bond Service Account.

Bond Resolution No. 77 requires that monies held in the various accounts be, as nearly as practicable, invested and reinvested in direct obligations of, or obligations on which the principal of and the interest are unconditionally guaranteed by, the United States government. In lieu of such investments, monies in any or all of such accounts may be placed in interest-bearing time deposits.

Bond Resolution No. 158 requires that monies be invested and reinvested in investment obligations, repurchase agreements or time deposits fully secured by investment obligations, as those terms are defined therein.

Bond Resolution No. 468 requires that monies be invested and reinvested in government obligations, bankers' acceptances, certificates or time deposits of any Commonwealth's approval bank or national banking association, repurchase or reverse repurchase agreements or any other investment which are rated in one of the three highest rating categories.

Investments will mature or will be subject to redemption by the holder thereof at the option of such holder:

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

- as to investment of monies in the Bond Service Account and the Redemption Account not later than the dates when the monies held for credit thereof will be required for the purposes intended.
- as to investment of monies in the Reserve Account under Bond Resolution No. 77, (i) 25% of the principal amount not later than the next interest payment date of bonds issued there under, (ii) 25% not later than the second interest
- payment date after such investment, and (iii) 50% not later than three years after the date of such investment, and
- as to investment of monies in the Reserve Account under Bond Resolution No. 158, (i) 50% of such monies not later than five years from the date of investment, and (ii) the balance of such monies as directed by an order signed by the Executive Director of the Authority.

The Authority has caused to be deposited to the credit of the respective reserve accounts under the 1970 Bond Resolution and the 1978 Bond Resolution reserve account letters of credit issued by The Bank of Nova Scotia acting through its San Juan Branch (BNS) (each, a BNS Reserve Account Letter of Credit and, collectively, the BNS Reserve Account Letters of Credit) in the respective amounts required by said resolutions to be held to the credit of such reserve accounts. The schedule expiration date of the BNS Reserve Account Letters of Credit was renewed, and the new expiration date is July 15, 2011 for the 1970 Bond Resolution and July 15, 2010 for the 1978 Bond Resolution. Among other things, the BNS Reserve Account Letters of Credit authorize drawings for the payment of any amount required to be paid out of moneys in the reserve account to which BNS Reserve Account Letter of Credit relates after the withdrawal from the applicable reserve account of all cash and securities therein.

The obligations of the Authority under the reimbursement agreements with BNS are payable from the portion of the rentals received by the Authority in respect of the facilities financed or refinanced with the proceeds of the bonds issued under the 1970 Bond Resolution or the 1978 Bond Resolution, as appropriate, and not from any rentals received by the Authority in respect of the government facilities financed or refinanced with the proceeds of any Government Facilities Bonds issued under the 1995 Bond Resolution and

PUBLIC BUILDINGS AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

allocable to such Government Facilities Bonds. No reserve account is established or required under the 1995 Bond Resolution.

b. Cash to be Deposited in Sinking Funds

These funds represent the funds deposited at the Government Development Bank to be transferred to the bond sinking fund accounts with the fiscal agents. Funds available at June 30, 2010 and 2009 amounted to \$43,171,585 and \$42,521,156, respectively.

c. Construction Funds

Construction Funds are created for the purpose of providing resources for the payment of all or any part of the remaining cost of the Initial Facilities, as defined, or for payment of all or any part of the cost to the Authority of any Additional Facilities or Improvements, as defined, in accordance with the Bond Resolutions. As of June 30, 2010 and 2009 construction funds aggregate \$72,661,525 and \$84,211,545, respectively.

d. Funds for Swap Transactions

These funds represent the balance received from swap transactions entered into by the Authority as detail on Note 12. Funds are set aside for payment of the swap commitment or to pay interest on the related bonds. Deposits on these funds began in August 2007. Funds available at June 30, 2010 and 2009 amounted to \$484 and \$3,911,397, respectively.

e. Funds for the Construction of Facilities for Other Governmental Entities

Funds for the construction of facilities for other governmental entities represent the balance of the funds received less the amounts invested in the construction of said facilities. The properties constructed through this arrangement belong to the individual agencies and not to the Authority. Upon completion of each project, the Authority settles with the agency either by returning remaining funds or billing for the excess costs over the funds received. Funds available at June 30, 2010 and 2009 amounted to approximately \$4.9 million and \$3.6 million, respectively.

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

f. School Renovation Funds

These funds represent the balance received under federal financial assistance programs, as a sub-recipient of the Commonwealth of Puerto Rico Department of Education. These funds are restricted to be used for projects related to school renovation and are subject to compliance requirements applicable to this federal program. At June 30, 2010 and 2009, the balance of these funds amounted to approximately \$305 thousand and \$305 thousand, respectively.

5. RENT RECEIVABLE

This balance represents the amount due from Commonwealth agencies and instrumentalities determined in accordance with the corresponding rent contracts. In accordance with the provisions of the Enabling Act, the Secretary of the Treasury of the Commonwealth may make advances on behalf of certain agencies and

instrumentalities lessees and make payments on behalf of certain department lessees. Minimum lease rentals for the following five years are as follows:

<u>Year ending June 30,</u>	<u>Minimum Lease Rentals</u>
2011	\$245,761,401
2012	391,198,920
2013	382,107,141
2014	361,545,832
2015	360,574,012

Minimum lease rentals are revised every July 1st based on, among other things, debt service requirements for the particular year. During the years ended June 30, 2010 and 2009 the Authority reclassified approximately \$187 million and \$135 million, respectively, of the rent receivables as a noncurrent asset because there is an uncertainty of when the collection will be achieved.

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For the year ended June 30, 2011, the Office of Management and budget appropriated \$60.3 million (see note 18). Future appropriations will depend on the availability of resources as part of the budgetary process.

6. NOTES AND OTHER RECEIVABLES

On July 23, 2004, the Authority entered into a note receivable agreement with the Department of Education (Institute of Technology in Ponce), for the payment of construction costs aggregating \$12,256,705 to be collected into a thirty two (32) years period plus interest at 2.81%. Subsequent to the signing of the agreement, the Authority credited to the balance due \$4,522,137 as agreed with the Puerto Rico Office Management and Budget. Future minimum collections, during the remaining term of the note, after the application of the credit of \$4,522,137, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ -	\$ 652,023
2012	-	217,341
2013	-	217,341
2014	-	217,341
2015	-	217,341
2016-2020	222,682	1,085,063
2021-2025	1,984,112	921,615
2026-2030	2,283,039	622,691
2031-2035	2,627,002	278,728
2036-2037	617,733	11,848
Total	<u>\$ 7,734,568</u>	<u>\$ 4,441,332</u>

As of June 30, 2010, the Department of Education is not in compliance with the agreement.

Other receivables represents amount due for services not guaranteed by the Commonwealth, net of allowance for doubtful accounts.

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(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

7. TRANSACTION WITH THE COMMONWEALTH OF PUERTO RICO

a. Due from Commonwealth

The amount due from the Commonwealth of Puerto Rico represents the approximate costs of certain construction projects that have been either suspended or cancelled unilaterally by the Commonwealth during planning stages and, therefore, the funds must be returned and deposited in the corresponding bond sinking, construction, or reserve accounts, as deemed appropriate by the bond indentures.

The Puerto Rico's Office of Management Budget (OMB), recognized that, subject to certain audit requirements by the OMB, this account shall be recognized as a liability by the Commonwealth. Accordingly the Authority has recognized this amount as amount due from the Commonwealth as, in the opinion of the Authority's management; these costs will be recovered from future appropriations from the Commonwealth. Nevertheless, OMB has not appropriated any funds to reimburse the Authority and, since the timing of the collection cannot be readily determined, this amount is presented as a noncurrent asset.

b. Transfer of Capital Assets from the Commonwealth

This amount represents funds transferred unilaterally by the Commonwealth for the construction of certain projects.

c. Contribution from the Puerto Rico Sales Tax Financing Corporation

On May 13, 2006, the Legislature of the Commonwealth approved Act No. 91 and created the Puerto Rico Sales Tax Financing Corporation (the Tax Financing Corporation). Act No. 91 was amended by Act No. 291 of December 26, 2006 and by Act No. 56 of July 6, 2007.

During the year ended June 30, 2010, the Tax Financing Corporation contributes \$12.8 million for the payment of principal and interest due on line of credits. Such transaction has been reflected as a contribution from the Puerto Rico Sales Tax Financing Corporation in the Statement of Revenues, Expenses and Changes in Net Assets as of June 30, 2010.

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d. Due to Commonwealth

The balance of \$1.6 million and \$3.6 million, as of June 30, 2010 and 2009, respectively, represents excess of advances received from other governmental agencies for rent charges and for construction costs incurred for government agencies projects.

8. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2010 and 2009 were as follows:

	Year Ended June 30, 2010			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 118,756,957	\$ 11,978,922	\$ -	\$ 130,735,879
Construction in progress	264,382,645	83,163,146	(124,005,409)	223,540,382
Total capital assets, not being depreciated	<u>383,139,602</u>	<u>95,142,068</u>	<u>(124,005,409)</u>	<u>354,276,261</u>
Capital assets, being depreciated:				
Buildings	3,309,831,178	124,005,409	(2,000,511)	3,431,836,076
Equipment and automobiles	14,185,380	163,548	(465,105)	13,883,823
	<u>3,324,016,558</u>	<u>124,168,957</u>	<u>(2,465,616)</u>	<u>3,445,719,899</u>
Less accumulated depreciation for:				
Buildings	(826,829,394)	(65,792,077)		(892,621,471)
Equipment and automobiles	(12,252,953)	(503,730)	522,947	(12,233,736)
	<u>(839,082,347)</u>	<u>(66,295,807)</u>	<u>522,947</u>	<u>(904,855,207)</u>
Total capital assets, being depreciated, net	<u>2,484,934,211</u>	<u>57,873,150</u>	<u>(1,942,669)</u>	<u>2,540,864,692</u>
Capital assets, net	<u>\$ 2,868,073,813</u>	<u>\$ 153,015,218</u>	<u>\$ (125,948,078)</u>	<u>\$ 2,895,140,953</u>

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	Year Ended June 30, 2009			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets, not being depreciated:				
Land	\$ 117,626,544	\$ 1,418,418	\$ (288,005)	\$ 118,756,957
Construction in progress	310,810,336	90,509,058	(136,936,749)	264,382,645
Total capital assets, not being depreciated	<u>428,436,880</u>	<u>91,927,476</u>	<u>(137,224,754)</u>	<u>383,139,602</u>
Capital assets, being depreciated:				
Buildings	3,172,416,382	138,029,847	(615,051)	3,309,831,178
Equipment and automobiles	14,857,747	252,589	(924,956)	14,185,380
	<u>3,187,274,129</u>	<u>138,282,436</u>	<u>(1,540,007)</u>	<u>3,324,016,558</u>
Less accumulated depreciation for:				
Buildings	(761,463,346)	(65,366,048)		(826,829,394)
Equipment and automobiles	(12,280,333)	(787,882)	815,062	(12,252,953)
	<u>(773,743,679)</u>	<u>(66,153,730)</u>	<u>815,062</u>	<u>(839,082,347)</u>
Total capital assets, being depreciated, net	<u>2,413,530,450</u>	<u>72,128,706</u>	<u>(724,945)</u>	<u>2,484,934,211</u>
Capital assets, net	<u>\$ 2,841,967,330</u>	<u>\$ 164,056,182</u>	<u>\$ (137,949,699)</u>	<u>\$ 2,868,073,813</u>

Total interest costs capitalized during the years ended June 30, 2010 and 2009, aggregate to approximately \$9.9 million and \$10.6 million, respectively. Total general and administrative expenses capitalized during the years ended June 30, 2010 and 2009 aggregates approximately \$2.1 million and \$2.2, respectively.

9. PROPERTY HELD FOR SALE

The Authority identified certain properties for sale, as part of its efforts to increase liquidity. The amounts shown of \$3 million and \$14.7 million as of June 30, 2010 and 2009, respectively, were reclassified from capital assets as property held for sale and is recorded at cost or net book value. No cost to disposal has been estimated as these properties consist of real estate and the Authority believes that the net realizable amount will exceed the current book value of the property held for sale.

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10. LAND AND BUILDINGS UNDER CONSTRUCTION AND ADVANCES FROM OTHER GOVERNMENTAL AGENCIES

Land and buildings under construction for other governmental agencies as of June 30, 2010 and 2009 were as follows:

	June 30, 2010			
	2009	Increase	Decrease	2010
Construction in progress	\$ 152,282	\$ 1,075,000	\$ (1,076,892)	\$ 150,390
	June 30, 2009			
	2008	Increase	Decrease	2009
Construction in progress	\$ 120,508	\$ 31,774	\$ -	\$ 152,282

Advances from other governmental entities at June 30, 2010 and 2009 amounted to approximately \$1.9 million and \$3 million, respectively. These amounts represent funds received from several agencies and municipalities for the construction of projects.

11. DUE TO OTHER GOVERNMENTAL ENTITIES

Due to other governmental agencies as of June 30, 2010 and 2009 were as follow:

	2010	2009
Puerto Rico Electric Power Authority	\$ 36,431,608	\$ 57,987,079
Puerto Rico Aqueduct and Server Authority	3,203,582	3,168,109
Employees' Retirement System	2,729,169	2,447,060
Puerto Rico Department of Labor	1,975,570	2,127,095
General Services Administration	100,964	715,544
Puerto Rico Land Authority	335,304	335,304
Puerto Rico Land Administration	12,549	-
Department of Transportation and Public Works	-	185
Total	\$ 44,788,746	\$ 66,780,376

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12. BONDS PAYABLE

Bonds payable as of June 30, 2010 and 2009 were as follow:

Aggregate maturities of sinking funds' amortization requirements on bonds, (excluding discounts and premiums), accreted value on bonds and related interest payments in future years are as follows:

<u>Description</u>	<u>2010</u>	<u>2009</u>
Office Buildings Bonds:		
Serial Bonds, maturing through 2010, with interest rates ranging from 5.70% to 5.75%	\$ 6,065,000	\$ 11,800,000
Term Bonds, maturing through 2021, with interest rates ranging from 5.50% to 5.75%	37,315,000	37,315,000
	<u>43,380,000</u>	<u>49,115,000</u>
Public Education and Health Facilities Bonds		
Serial Bonds, maturing through 2010, with interest rates ranging from 5.70% to 5.75%	32,585,000	66,015,000
	<u>32,585,000</u>	<u>66,015,000</u>
Government Facilities Revenue Bonds:		
Serial Bonds maturing through 2027, with interest rates ranging from 3.13% to 6.25%	1,042,610,000	958,880,000
Term Bonds maturing through 2037, with interest rates ranging from 3.00% to 6.25%	1,954,930,000	1,900,310,000
Capital Appreciation Bonds, maturing through 2031, with interest rates ranging from 3.75% to 5.50%	107,082,082	98,061,979
	<u>3,104,622,082</u>	<u>2,957,251,979</u>
Total bonds outstanding	3,180,587,082	3,072,381,979
Less: Bonds discounts	(26,454,183)	(22,789,583)
Deferred loss on bonds defeased	(151,563,716)	(138,693,597)
Plus: Bonds premiums	84,785,495	102,194,283
Net bonds payable	<u>3,087,354,678</u>	<u>3,013,093,082</u>
Less: Current portion	<u>(84,850,000)</u>	<u>(79,535,000)</u>
Total bonds payable	<u>\$3,002,504,678</u>	<u>\$2,933,558,082</u>

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Year ending June 30,	Principal	Interest
2011	\$ 84,850,000	\$ 167,322,550
2012	81,001,970	163,671,494
2013	78,580,447	159,823,235
2014	74,135,000	155,261,025
2015	77,920,000	151,199,375
2016-2020	392,130,000	683,673,689
2021-2025	408,835,000	565,789,592
2026-2030	610,395,000	424,206,703
2031-2035	787,351,668	240,603,963
2036-2039	559,190,000	50,974,827
Principal outstanding and interest	3,154,389,085	<u>\$ 2,762,526,453</u>
Add (deduct): Bond Discounts	(26,454,183)	
Deferred loss on bonds defeased	(151,563,716)	
Accreted value on bonds outstanding	26,197,997	
Bonds premiums	84,785,495	
Net bonds payable	<u>3,087,354,678</u>	
Less: Current portion	<u>(84,850,000)</u>	
Total bonds payable	<u>\$3,002,504,678</u>	

Activity of bonds payable during the year ended June 30, 2010 is as follows:

	June 30, 2010				
	2009	Issuances/ Accretion	Payments/ Current	2010	Current Portion
Office Building Bonds					
Serial Bonds	\$ 11,800,000	\$ -	\$ (5,735,000)	\$ 6,065,000	\$ 6,065,000
Terms Bonds	37,315,000	-	-	37,315,000	-
	<u>49,115,000</u>	<u>-</u>	<u>(5,735,000)</u>	<u>43,380,000</u>	<u>6,065,000</u>
Public Education and Health Facilities Bonds					
Serial Bonds	66,015,000	-	(33,430,000)	32,585,000	32,585,000
	<u>66,015,000</u>	<u>-</u>	<u>(33,430,000)</u>	<u>32,585,000</u>	<u>32,585,000</u>
Government Facilities Revenue Bonds					
Serial Bonds	958,880,000	123,975,000	(40,245,000)	1,042,610,000	46,200,000
Term Bonds	1,900,310,000	409,500,000	(354,880,000)	1,954,930,000	-
Capital Appreciation Bonds	98,061,979	11,787,756	(2,767,653)	107,082,082	-
	<u>2,957,251,979</u>	<u>545,262,756</u>	<u>(397,892,653)</u>	<u>3,104,622,082</u>	<u>46,200,000</u>
Total bonds outstanding	3,072,381,979	545,262,756	(437,057,653)	3,180,587,082	84,850,000
Less: Bonds discounts	(22,789,583)	(4,776,955)	1,112,355	(26,454,183)	-
Deferred loss on bond defeased	(138,693,597)	(20,173,169)	7,303,050	(151,563,716)	-
Plus: Bonds premiums	102,194,283	-	(17,408,788)	84,785,495	-
Total bonds payable, net	<u>\$3,013,093,082</u>	<u>\$ 520,312,632</u>	<u>\$(446,051,036)</u>	<u>\$ 3,087,354,678</u>	<u>\$ 84,850,000</u>

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Activity of bonds payable during the year ended June 30, 2009 is as follows:

	June 30, 2009				
	2008	Issuances/ Accretion	Payments/ Current	2009	Current Portion
Office Building Bonds					
Serial Bonds	\$ 11,800,000	\$ -	\$ -	\$ 11,800,000	\$ 5,735,000
Terms Bonds	37,315,000	-	-	37,315,000	-
Tax-Exempt Bonds	5,400,000	-	(5,400,000)	-	-
	<u>54,515,000</u>	<u>-</u>	<u>(5,400,000)</u>	<u>49,115,000</u>	<u>5,735,000</u>
Public Education and Health Facilities Bonds					
Serial Bonds	66,015,000	-	-	66,015,000	33,430,000
Tax-Exempt Bonds	31,640,000	-	(31,640,000)	-	-
	<u>97,655,000</u>	<u>-</u>	<u>(31,640,000)</u>	<u>66,015,000</u>	<u>33,430,000</u>
Government Facilities Revenue Bonds					
Serial Bonds	967,150,000	-	(8,270,000)	958,880,000	40,370,000
Term Bonds	1,900,310,000	-	-	1,900,310,000	-
Capital Appreciation Bonds	100,088,118	6,578,861	(8,605,000)	98,061,979	-
	<u>2,967,548,118</u>	<u>6,578,861</u>	<u>(16,875,000)</u>	<u>2,957,251,979</u>	<u>40,370,000</u>
Total bonds outstanding	3,119,718,118	6,578,861	(53,915,000)	3,072,381,979	79,535,000
Less: Bonds discounts	(24,011,322)	(185,138)	1,406,877	(22,789,583)	-
Deferred loss on bond defeased	(145,964,158)	-	7,270,561	(138,693,597)	-
Plus: Bonds premiums	100,228,115	11,132,029	(9,165,861)	102,194,283	-
Total bonds payable, net	<u>\$3,049,970,753</u>	<u>\$ 17,525,752</u>	<u>\$ (54,403,423)</u>	<u>\$ 3,013,093,082</u>	<u>\$ 79,535,000</u>

The maturities of bonds payable are funded by debt service rental revenue collected from the lessees. The bonds are secured by a pledge of the rentals of government facilities financed or refinanced by such bonds and leased by the Authority to departments, agencies, and instrumentalities of the Commonwealth.

The good faith and credit of the Commonwealth are pledged for the payment or advance of such rentals. The payment of principal and interest on the bonds is further secured by the guaranty of the Commonwealth under which the

Commonwealth, pledges to draw from any funds available in the Department of Treasury of Puerto Rico such sums as may be necessary to cover any deficiency in the amount required for the payment of principal and interest on the bonds, in an aggregate principal amount not exceeding \$3,325 million (\$4,325 million commencing on July 1, 2010).

The Authority's bonds payable are subject to the arbitrage rebate regulations issued by the Internal Revenue Service of the United States of America that require rebate to the federal government of excess investment earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt

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issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier.

a. Defeased and Refunding Bonds

In prior years, the Authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old debts. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the statements of net assets. As of June 30, 2010 and 2009, approximately \$940 million of bonds outstanding are considered defeased.

In July 1, 2009 the Authority issued \$331 million Government Facilities Revenue Refunding Bonds, Series P. The proceeds from the issuance were used to advance refund \$297 million Government Facilities Revenue Refunding Bonds, Series K, make swap termination payments of \$28.4 million and pay cost of issuance of \$4.7 million. On the same date, the Authority converted \$50 million principal amount of its Government Facilities Revenue Refunding Bonds, Series K, from a LIBOR-based rate to a fixed rate and remarketed such bonds. As a result of the transaction, the Authority recognized an accounting loss of \$22 million which has been deferred and will be amortized over the life of the old debt.

On October 16, 2009 the Authority issued its \$152,540,000 aggregate principal amount of Government Facilities Revenue Refunding Bonds, Series Q, Guaranteed by the Commonwealth of Puerto Rico. The bonds are being issued to refund interest (but not principal) of certain bonds issued by the Authority under the 1995 Resolution.

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13. OTHER LONG-TERM LIABILITIES

Other long-term liabilities are composed of the following:

	Year Ended June 30, 2010				
	Beginning Balance	Increases	Payments/ Decreases	Ending Balance	Current Portion
Borrowings under lines of credit	\$ 185,541,305	\$ 86,299,955	\$ (106,092,158)	\$ 165,749,102	\$ 95,749,102
Due to contractors, including retainage	49,642,149	79,294,102	(87,981,647)	40,954,604	13,363,228
Advances from governmental agencies	3,009,790	6,343,602	(7,403,796)	1,949,596	-
Compensated absences	13,948,924	-	(1,929,511)	12,019,413	3,041,471
Contingencies	9,435,534	1,994,334	(2,010,090)	9,419,778	-
Due to Commonwealth	3,649,359	-	(1,965,551)	1,683,808	-
Total other long-term liabilities	<u>\$ 265,227,061</u>	<u>\$ 173,931,993</u>	<u>\$ (207,382,753)</u>	<u>\$ 231,776,301</u>	<u>\$ 112,153,801</u>

	Year Ended June 30, 2009				
	Beginning Balance	Increases	Payments/ Decreases	Ending Balance	Current Portion
Borrowings under lines of credit	\$ 79,301,214	\$ 110,547,659	\$ (4,307,568)	\$ 185,541,305	\$ 181,457,894
Due to contractors, including retainage	46,924,588	93,544,198	(90,826,637)	49,642,149	20,100,095
Advances from governmental agencies	2,934,790	13,412,093	(13,337,093)	3,009,790	-
Compensated absences	13,015,996	932,928	-	13,948,924	4,409,278
Contingencies	9,036,474	3,108,529	(2,709,469)	9,435,534	-
Due to Commonwealth	2,976,380	672,979	-	3,649,359	-
Total other long term liabilities	<u>\$ 154,189,442</u>	<u>\$ 222,218,386</u>	<u>\$ (111,180,767)</u>	<u>\$ 265,227,061</u>	<u>\$ 205,967,267</u>

Borrowings under line of credit – On May 2, 2008, the Authority executed two Loan Agreements with GDB for the interim financing of its Capital Improvement Program in an amount not to exceed \$226 million, bearing interest at 5.0% and 4.75%. The loans and the accrued interest are due on October 31, 2010 and June 30, 2011 and will be payable from the proceeds of the next bond issuance of the Authority divided into \$209 million on a tax-exempt basis and \$16.9 million on a taxable basis.

The Authority maintains a line of credit with GDB for \$75 million, bearing interest at a variable rate based on 1.25% over the three months LIBOR rate, with a minimum of 5% interest rate. The line is collateralized with two of the Authority's properties. The proceeds were used to finance the Authority's operational expenses. Payments of principal and interest will be appropriate from the Commonwealth of Puerto Rico's general budget pursuant to the provisions of the Resolution Num. 387 of December 21, 2005. During the fiscal year ended June 30, 2010 payment of principal and interest due of \$5,000,000 and \$7,857,123 were made by the Puerto Rico Sales Tax Financing Corporation. For the fiscal years ended June 30, 2010 and 2009, the amount of \$70 million and \$75 million of the line of credit was used.

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On February 27, 2009, the Authority executed a Loan Agreements with GDB for an aggregate principal amount not to exceed \$64,540,000, bearing interest daily from the drawings date until its repayment at a rate of interest per annum equal to the Prime Rate plus 150 basis points, no such rate of interest per annum shall be in excess of 12%. This loan was issued with the purpose of paying the interest component of certain outstanding revenue and revenue refunding bonds of the Authority. During the fiscal year ended June 30, 2010 payment of principal and interest due of \$91,191,954 and \$1,939,400 were made with proceeds from the Government Facilities Revenue Refunding Bonds, Series Q.

On April 27, 2009, GDB provide to the Authority a non-revolving credit facility in the maximum principal amount of \$98,500,000 bearing interest on the unpaid principal amount of each advance at a fluctuating annual rate equal to 1.50% percent over and above the Prime Rate or at such other rate determined by GDB. The proceeds of the Facility will be used exclusively for the payment of certain amounts due by the Authority to its suppliers and service providers. All such payments shall be subject to the prior approval of GDB and shall be disbursed directly to the suppliers and service providers. The loan and the accrued interest are due on June 30, 2011 and will be payable from all funds generated by the PBA and any other properties owned and pledged to GDB. As of June 30, 2010 there have been drawings on the line of credit amounting to \$4,065,174 and has accrued interest amounting to \$113,712.

Due to contractors, including retainage – This amount represents the remaining balance due to contractors for projects under construction. Normally, the contractors submit progress billings for projects in progress and the Authority pay these invoices, except for the retainage portion. This withholding is used as a guarantee that the contractor will complete the project in accordance with contract requirements.

Normally the retainage will be paid upon completion and acceptable receipt of the projects, as determined by the Authority's engineers.

Advances from governmental entities – This amount represents the balance of the amounts advanced by other governmental entities, mainly for the construction of facilities that will be owned by these entities. These projects include appropriations from the Commonwealth to finance the construction of facilities, by these agencies, which in turn request from the Authority to carryout the construction project and the administration of the construction process. Upon acceptable completion, the project

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is completed and is taken over by the corresponding agency. The assets are not owned by the Authority.

Compensated absences – This amount represents the long term portion of the accrued compensated absences, as estimated by the Authority.

Contingencies – This amount represents the Authority's estimates of possible legal and contractual settlement arising from normal litigation procedures. The estimated amount was based on the corresponding number of legal cases currently underway, and based upon the advice and consent of the Authority's legal division and its external legal advisors. Actual amount to be settled may be materially different from the amount accrued.

14. EMPLOYEE RETIREMENT PLAN

The Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (the System) is a cost sharing multiple-employer defined-benefit pension plan sponsored by, and reported as a component unit of, the Commonwealth. The System was created under Act No. 447 (the Act) approved on May 15, 1951, as amended, and became effective on January 1, 1952. All regular appointed and temporary employees of the Authority under age fifty five (55) at the date of employment become plan participants of the System.

The System provides retirement, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits generally vest after (10) years of plan participation. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest thirty-six (36) months of compensation recognized by the System. The annuity, for which a plan member is eligible, is limited to a minimum of \$300 per month and a maximum of 75 percent of the average compensation.

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Contribution requirements, which are established by law and not actuarially determined, are as follows:

Commonwealth	9.275% of applicable payroll
Employees:	
Hired on or before March 31, 1990	5.775% of monthly gross salary up to \$550 and 8.275% of monthly gross salary over \$550
Hired on or after April 1, 1990	8.275% of monthly gross salary

On September 24, 1999, an amendment to the Act, which created the System, was enacted with the purpose of establishing a defined contribution plan effective January 1, 2000. Employees participating in the defined-benefit plan (the traditional plan) at December 31, 1999, had the option to either stay in the traditional plan or transfer to System 2000. Persons employed on or after January 1, 2000 are only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan there is a pool of pension assets, which are invested by the System, together with those of System 2000 benefit plan. The Commonwealth does not guarantee benefits at retirement age. The annuity is based on a formula which assumes that each year the participants' contribution (with a minimum of 8.275% of the participants' salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not granted under System 2000. The employers' contributions (9.275% of the employee's salary) are used to fund the traditional plan. System 2000 reduces the retirement age from sixty-five (65) years to sixty (60) years for those employees who joined the current plan on or after January 1, 2000.

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Total employee and employer contributions for the years ended June 30, 2010 and 2009 are as follows:

Traditional Plan	<u>2010</u>	<u>2009</u>
Employer	<u>\$3,029,461</u>	<u>\$3,094,608</u>
Employee	<u>\$2,702,834</u>	<u>\$2,760,957</u>
System 2000		
Employer	<u>\$1,712,308</u>	<u>\$1,613,231</u>
Employee	<u>\$1,527,692</u>	<u>\$1,439,297</u>

The System issued financial reports that include their basic financial statements and required supplementary information. Those reports may be obtained by writing to the System's administrator at 437 Ponce de León Avenue, Hato Rey, Puerto Rico 00918. Activity of accrued pension costs, included within accrued expenses, during the years ended June 30, 2010 and 2009 is as follows.

<u>Description</u>	<u>2010</u>	<u>2009</u>
Beginning balance	\$ 995,658	\$1,961,951
Increase	10,458,198	9,610,787
Decrease	<u>(10,559,017)</u>	<u>(10,577,080)</u>
Ending balance	<u>\$ 894,839</u>	<u>\$ 995,658</u>

15. OTHER POST-EMPLOYMENT BENEFITS

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions requires the calculation and recording of the net other post-employment benefit (OPEB) obligations. The net OPEB obligation is, in general, the cumulative difference between the actuarial required contribution and the actual contributions at the valuation date.

Description of the other post-employment benefits provided – In addition to providing the pension benefits described in Note 14 above, the Authority provides a defined dollar contribution to partially cover medical insurance cost to eligible retired employees. The Authority contribution is limited to \$200 monthly per eligible retired

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employees, up to a period of thirty-six months (twelve months for managerial employees). This benefit is included in the Collective Bargain Agreement and it will be effective until May 2013. It will be evaluated when the agreement be renewed on May 2013. Under this level of benefits provided, the risk of medical cost increases resides with the retiree, and therefore results in a lower OPEB liability for the Authority.

Membership – As of June 30, 2010 and 2009 the number of active employees and retirees amounted to 1,251 and 1,532, respectively.

Funding Policy and Contributions – The Authority contribution level is negotiated through the union contracts or personnel policy and it is payable directly to the retiree selected medical insurance plan or as a reimbursement to the retiree through a self-insured plan (pay-as-you-go). For the fiscal year ended June 30, 2010, the Authority contributed \$189,271 toward the cost of their healthcare.

- Annual OPEB Cost and Net OPEB Obligation

Due to the nature of the benefits provided and the immaterial dollar amounts involved, management decided to make the actuarial calculations for the fiscal year ended June 30, 2010 by its own financial management. The first actuarial valuation for the plan was scheduled for June 30, 2011 to determine the funded status of the plan as of that date as well as the employer's annual required contribution (ARC) for the year ended. Actuarial valuations will be performed every three years, thereafter. The Authority's June 30, 2010 OPEB cost of \$822,602 was greater than the ARC of \$189,271 for the year.

- Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

PUBLIC BUILDINGS AUTHORITY
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16. COMMITMENTS

The Authority has entered into various contracts with outside contractors for the construction of buildings and other facilities. The Authority records the liability for these contracts as progress billings are received, based on completed work. The uncompleted portion of these contracts is approximately \$72.7 million and \$12.5 million as of June 30, 2010 and 2009, respectively.

17. CONTINGENT LIABILITIES

The Authority is a defendant and/or co-defendant in various lawsuits for alleged breach of contracts and other actions arising in the ordinary course of business. Management, based on the advice of the legal counsel, has recorded reserves to cover for possible liabilities related to these claims. These reserves are recorded as part of the contingencies in the accompanying statements of net assets.

18. SUBSEQUENT EVENTS

On July 7, 2010, the Board of Directors authorized the Executive Director to obtain a loan from the Government Development Bank for Puerto Rico to refinance the interest component of certain outstanding revenue and revenue refunding bonds. The Authority is authorized to accept the terms and conditions of a loan in a principal amount not to exceed \$36,944,781 to pay the interest component coming due during the twelve months after the date of the first drawing under the Loan Agreement. The loan shall mature on such date as GDB may determine but in no event later than June 30, 2011.

On August 16, 2010, the Board of Directors authorized the Executive Director to request and obtain a line of credit for approximately \$93,000,000 for construction projects development.

On September 1, 2010, the Board of Directors authorized the Executive Director to accept an increase of \$12,314,927 to the loan of \$36,944,781, such that the aggregate amount of the loan will not exceed \$49,259,708. The proceeds of the loan shall be used to finance the interest of certain outstanding revenue bonds of the Authority until such time as the Authority issues revenue refunding bonds to refund such interest. The term of the loan, including the maturity date, rates of interest thereon and source and method of payments shall remain the same as set forth in the Loan Agreement, previously approved by the Board.

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On September 1, 2010, the Board of Directors authorized the Executive Director accept a loan from the Government Bank of Puerto Rico in the amount of \$160,000,000.

The Authority in conjunction with the Puerto Rico Public Partnerships Authority (the P3 Authority), the Puerto Rico Department of Education, the Department of Transportation and Public Works and the Puerto Rico Infrastructure Financing Authority, is undertaking a significant expansive modernization project for the Puerto Rico's Public Schools, known as the Schools for the 21st Century.

The proceeds of the loan shall be used to finance projects costs, under the Inter-Departmental Agreement, until such time as the Authority issues the Qualified School Construction Bonds (the QSCBs).

The loan shall be due on August 31, 2011. The loan shall bear interest payable in arrears, until paid in full at the rate or rates per annum determined in accordance with the agreement.

On September 24, 2010, the Treasury Department transferred \$60.3 million to the Authority for the payment of debts from agencies of the Commonwealth of Puerto Rico related to rent due as of June 30, 2009.

19. RESTATEMENTS

Effective July 1, 2009, the Authority implemented GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments (GASB 53). In order to conform to the provisions of GASB 53 retroactively, the Authority has restated its prior year financial statements as follows:

AS OF JUNE 30, 2009 AND 2008

	As Previously Reported 2009	As Restated 2009
Liabilities and Net Assets		
Derivative instrument - interest rate swap liability	\$ -	\$ 28,395,000
Deferred outflow of resources	-	(28,395,000)

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

	As Previously Reported 2008	As Restated 2008
Liabilities and Net Assets		
Derivative instrument - interest rate swap liability	\$ -	\$ 12,968,509
Deferred outflow of resources	-	(12,968,509)

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF BONDS SINKING FUNDS ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2010

	2010 Total	Bond Service Account	Reserve and Redemption Account
OFFICE BUILDING BONDS			
Balance at June 30, 2009	\$ 2,749	\$ 2,749	\$ -
Receipts:			
Transfers	(2,749)	(2,749)	-
Balance at June 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
PUBLIC EDUCATION AND HEALTH FACILITIES BONDS			
Balance at June 30, 2009	\$ 3,572,975	\$ 3,572,975	\$ -
Receipts:			
Debt service rentals	65,536,464	65,536,464	-
Transfers from Reserve	29,631	29,631	-
Disbursements:			
Payment of bonds interest	(1,889,574)	(1,889,574)	-
Payment of bonds principal	(33,430,000)	(33,430,000)	-
Other	(312,273)	(312,273)	-
Balance at June 30, 2010	<u>\$ 33,507,223</u>	<u>\$ 33,507,223</u>	<u>\$ -</u>
GOVERNMENTAL FACILITIES BONDS			
Balance at June 30, 2009	\$108,921,328	\$108,921,328	\$ -
Receipts:			
Debt service rentals	132,620,628	132,620,628	-
Investments income	8,316	8,316	-
Transfers from Reserve	13,489,120	13,489,120	-
Refunding Interest	71,417,527	71,417,527	-
Capitalized Interest	22,707,322	22,707,322	-
Others	39,653	39,653	-
Disbursements:			
Payment of bonds interest	(136,906,046)	(136,906,046)	-
Payment of bonds principal	(45,980,000)	(45,980,000)	-
Refunding Interest	(38,399,794)	(38,399,794)	-
Other disbursements	(434)	(434)	-
Balance at June 30, 2010	<u>\$127,917,620</u>	<u>\$127,917,620</u>	<u>\$ -</u>

PUBLIC BUILDINGS AUTHORITY
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SCHEDULE OF OPERATING CASH ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2010

<u>Description</u>	<u>Banco Popular</u>	<u>Government Development Bank for PR</u>
Balance at June 30, 2009	\$ 140,477	\$ 62,540,843
Deposits:		
Rent collected	42,586,450	332,745,347
Interest		78,759
Disbursements:		
For current expenses, transfers to bond service account and others	<u>(42,744,611)</u>	<u>(328,193,364)</u>
Balance at June 30, 2010	<u>\$ (17,684)</u>	<u>\$ 67,171,585</u>
	(A)	(B)

(A) Balance included in cash and cash equivalents in the accompanying Statements of Net Assets.

(B) Balance included in cash and cash equivalents in the accompanying Statements of Net Assets, distributed between unrestricted (\$24,000,000) and restricted cash (\$43,171,585).

PUBLIC BUILDINGS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF OPERATING RENTAL REVENUES AND RECEIVABLES
FOR THE YEAR ENDED JUNE 30, 2010

	Rental Revenues	Receivables
	Year Ended	as of
	June 30, 2010	June 30, 2010
OFFICE BUILDINGS		
Debt service rentals - bonds	\$ 55,469,684	\$ -
Operating, administrative, and equipment replacement reserve rentals	<u>36,329,956</u>	<u>71,199,625</u>
Total Office Buildings	<u>91,799,640</u>	<u>71,199,625</u>
PUBLIC EDUCATION BUILDINGS		
Debt service rentals - bonds	145,493,610	-
Operating, administrative, and equipment replacement reserve rentals	<u>63,237,388</u>	<u>91,824,805</u>
Total Public Education Buildings	<u>208,730,998</u>	<u>91,824,805</u>
HEALTH FACILITIES		
Debt service rentals - bonds	22,143,910	-
Operating, administrative, and equipment replacement reserve rentals	<u>9,641,621</u>	<u>45,608,094</u>
Total Health Facilities	<u>31,785,531</u>	<u>45,608,094</u>
 Total	 <u>\$ 332,316,169</u>	 <u>\$ 208,632,524</u>

PUBLIC BUILDINGS AUTHORITY
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SCHEDULE OF CAPITAL IMPROVEMENTS PROGRAM COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Actual</u>	<u>Budget</u>
Educational facilities	\$ 63,132,762	\$ 68,811,932
Police facilities	3,962,531	5,115,549
Offices buildings	13,448,056	61,843,853
Courthouses	2,156,156	5,001,642
Firehouses	463,640	991,306
Authority's equipment	163,548	-
 Total	 <u>\$ 83,326,693</u>	 <u>\$ 141,764,282</u>