Puerto Rico Ports Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements, Required Supplementary Information, and Other Supplementary Information as of and for the Year Ended June 30, 2010 and Independent Auditors' Report

Puerto Rico Ports Authority

(A Component Unit of the Commonwealth of Puerto Rico)
Basic Financial Statements, Required Supplementary Information and Other Supplementary Information as of and for the Year Ended June 30, 2010

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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Puerto Rico Ports Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of Puerto Rico Ports Authority. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Puerto Rico Ports Authority. The schedules, as listed in the table of contents for the year ended June 30, 2010 included on pages 46 through 51, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Parisi, P.S.C.

December 22, 2010
San Juan, Puerto Rico

Stamp No. E261 was affixed
to the original of this report.
License No. 88 Exp. December 1, 2011

Introduction

The following discussion and analysis of the financial performance and activity of the Authority is intended to provide an introduction to the financial statements of the Authority for the year ended June 30, 2010, with selected comparative information to the year ended June 30, 2009. This section has been prepared by management of the Authority and should be read in conjunction with the financial statements and the notes thereon, which follow this section.

Overview of Financial Results

The Authority's net assets totaled $337 million in 2010, representing a $39 million decrease over 2009, as restated. The decrease was primarily due to the results of operations and interest expense incurred for the year 2010.

Operating revenues, net totaled $138 million in 2010 and $140 million in 2009. These figures include $73 million of gross maritime revenues and $67 million of gross aviation revenues deducted by $2 million of discounts, incentives and the provision for doubtful accounts in 2010; and $62 million of gross maritime revenues and $80 million of gross aviation revenues deducted by $2.2 million of discounts, incentives and the provision for doubtful accounts for 2009.

Operating expenses (excluding depreciation and amortization) totaled $129 million in 2010, which is $10 million less than 2009. The net decrease was primarily due to a decrease of $2.9 million in salary expenses, a decrease of $10.1 million in general and administrative expenses and a decrease of $421 thousand in professional services, net by an increase in insurance, rent, repairs and maintenance of $2.8 million. The decreases reflect a part of management's strategy to control operating expenses.

Non operating revenues consist of passenger facility charges (PFC); a Federal Aviation Administration approved program, fuel flowage fees, penalties and other fees and interest. Total non operating revenues and expense (excluding federal and state financial assistance) decreased by $2.4 million in 2010 as compared to 2009, primarily due to an increase in the PFC revenues of $5.7 million and an increase in interest expenses, net of $2.3 million. The increase in PFC revenues is partially attributable to an increase in direct flights subject to PFC.

Other Highlights

- The airport system enplaned approximately 4.8 million passengers during fiscal year 2010, resulting in a net decrease of 112,000 passengers compared with 2009. The principal airport facility is Luis Muñoz Marín International Airport (LMMIA) with 88% of passengers enplaned and 12% at regional airports mainly in Aguadilla and Ponce.

- In the maritime system, the Port of San Juan handled 7.9 million tons of cargo for the fiscal year 2010. The cruise ship passengers totaled 1.2 million, a decrease of 50,341 passengers over fiscal year 2009.

- As part of the ongoing aggressive investment plan to increase capacity of the LMMIA, the Authority continued the construction of Terminal A and improvements to the south runway. Terminal A will add seven gates to the LMMIA, which will improve the handling of passengers in the airport and will have 20,000 square feet of commercial space for restaurants, duty free shops, and coffee shops, among others. The Terminal A is expected to commence operations in the first half of 2011.

- Management recently announced plans to establish a primary healthcare facility in LMMIA. The healthcare facility will be located in Terminal D and occupy 11,000 square feet with an investment estimated at $3 million.

- On December 22, 2009, the Federal Aviation Administration informed the Authority that the preliminary application for the LMMIA's participation in the Airport Privatization Pilot Program was accepted for further review. This program allows only for the lease of the facilities to qualified concessionaires. Assets under this agreement may not be sold to third parties. Management believes that with the full concession of the LMMIA, travelers' experience will be enhanced, much needed infrastructure improvements will be provided and the fiscal position of the Authority will be strengthened. Currently, the project is in a process of completing a cycle of meetings with airlines in order to achieve approval required by the Federal Aviation Administration.

Overview of the Financial Statements

Management's discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements, including the notes to the financial statements and other supplemental information, pursuant to the Trust Agreement. The basic financial statements comprise the following: the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Assets, the Statement of Cash Flows and the Notes to Basic Financial Statements.

Balance Sheet

The Balance Sheet presents the financial position of the Authority at the end of the fiscal year and includes all of its assets and liabilities. Net assets represent the difference between total assets and liabilities. A summarized comparison of the Authority's assets, liabilities, and net assets follows:

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	2010	(As Restated) 2009	Change	
	(In Thousands)		In Dollars	Percentage
Assets				
Current assets	$ 49,736	69,792	(20,056)	-29%
Non current assets				
Capital assets, net	1,165,536	1,174,012	(8,476)	-1%
Other non current assets	131,559	120,299	11,260	9%
Total assets	$ 1,346,831	1,364,103	(17,272)	-1%
Liabilities and net assets				
Current liabilities	$ 336,938	295,789	41,149	14%
Non current liabilities				
Bonds and notes payable	507,578	556,408	(48,830)	-9%
Other non current liabilities	165,722	136,795	28,927	21%
Total liabilities	1,010,238	988,992	21,246	2%
Net assets:				
Invested in capital assets, net of related debt	408,318	422,755	(14,437)	-3%
Restricted	9,359	13,117	(3,758)	-29%
Unrestricted	(81,084)	(60,761)	(20,323)	33%
Total net assets	336,593	375,111	(38,518)	-10%
Total liabilities and net assets	$ 1,346,831	1,364,103	(17,272)	-1%

Analysis of Net Assets at June 30, 2010 and 2009

The Authority's financial position at June 30, 2010 includes assets of approximately $1.3 billion and liabilities of approximately $1 billion. Capital assets decreased by $8 million from 2009. This amount includes construction in progress and completed projects, net of depreciation.

Net assets totaled approximately $337 million at June 30, 2010, a decrease of approximately $39 million from 2009. Invested in capital assets net of related debt, which totaled $408 million at June 30, 2010, represents the largest of the three components of the Authority's net assets and comprises investment in capital assets (e.g., land, buildings piers, improvements, roads and parking areas, among others), less the related outstanding indebtedness used to acquire those capital assets.

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Statements of Revenues, Expenses and Changes in Net Assets

The change in net assets is an indicator of whether the overall fiscal condition of an organization has improved or worsened during the year. Following is a summary of the Statements of Revenues, Expenses and Changes in Net Assets:

	2010	(As Restated) 2009	Change	
	(In Thousands)		In Dollars	Percentage
Operating revenues:				
Maritime operations	$ 73,250	61,750	11,500	19%
Airport operations	67,060	80,223	(13,163)	-16%
Less discounts and incentives	(1,981)	(2,223)	242	-11%
Total operating revenues	138,329	139,750	(1,421)	-1%
Non operating revenues:				
Federal financial assistance	15,553	31,811	(16,258)	-51%
Commonwealth of PR appropriations	242	4,567	(4,325)	-95%
Passenger facility charges	19,603	13,907	5,696	41%
Fuel flowage fees	2,352	2,471	(119)	-5%
Penalties and other fees	1,628	2,494	(866)	-35%
Total non operating revenues	39,378	55,250	(15,872)	-29%
Total revenues	177,707	195,000	(17,293)	-9%
Operating expenses:				
Salaries and employee benefits	77,253	80,156	(2,903)	-4%
General and administrative	26,520	36,650	(10,130)	-28%
Professional services	12,537	12,958	(421)	-3%
Insurance, rent, repairs and maintenance	12,803	10,036	2,767	28%
Depreciation and amortization	47,958	47,599	359	1%
Total operating expenses	177,071	187,399	(10,328)	-6%
Non operating expenses:				
Interest expense, net	39,154	36,838	2,316	6%
Total expenses	216,225	224,237	(8,012)	-4%
Decrease in net assets	(38,518)	(29,237)	(9,281)	32%
Net assets, at beginning of year, as previously reported	381,024	434,976	(53,952)	-12%
Restatement	(5,913)	(30,628)	24,715	-81%
Net assets, at beginning of year, as restated	375,111	404,348	(29,237)	-7%
Net assets, at end of year	$ 336,593	375,111	(38,518)	-10%

Analysis of Fiscal Years 2010 and 2009

Maritimé operating revenues totaled $73 million, reflecting a change of $11 million from 2009, which is primarily due to an adjustment made to the provision for doubtful accounts as a result of a change in methodology.

Airport operating revenues, net totaled $67 million compared to $80 million in 2009. There was an increase in airport operations due to landing fees related to increased tariffs and in space rentals because of retroactive assessments as a result of operational audits. Those increases were netted by the provision for doubtful accounts of $24 million for 2010 and $1 million for 2009.

Non operating revenues consist of PFC, fuel flowage fees, penalties and other fees, and interest. Federal and state financial assistance principally represents grants received from the Federal Aviation Administration, the Federal Transportation Administration and appropriations from the Government of Puerto Rico. These funds are principally used for capital projects. During the year ended June 30, 2010 PFC revenues increased by $5.7 million, and fuel flowage, penalties and other fees decreased by $985 thousand compared to 2009.

Operating expenses totaled $177 million in 2010, which is approximately $10 million less than 2009. The fluctuation was primarily due to a decrease of $10 million in general and administrative expenses. There was a reduction of $4.1 million in litigation expense and $2.1 in electricity expense.

Total non operating expenses consist of interest expense, net which increased by $2.3 million in 2010 as compared to 2009.

Capital Construction Activities

The Authority's investment in capital assets as of June 30, 2010 amounted to approximately $1.2 billion, net of accumulated depreciation and amortization. Capital assets include land and land improvements, construction in progress, building, piers, runaways, roadways, machinery, furniture, equipment and vehicles. The Authority's expenditures for capital construction projects totaled $197 million in 2010. Funding sources were as follows: $15 million was funded with federal contributions, $19 million was funded with PFC's; and the balance of approximately $163 million was funded with the Authority's own funds and financing activities. See note 7 to the basic financial statements.

Debt Administration

As of June 30, 2010 the Authority has notes payable of $714.5 million and outstanding bonds payable of $43 million net of unamortized bond discounts. See notes 10 and 11 to the basic financial statements.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. Nelson Morales, Assistance Executive Director for Economic Development and Finance, Puerto Rico Ports Authority, P.O. Box 362829, San Juan, Puerto Rico 00936-2829.

Puerto Rico Ports Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Balance Sheet (In Thousands)

June 30, 2010

Assets

Current assets:	
Cash and cash equivalents - unrestricted	$ 282
Cash and cash equivalents - restricted	29,540
Accounts receivable, net of allowance for doubtful accounts of $72.3 million	12,199
Passenger facility charges receivable - restricted	2,647
Prepaid expenses and inventory	5,068
Total current assets	49,736
Capital assets, net	1,165,536
Other assets:	
Due from Commonwealth of Puerto Rico	2,600
Due from other governmental entities	71,335
Net pension asset	612
Deferred outflow - interest rate swap	53,667
Deferred debt issuance costs	3,345
Total other assets	131,559
Total assets	$ 1,346,831

See notes to basic financial statements.

(Continued)

Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Balance Sheet (In Thousands)
June 30, 2010

Liabilities and Net Assets

Current liabilities:	
Notes payable	$ 249,639
Accounts payable and accrued expenses	56,239
Tenants deposits	1,372
Deferred revenues	86
Due to other governmental entities	1,392
Retainage and construction costs payable	28,076
Liabilities payable from restricted assets:	
Interest payable on bonds	134
Total current liabilities	336,938
Non current liabilities:	
Notes payable	464,912
Bonds payable	42,666
Derivative instruments liability - interest rate swap	53,667
Due to Commonwealth of Puerto Rico	41,532
Due to other governmental entities	65,530
Deferred revenues	2,060
Other employee benefits	2,933
Total non current liabilities	673,300
Total liabilities	1,010,238
Net assets:	
Invested in capital assets, net of related debt	408,318
Restricted	9,359
Unrestriced - deficit	(81,084)
Total net assets	336,593
Total	$ 1,346,831

See notes to basic financial statements. (Concluded)

Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Revenues, Expenses and Changes in Net Assets (In Thousands)
Year Ended June 30, 2010

Operating revenues:		
Maritime operations	$	73,250
Airport operations		67,060
Less discounts and incentives		(1,981)
Total operating revenues, net		138,329
Operating expenses:		
Salaries and employee benefits		77,253
General and administrative		26,520
Professional services		12,537
Insurance		8,457
Rent and repairs and maintenance		4,346
Total operating expenses		129,113
Operating income before depreciation and amortization		9,216
Depreciation and amortization		47,958
Operating loss		(38,742)
Non operating revenues (expenses):		
Federal financial assistance		15,553
Commonwealth of Puerto Rico appropriations		242
Passenger facility charges		19,603
Fuel flowage fees		2,352
Penalties and other fees		1,503
Swap interest expense		(16,221)
Interest expense		(22,933)
Interest income		125
Total non operating revenues, net		224
Decrease in net assets		(38,518)
Net assets, at beginning of year, as restated		375,111
Net assets, at end of year	$	336,593

See notes to basic financial statements.

Statement of Cash Flows (In Thousands)

Cash flows used in operating activities:	
Cash received from charges	$ 139,069
Cash payments to suppliers for goods and services	(58,345)
Cash payments to employees for services	(81,530)
Net cash used in operating activities	(806)
Cash flows used in capital and related financial activities:	
Acquisition and construction of capital assets	(39,482)
Capital contributions	15,795
Interest paid	(38,686)
Principal paid on bonds	(11,989)
Proceeds from notes payable	38,154
Principal payments on notes payable	(23,168)
Passenger facility charges	18,337
Net cash used in capital and related financing activities	(41,039)
Cash flows provided by non-capital and related financing activities:	
Penalties and other fees	1,503
Fuel flowage fees	2,352
Net change in due from government agencies	18,021
Net cash provided by non-capital and related financing activities	21,876
Cash flows from investing activities:	
Interest received and net cash provided by investing activities	125
Net change in cash and cash equivalents	(19,844)
Cash and cash equivalents, beginning of year	49,666
Cash and cash equivalents, end of year	$ 29,822

See notes to basic financial statements.

(Continued)

Statement of Cash Flows (In Thousands)

Reconciliation to cash and cash equivalents		
Unrestricted	$	282
Restricted funds:		
Construction funds		20,028
Renewal and replacements, maintenance and others		9,512
Total		29,822

Reconciliation of operating loss to net cash used in operating activities:		
Operating loss		(38,742)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization		47,958
Net change in operating assets and liabilities:		
Accounts receivable		843
Prepaid expenses and other assets		635
Deferred expenses and charges		613
Net pension asset		(612)
Accounts payable and accrued expenses, excluding accrued interest		(11,173)
Tenant deposits		39
Retainage and construction costs payable		(1,329)
Other employee benefits		1,103
Deferred revenues		(141)
Net cash used in operating activities	$	(806)

See notes to basic finanical statements.

Non-cash transactions:

Note payable for $25 million was borrowed from GDB to make a payment to a financial institution. Payment was made directly by GDB.

1. REPORTING ENTITY

The Puerto Rico Ports Authority (the Authority) is a component unit of the Commonwealth of Puerto Rico, (the Commonwealth) created by Act No. 125 on May 7, 1942, as amended. The purpose of the Authority is to administer port and aviation transportation facilities of the Commonwealth and to render other related services. The Authority owns eleven airport facilities including Luis Muñoz Marín International Airport (LMMIA), the main aviation port of entry into Puerto Rico, and most government owned maritime operations, including the Port of San Juan.

The Authority's airport system consists of LMMIA, and other regional airports. Maritime operations consist principally of cargo and cruise ships with ports and docks throughout Puerto Rico.

The Board of Directors is composed of five members as follows: Secretary of Transportation and Public Works, Chairman; Secretary of Economic Development, the Executive Director of the Tourism Company of Puerto Rico, the Executive Director of Puerto Rico Industrial Development Company (PRIDCO) and one private citizen appointed by the Governor with the consent of the Senate of Puerto Rico.

Act No. 82, approved on June 26, 1959, as amended, empowers the Authority to levy and collect a fee from the suppliers of aviation fuel and for the services and use of facilities in the airports of Puerto Rico. This fee is currently two cents per gallon of aviation fuel supplied to airlines and other suppliers operating in the airports of Puerto Rico.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America, as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies:

The Authority adopted the provisions of Governmental Accounting Standards Board Statement No. *20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting* (GASB No. 20). In adopting GASB No. 20, the Authority applied all Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued before and after November 30, 1989, unless these pronouncements conflict with, or contradict, GASB pronouncements.

(a) Use of Estimates

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

(b) Cash Equivalents

The Authority considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

(c) Allowance for Doubtful Accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectability of accounts receivable and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

(d) Prepaid Expenses

Prepaid expenses mainly include operating and medical insurance which amounts to approximately $5 million. Inventory consists of maintenance material and office supplies.

(e) Capital Assets

Capital assets are stated at cost or estimated historical cost. The cost of property and equipment includes costs for infrastructure assets, equipment and other related costs (including software), buildings and furniture and equipment. Costs for infrastructure assets include construction costs, design and engineering fees and administrative and general expenses.

Capital assets are defined by the Authority as assets with an initial, individual cost of $500 or more and an estimated useful life over one year. Costs to acquire additional capital assets, which replace existing assets or otherwise prolong their useful lives, are generally capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Interest cost is capitalized as part of the historical cost of acquiring certain assets. During the construction period the interest costs related with specific asset qualify for interest capitalization.

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Depreciation is computed using the straight-line method during the estimated useful lives of the related assets. The useful lives of assets are developed by the various related disciplines in the Authority's Engineering Department using past experience, standard industry expectations, and external sources such as consultants, manufacturers and contractors. Useful lives are reviewed periodically for each specific type of asset class. Asset lives used in the calculation of depreciation are generally as follows:

Buildings, piers, improvements and other structures	35 to 50 years
Infrastructure	5 to 25 years
Machinery, furniture and equipment	3 to 10 years
Runways, roadways and other paving	10 to 20 years
Utility infrastructure	10 to 20 years
Automobiles and service vehicles	3 to 10 years
Infrastructure master plans	5 years

Assets located at facilities leased by the Authority from others are depreciated over the lesser of the remaining term of the facility lease or the related asset live.

During the year ended June 30, 2010, the Authority performed an assessment of impairment on capital assets under the provisions of Statement on Governmental Accounting Standard (GASB) No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes that, generally, an asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Management is then required to determine whether impairment of an asset has occurred. Impaired capital assets that will no longer be used by the Authority should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the Authority should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. The Authority evaluated its capital assets and no impairment was identified as of June 30, 2010.

In addition, GASB Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations*," applicable for periods beginning after December 15, 2007, addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current obligations, and future pollution activities that are required upon retirement of an asset, such as post-closure care. Management has not completed its determination of the impact on the financial statements once the provisions of this statement are implemented. The Authority maintains an environmental reserve, which in the opinion of management is adequate to cover the contingency exposure, as part of accounts payable and other accrued liabilities of approximately $900,000 as of June 30, 2010.

Effective July 1, 2009, the Authority adopted, GASB Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets*". This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. As used in this Statement, an intangible asset is an asset that possesses all of the following characteristics: a) Lack of physical substance; b) Non-financial nature; and c) Initial useful life extending beyond a single reporting period.

In accordance with this statement the Authority classified its master plans used to guide the development of the Authority's infrastructure amounting to $4.7 million as intangible assets and began amortizing them for a period of five years.

(f) Claims and Judgments

The estimated amount of the liability for claims and judgments is recorded on the accompanying balance sheet based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected.

(g) Compensated Absences

Employees earn annual vacation leave at the rate of 30 days per year which is the maximum permissible accumulation. Employees accumulate sick leave at the rate of 20 days per year. Maximum permissible accumulation for sick leave is 60 days for managerial and clerical employees, excess is paid within the next year. Union employees are paid for accumulations over 26 days within the following fiscal year. The Authority records as a liability and as an expense the vested accumulated vacation and sick leave as benefits accrue to employees.

(h) Bond Discounts and Bond Issuance Costs

Bond discounts are presented in the accompanying balance sheet as a reduction of the face amount of bonds payable. Bond issuance costs are presented as a deferred asset in the accompanying balance sheet. The discounts and issuance costs are amortized over the life of the bonds on a method that approximates the effective interest method. Amortization related to discounts was approximately $230,000 for the year ended June 30, 2010. Amortization of bond issuance costs for the year ended June 30, 2010 was approximately $82,000. Both amounts are included as a component of interest expense in the accompanying Statement of Revenues, Expenses and Changes in Net Assets.

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(i) Net Assets

Net assets are classified in the following components:

- **Invested in Capital Assets, Net of Related Debt**

This component of net assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are 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 this component of net assets. Rather that portion of the debt is included in the same net asset component as the unspent proceeds.
Restricted net assets consist of:

Restricted for capital assets maintenance	$	5,579
Restricted for collateral		3,780
	$	9,359

- **Restricted for Construction of Capital Assets**

Net assets restricted for construction of capital assets consist of restricted assets for the specific purpose of paying the construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

- **Restricted for Debt Service**

Net assets restricted for debt service consist of restricted assets for the payment of principal and interest on the current bonds payable. This restriction is imposed by the bondholders through debt covenants.

- **Restricted for Capital Assets Maintenance**

Net assets restricted for capital assets maintenance consist of restricted assets to be used in the case of extraordinary events such as the repair of damages from hurricanes.

- **Restricted for Collateral**

Net assets restricted for collateral related to the interest rate swap.

- **Unrestricted**

Unrestricted net assets consist of net assets that do not meet the definition of "restricted for debt service", "restricted for construction of capital assets", "restricted for capital asset maintenance", "restricted for collateral", or "invested in capital assets, net of related debt".

(j) *Revenue Recognition*

The Authority distinguishes operating revenues and expenses from non operating items. Revenues associated with maritime and airport operations are recorded as operating revenues. Expenses related to the administration and maintenance of piers and airports and repairs and maintenance of roads and equipment and administrative expenses are recorded as operating expenses. All other revenues and expenses are considered non operating.

(k) *Non Operating Revenues*

Non operating revenues consist principally of federal financial assistance, Commonwealth of Puerto Rico appropriations, passenger facility charges, fuel flowage fee, interest and penalties and other fees. Federal financial assistance and Commonwealth of Puerto Rico appropriations are funds assigned by federal and local government agencies and/or private companies such as the Federal Aviation Administration (FAA), Federal Transit Administration (FTA), and the Transportation Security Administration (TSA) to the Authority for the exclusive purpose of the construction of specific projects or infrastructure repairs and maintenance. Capital grants of the Authority are reported as non-operating revenues.

(l) *Subsequent Events*

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through December 22, 2010, the date the financial statements were issued.

(m) *New Accounting Pronouncement*

Effective July 1, 2009, the Authority adopted, GASB Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments*" This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Accounting changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practical, for all prior periods presented.

In accordance with this statement the Authority recognized the negative fair value of its interest rate swap as a deferred outflow and a derivative instrument liability amounting to $42,826,476 for fiscal year ended June 30, 2009, as restated, in the management's discussion and analysis condensed balance sheet in the other non current asset line. For the fiscal year 2010 there was an increase in the negative fair value of the interest rate swap of $10,840,172 for a total of $53,666,648 recorded in the balance sheet.

3. MANAGEMENT PLANS

As reflected in the accompanying basic financial statements, the Authority has a deficit of $81 million and incurred in a decrease in net assets of approximately $39 million during the year ended June 30, 2010. As a result of the decrease in net assets, management has implemented strict and dramatic measures to improve the Authority's financial condition. Increase in revenues mainly due to new tariffs in the maritime business, effective December 1, 2010, will expect to result in $2.5 million additional revenues. A hiring freeze implemented in 2009 continues in force as well as not replacing employees as they retire. Implementation of new software systems at both aviation and maritime is underway which management expects will maximize the capture of revenues.

Furthermore, management has instituted enhanced financial management reports to ensure fiscal controls. Additionally, debt collection policies and procedures are under review to improve cash management.

4. RESTATEMENT OF NET ASSETS

During the year ended June 30, 2010, the Authority identified certain accounting adjustments belonging to prior years. The effect of these adjustments on the Authority's net assets as of July 1, 2009 restated is as follows (in thousands):

Net assets at beginning of year, as previously reported	$ 381,024
Restatement adjustments:	
Reduction of swap interest expense	(1,313)
Rental income from various concessionaires not recognized during previous years	1,151
Water utility expense not recognized in prior years	(1,209)
Amortization of infrastructure of master plans	(5,319)
Changes accounted in accordance to the actuarial report of the other postemployment benefit plan for the fiscal year ended June 30, 2009	777
Total restatement adjustments	(5,913)
Net assets at beginning of year, as restated	$ 375,111

5. CASH AND CASH EQUIVALENTS

Cash and cash and equivalents at June 30, 2010 is composed of (in thousands):

Cash	$ 20,167
U.S. Treasury Bills	9,257
Time Deposits	398
Total	$ 29,822

Cash and cash equivalents are restricted for the following purposes:

Unrestricted cash and cash equivalents	$ 282
Restricted for collateral	3,780
Restricted for PFC projects	14,559
Restricted federal funds	887
Restricted cash for construction	802
Restricted renewal and replacements, maintenance and other funds	9,512
Total	$ 29,822

6. DEPOSITS

The Authority is restricted by law to deposit funds only in institutions approved by the Puerto Rico Treasury Department, and such deposits are required to be kept in separate accounts in the name of the Authority. Bond Resolutions require that moneys in the debt service funds be held by the Bank of New York (the Trustee) in trust and applied as provided in the Bond Resolutions.

Pursuant to the Investment Guidelines for the Government of Puerto Rico adopted by GDB, the Authority may invest in obligations of the Government, 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 fund can only be invested in direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

Custodial Credit Risk - Deposits

For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned to the Authority. However, under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. The bank balance of the Authority's accounts at June 30, 2010 amounted to $28.8 million.

As of June 30, 2010, the Authority's custodial credit risk was approximately $421 thousands, which is the bank balance of cash deposited at the GDB and Economic Development Bank for Puerto Rico. These deposits are exempt from the collateral requirements established by the Commonwealth of Puerto Rico.

7. CAPITAL ASSETS

The following schedule summarizes the capital assets held by the Authority as of June 30, 2010 (in thousands):

		(As Restated) June 30, 2009	Increases	Decreases	June 30, 2010
Assets not being depreciated:					
Land and land improvements	$	258,640	19,258	—	277,898
Construction in progress		258,144	196,953	(243,478)	211,619
Total assets not being depreciated		516,784	216,211	(243,478)	489,517
Assets being depreciated:					
Building, piers, improvements and structures		645,610	28,175	—	673,785
Infrastructure		146,959	3,487	—	150,446
Runaways, roadways and other paving areas		339,671	90,800	(75,089)	355,382
Machinery, furniture and equipment		92,686	16,576	(398)	108,864
Automobiles and service vehicles		14,020	2,272	(2,545)	13,747
Infrastructure master plans		4,740	—	—	4,740
Total		1,243,686	141,310	(78,032)	1,306,964
Less accumulated depreciation and amortization		(586,458)	(65,094)	20,607	(630,945)
Total assets being depreciated		657,228	76,216	(57,425)	676,019
Total capital assets	$	1,174,012	292,427	(300,903)	1,165,536

The Authority capitalized interest amounting to approximately $1.015 million during the year ended June 30, 2010.

The carrying amount of impaired capital assets that are idle at year-end amounted to approximately $2 million.

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8. DUE FROM/ DUE TO GOVERNMENTAL ENTITIES

Due from governmental entities as of June 30, 2010 consists of (in thousands):

Commonwealth of Puerto Rico:		
Office of Management and Budget	$	2,600
Due from governmental entities:		
Maritime Transportation Authority of PR and Municipality Islands		50,351
PR Tourism Company		12,922
PR Highway and Transportation Authority		5,860
Others		2,202
		71,335
Total	$	73,935

Office of Management and Budget

On July 23, 2004, the Authority executed an Agreement to Transfer the Port of Mayagüez with the Commonwealth of Puerto Rico, the Commission of the Mayagüez Port, and the Municipality of Mayagüez. Under the agreement, the Authority transferred the title of the Port of Mayagüez to the Commission of the Mayagüez Port in exchange the Commonwealth of Puerto Rico assigned to the Authority's budget the amount of $1,000,000 for fiscal year 2006 and $625,000 for the fiscal years from 2007 to 2010.

Maritime Transportation Authority of PR and Municipality Islands

Balance due from Maritime Transportation Authority of PR and Municipality Islands (MTA) mainly relates to expenses incurred by the Authority, such as payroll, on behalf of the MTA from 2000 to 2006 when it was separated from the Authority. The balance does not bear interest and has no formal repayment term, since the terms and conditions have not being established.

PR Tourism Company

Balance due from the PR Tourism Company relates to incentives given by the entity to the cruise lines. The balance does not bear interest and has no formal repayment terms, since the terms and conditions have not being established.

PR Highway and Transportation Authority

Balance due from the PR Highway and Transportation Authority (PRHTA) mainly relates to the rental of a hangar, a warehouse and land for which there are written agreements. However, the Authority had not recorded approximately $6.5 million of rent payable due to the PRHTA, during various years and the Authority had not recorded approximately $6.3 million of rent receivable from PRHTA for rentals for which there are no written agreements. These estimated balances do not bear interest and have no formal repayment terms, since the terms and conditions have not being established.

The receivable balances from the other governmental entities are mainly for the rental of properties.

Due to governmental entities as of June 30, 2010 consists of (in thousands):

Commonwealth of Puerto Rico	$ 41,532
Due to other governmental entities:	
Retirement System of the Employees of the Commonwealth of Puerto Rico - current	1,392
PR Electric Power Authority	44,583
Retirement System of the Employees of the Commonwealth of Puerto Rico	6,036
PR Aqueduct and Sewer Authority	7,318
State Insurance Fund Corporation	3,041
Maritime Transportation Authority of PR and Municipality Islands	3,507
Others	1,045
	65,530
Total	$ 108,454

Commonwealth of Puerto Rico

Balance due to the Commonwealth of Puerto Rico consists mainly of public insurance and principal and interest due on income tax withheld. These balances do not bear interest and have no formal repayment terms, since the terms and conditions have not being established.

Due to other governmental entities balances consist mainly of utilities or services provided by such entities.

The non current due to Commonwealth of PR and due to governmental entities activity for the year ended June 30, 2010, was as follows (in thousands):

	Beginning Balance	Charges	Payments	Ending Balance
Due to Commonwealth of PR	$ 34,451	40,821	33,740	41,532
Due to governmental entities	45,182	61,219	40,871	65,530
	$ 79,633	102,040	74,611	107,062

9. DEFERRED REVENUES

The Authority entered into an agreement with PRIDCO in December 1989 for a tract of land at the Rafael Hernández Airport in Aguadilla, in which PRIDCO constructed some facilities and leased them to a tenant. Under the agreement, the Authority is the ultimate owner of the improvements, therefore, capitalized $3.2 million in 1997 and recognized deferred revenue which is amortized by $11,718 monthly.

Deferred revenue balance at June 30, 2010 consists of (in thousands):

Carrying amount of unamortized portion of construction costs amortized by equivalent credits to the minimum fixed rental through December 2019.	$ 2,146
Less current portion	86
Long-term portion	$ 2,060

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10. NOTES PAYABLE

Notes payable as of June 30, 2010 consists of (in thousands):

Description		
Promissory note with Wells Fargo, bearing interest at LIBOR rate plus 295 basis points (3.30% at June 30, 2010), through October 2027; principal payments begin in October 2011.	$	386,705
Borrowings under unsecured line of credit agreements with Banco Bilbao Vizcaya Argentaria, (BBVA) bearing interest at variable rates (4.29% at June 30, 2010), due on June 30, 2010.		83,721
Borrowings under line of credit agreement with Wells Fargo, bearing interest at LIBOR rate plus 280 basis points (3.15% at June 30, 2010), due on October 29, 2010. Collateralized by PFC revenues.		71,798
Borrowings under line of credit agreement with GDB, bearing interest at 6.00%, due through 2011.		71,811
Promissory notes with GDB bearing interest at LIBOR rate plus 50 basis points, due through June 2012 (.79% at June 30, 2010) and LIBOR rate plus 125 basis point (1.54% at June 30, 2010) due through June 30, 2010. Collateralized by Hangar 21 and real estate properties.		30,473
Promissory notes with GDB bearing interest rate at prime plus 150 basis points with a floor of 6% due on February 13, 2012.		25,000
Borrowing under line of credit agreement with GDB, bearing interest at .79%, due on June 30, 2023. Collateralized by San Juan Water Front (SJWF) properties.		14,933
Promissory note payable, bearing interest at 7.50% due through May 1, 2024.		11,251
Promissory note payable, bearing interest at 9.00% due on demand. Collateralized by Pier III improvements.		13,187
Promissory note payable to Imperial Credit Corp. for premium financed bearing interest at 4.21% due on December 20, 2010.		4,150
Promissory note with GDB bearing interest at 4.75% due on February 10, 2010.		1,521
Total notes payable		714,551
Less current portion		249,639
Long-term portion	$	464,912

LIBOR-1 month rate at June 30, 2010 was 0.3487%.

Wells Fargo Bank

Most of the promissory notes payable at June 30, 2010 represents borrowings under line of credit agreements with Wells Fargo (formerly known as Wachovia Bank), with which the Authority refinanced all of its debts ($411 million) in February 2007. On June 30, 2010, the principal amount under the Loan Agreement was reduced to $386.7 million. On the effective date of the Loan Agreement Amendment, GDB prepaid, on behalf of the Borrower, $25 million of the principal amount currently outstanding under the Loan Agreement.

Under the terms of the Loan Agreement, the Authority is required to comply with several covenants which in the event non-compliance provide the lender with the right to declare the outstanding debt as due and payable and to terminate the agreement. At June 30, 2010, the Authority was in compliance with these covenants.

On August 5, 2009, the Authority signed an Amended and Restated Promissory Note with Wells Fargo to extend the date of repayment of the $71,798,000 loan to June 30, 2010. GDB agreed to issue a letter of credit in favor of Wells Fargo to obtain the extension. This note was subsequently refunded on December 3, 2010. Refer to Note 20.

Banco Bilbao Vizcaya Argentaria (BBVA)

On July 21, 2010, the Authority refinanced a note payable with BBVA aggregating $83,721,083. This note was subsequently amended. Refer to Note 20.

Government Development Bank (GDB)

Notes payable at June 30, 2010 includes a line of credit with the GDB principally for payments to construction suppliers aggregating $72.3 million. It was also used to pay $21 million for the following purposes, the settlement for a legal case, the payment of principal and interest payment to Royal Caribbean, the payment to other contractors. At June 30, 2010 the unused portion of this credit facility amounted to $489,353.

On September 14, 2007, the Authority entered in a loan agreement with the GDB for $40 million of which $27.5 million were used to finance the purchase of a parcel of 23 acres located in the southern area of Old Naval Base, at the South Section of the ward known as Hangar 21. Of said amount the Authority received and used $2,750,000 in April 2007 for the purchase option to acquire Hangar 21 and $24.8 million in September 2007 to consummate the acquisition. In addition, $2.973 million were used to pay for qualified projects under the PFC program.

The Authority obtained a revolving line of credit with the GDB of $180 million for the development of the master plan of the SJWF (also known as Golden Triangle). This project includes the construction of buildings, development of maritime, aqueduct and other facilities. The project is in its initial phase and most of the construction will be built in properties of the Authority. At June 30, 2010 the outstanding note payable amounted to $14,933,051. On April 30, 2009, an Executive Order was signed by the Governor to create an Executive Committee and Working Committee for the Golden Triangle project. According to this Executive Order, the Department of Economic Development and Commerce of Puerto Rico will implement the economical development related to this project.

On June 30, 2010 the Authority entered into a loan agreement with the GDB amounting to $25 million for the purpose of partially pre-paying the principal amount of the loan with Wells Fargo from $411.705 million to $386.705 million.

Imperial Credit Corp.

This loan of $5,878,410 is related to insurance policies financed as of March 2010 with an interest rate of 4.21% and a monthly payment of $599,244. For the year ended June 30, 2010 the outstanding balance was $4.150 million.

The notes payable activity for the year ended June 30, 2010, was as follows (in thousands):

	Beginning Balance	Borrowings	Payments	Ending Balance
Notes payable	$ 699,566	63,153	48,168	714,551

Principal repayments on notes payable for the next five years and thereafter are as follow (in thousands):

Fiscal year ended June 30,	Principal	Interest
2011	$ 249,639	32,963
2012	75,762	16,074
2013	23,301	14,424
2014	23,344	14,424
2015	23,391	14,424
2016 through 2020	117,786	72,119
2021 through 2025	133,086	69,483
2026 through 2028	68,242	25,368
	$ 714,551	259,278

Derivatives and Hedging of Notes

On October 17, 2007, the Authority entered into the following interest-rate swap agreement related to its Promissory Note of $411.7 million:

Type	Objective	Notional Amount (In Thousands)	Effective Date	Maturity Date	Terms	Fair Value (In Thousands)
Pay fixed interest rate swap	Hedge of changes in cash flows for Notes Payable	$ 411,705	October 1, 2007	October 1, 2017	Pay 4.948%, receive 1 month LIBOR plus .80%	(53,667)

	Changes in Fair Value		Fair Value at June 30, 2010		
	Classification	Amount (In Thousands)	Classification	Amount (In Thousands)	Notional (In Thousands)
Cash flow hedge:					
Pay fixed interest rate swap	Deferred outflow	$ 10,840	Debt	(53,667)	411,705

The Authority shall pay interest based on a fixed rate on the 1st day of each month, beginning on November 1, 2007 and ending on October 1, 2017.

Wells Fargo Bank, N.A. will pay interest based on a floating rate calculated at 1 month London Interbank Offering Rate (LIBOR) plus 0.80%. The interest will be paid to the Authority on the 1st day of each month, commencing on November 1, 2007 and ending on the Termination Date.

The notional amount of the agreement commences at $411,705 million and amortizes in accordance with an agreed schedule.

The Authority entered into the interest-rate swap agreement in order to hedge its variable rate debt exposure and the interest rate risks associated therewith in relation to the Promissory Note with Wells Fargo Bank, N.A. By using derivative financial instruments to hedge the exposure to changes in interest rates, the Authority exposes itself to credit risk, interest rate risk, basis risk, rollover risk and termination risk.

Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. At June 30, 2010, the Authority is not exposed to credit risk on the interest rate swap because it is in a negative fair value or liability position. However, if interest rates change and fair value become positive, the Authority would have exposure to credit risk in the amount of the derivative's positive fair value. The Authority minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is acceptable under the investment policies of GDB.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Authority's financial instrument or its cash flow. The Authority is exposed to interest rate risk on the interest rate swap. In regards to the pay fixed, receive-variable swap, as the one-month LIBOR decreases, the Authority's net payment on the swap increases. The Authority assesses interest rate cash flows risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected cash flows.

Basis risk arises when different indexes are used in connection with a derivative instrument. These agreements expose the Authority to basis risk should the relationship between LIBOR and the fixed rates converge, changing the synthetic rate on the loan. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized.

Rollover risk is the risk that the derivative instrument term does not last as long as the maturity of the associated hedged item, thereby ending the Authority's risk protection when the derivative ends. The Authority is exposed to rollover risk, because the maturity date for the hedged variable-rate note payable is October 1, 2027 while the interest rate swap maturity date is October 1, 2017.

The Authority or the counterparty may terminate the swap agreement if the other party fails to perform under the terms of the contract. If terminated, the variable-rate notes payable interest rate risk would no longer be effectively hedged. In addition, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value or liability amount.

Method used to estimate the fair value are mathematical approximations of market values as of a given date derived from proprietary models based on certain assumptions regarding past, present and future market conditions, or from other sources of pricing information (which may include third party quotes) Wells Fargo believes to be reliable but have not independently verified. Because these valuations, models, and assumptions are subject to change at any time and may include information from another source, Wells Fargo makes no representation as to their accuracy or validity.

Contingencies - The interest rate swap agreement requires the Authority to post collateral in the event the fair value of the swap falls below $50 million. The collateral posted is to be in the form of cash in the amount of the swap's fair value if in a liability position in excess of a $50 million threshold. If the Authority does not post the collateral, the swap may be terminated by the counterparty. At June 30, 2010, the Authority was required to post $3.8 million in collateral.

11. REVENUE BONDS PAYABLE

The Authority issued bonds at various times for the purpose of financing the construction of certain facilities and improvements for the airports and maritime facilities. The Authority has complied with all bond covenants at June 30, 2010. Proceeds from tax-exempt bonds issued after September 1, 1986, are subject to the 1986 Tax Reform Act. The Authority is required to comply with Internal Revenue Service regulations in order to maintain tax-exempt status on the Authority's bonds. The Authority has no arbitrage liability at June 30, 2010.

On June 15, 2010 the Authority issued $46,326,069 Revenue Refunding Bonds Series E under the provisions of a Trust Agreement dated as of January 1, 1972, as amended. The Series E bonds were issued by the Authority at a par amount of $46,326,069 and were purchased exclusively by the Government Development Bank for Puerto Rico as the sole bondholder. A portion of the proceeds of the Series E Bonds were used, together with other funds available in various trust accounts, to redeem, on June 15, 2010, the outstanding principal balance of $55,580,000 of the Authority's Series D Revenue Bonds issued in year 1991 (the "Series D Bonds") and to cover interest accrued up to June 15, 2010 on such Series D Bonds. In summary, the Series E Bonds will have the following uses: 1) $46,103,753.50 for the redemption of Series D Bonds and, 2) $222,315.50 for the payment of costs of issuance. Annual interest payments for $3,011,194 are due on each June 15 and the bonds mature on June 15, 2028.

Revenue bonds payable as of June 30, 2010 is as follows (in thousands):

	Year Ended June 30, 2010				
Description	Beginning Balance	Addition	Payments (In Thousands)	Ending Balance	Current Portion
Term Revenue Bonds (Series D), maturing annually from July 1, 2009 to 2014	$ 21,205		21,205	—	—
Term Revenue Bonds (Series D), maturing annually from July 1, 2015 to 2021	37,340		37,340	—	—
Revenue Refunding Bonds (Series E), maturing annually from June 15, 2010 to 2028	—	46,326	—	46,326	—
Total bonds outstanding	58,545	46,326	58,545	46,326	—
Less: Bonds discounts	(3,890)			(3,660)	
Net bonds payable	$ 54,655			42,666	

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The outstanding bonds payable as of June 30, 2010 require future debt service payments as follow (in thousands):

Fiscal year ended June 30,		Principal	Interest	Total
2011	$	—	3,011	3,011
2012		—	3,011	3,011
2013		—	3,011	3,011
2014		—	3,011	3,011
2015		—	3,011	3,011
2016 through 2020		—	15,056	15,056
2021 through 2024		—	12,045	12,045
2025 through 2028		46,326	12,045	58,371
	$	46,326	54,201	100,527

The Authority allocates interest expense to different activities for which the related debt is incurred. Total interest incurred on bonds payable for the year ended June 30, 2010 amounted to approximately $3.9 million.

The Revenue Refunding Bonds outstanding at June 30, 2010 were issued under a Trust Agreement entered into by the Authority and the Trustee and Co-trustee, dated January 1, 1972, as amended subject to certain provisions as set forth below.

General Provisions

The Authority's revenues, as defined in the Trust Agreement, are required to be revised as necessary to be sufficient for the payment of current expenses and provide for the higher of either the amounts needed for making the deposits in each fiscal year to the credit of the Sinking Fund and the Maintenance Reserve Fund or an amount not less than 125% of the maximum aggregate principal and interest requirements (as defined) for any fiscal year for all bonds then outstanding. The Authority complied with making the deposits to the Sinking Fund and the Maintenance Reserve Fund as of June 30, 2010.

The Authority may issue additional bonds under the provisions of the Trust Agreement provided (1) the net revenues, as defined, for any twelve consecutive months within the preceding eighteen months are not less than 125% of the maximum aggregate annual debt service on all outstanding bonds (not including the bonds to be issued) and (2) the estimated average annual net revenues, as defined, for the 5 fiscal years after the estimated completion date of the facilities to be financed by the issuance of such bonds is not less than 135% of the maximum aggregate annual debt service on all outstanding bonds and the bonds to be issued.

The principal and interest of all bonds issued by the Authority under the provisions of the Trust Agreement are payable from the Sinking Fund described under the caption "Funds" below. If there are insufficient funds in the Sinking Fund, such payments can be made out of other funds.

Security

The revenues derived from the Authority's airport and seaport operations, as defined in the Trust Agreement, are pledged to secure the revenue bonds payable.

Funds

The Authority has created the following funds for accounting purposes as required by the Trust Agreement:

Revenue Fund

All revenues received from the operations of the Authority's properties, except fuel flowage fees (which are deposited into the Sinking Fund), and income from the investment of funds in the Reserve Account and the Maintenance Reserve Fund, shall be deposited with the Co-Trustee to the credit of the Revenue Fund. The Co-Trustee is to make monthly transfers to other accounts and funds in accordance with the provisions of the Trust Agreement, as explained below, after providing for current expenses.

Sinking Fund

The Sinking Fund consists of the Bond Service, Redemption and Reserve Accounts. The Co-Trustee withdraws every month from the Revenue Fund an amount equal to the Fund's balance on the last day of the preceding month, after providing for current expenses, and deposits the amount so withdrawn to the following Accounts in the following order:

a. the Bond Service Account, pursuant to the Bond Purchase Agreement for the Revenue Refunding Bonds, Series E, dated June 10, 2010, an amount equal to one-twelfth (1/12) of the amount of interest payable on the Bonds on the next June 15 (commencing June 15, 2010), and one-twelfth (1/12) of the amount of principal coming due on the Bonds on June 15, 2028 (commencing June 15, 2027);

b. the Redemption Account, for twelve months beginning with the second month before the commencement of each fiscal year in which there is an amortization requirement (as defined) for any bonds, 1/12 of the amortization requirement for such fiscal year for outstanding term bonds plus 1/12 of the premium, if any, which would be payable on the first redemption date in the following fiscal year (reduced by any deposits of fuel flowage fees); and

c. the Reserve Account, pursuant to the Bond Purchase Agreement for the Revenue Refunding Bonds, Series E, dated June 10, 2010, there shall be no deposit required in connection with the Bonds.

After these monthly deposits are made, the Co-Trustee then makes the deposits into the following Funds.

Maintenance Reserve Fund

The Authority is required to deposit monthly with the Co-Trustee to this fund (after the above Sinking Fund deposits are made) the sum of $42,000 until the amount in this fund exceeds $2,500,000 ($5,579,000 on deposit at June 30, 2010), and thereafter, it is to deposit 1/12 of the amount required to restore the balance to such amount should the balance fall below $2,500,000; provided however, that no such deposit shall be required in excess of $42,000 in any one month. Disbursements from this fund shall be made only for the purpose of paying the cost of unusual or extraordinary major repairs and maintenance or repairs or replacements for an emergency caused by an extraordinary occurrence as described in the Trust Agreement, but related to the operations of the Authority's properties.

Renewal and Replacements Fund

The Authority is required to deposit monthly with the Co-Trustee to this fund (after the above Sinking Fund and Maintenance Reserve Fund deposits are made) an amount equal to 1/12 of the amount determined to be necessary by the Authority's transportation consultants for any fiscal year.

At June 30, 2010, the amount deposited in the Renewal and Replacements Fund was $3,600,000.

Disbursements will be made for the purpose of paying only the cost of extension improvements, renewals and replacements of the Authority's properties, as defined and provided for in the Trust Agreement and necessary equipment, surveys and studies related thereto.

Non-Ports Authority Properties Operating Fund

The amount of monthly deposits into this fund (made after all of the preceding deposits have been made) shall be set forth in a certificate signed by the Comptroller of the Authority, and represents the amount needed each month to pay operating expenses and maintenance and repairs of non-Ports Authority properties, as defined in the Trust Agreement.

General Reserve Fund

Any balance remaining after making the deposits in all of the funds described above are to be deposited with the Co-Trustee to the credit of this fund. Disbursements are to be made only to cover any deficiencies in any funds described above. Remaining amounts at the end of each fiscal year are to be used first, to make the annual payment in lieu of taxes, if any, to the Secretary of the Treasury of the Government of Puerto Rico and the remaining balance shall be deposited in the Construction or Improvement Funds, at the option of the Authority.

Construction Fund

This fund consists of three accounts:

General Account – An account controlled by the Co-Trustee in which certain of the proceeds of the bond issues and any other monies received from loans or other sources are deposited to be used for the acquisition or construction of additional facilities.

Special Checking Account – An account in which monies are transferred from the Construction Fund General Account.

Imprest Account – An account used by the Authority to pay construction costs, which are not paid from the Special Checking Account. The Imprest Account is to be periodically replenished by transfers from the General Account.

General Operating Funds

The general operating funds consist of the Ports and non-Ports Authority operating funds. The amount of deposit for these funds represent the amount needed each month to pay Authority's Ports and non-Ports operating expenses.

12. OTHER POST-EMPLOYMENT BENEFITS

The Authority adopted GASB Statement No. 45, "*Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions*" (GASB 45). This Statement establishes the standards for the measurement, recognition, and disclosure of Other Post-employment Benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local governments' financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and whether and to what extent progress is being made in funding the Plans.

Plan Description

The Authority agreed to provide medical prescription, dental and vision medical insurance coverage to eligible retirees, its spouses and dependents, for a period of five and six years, for union and non union personnel, respectively (the Plan).

The Plan can be amended by action of the Authority subject to applicable collective bargaining and employment agreements. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy

The obligations of the employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer vary depending on the applicable agreement. There is no participants' contribution. The Authority currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Authority.

Annual OPEB cost and net OPEB obligation

The Authority's annual other post employment benefit (OPEB) expense is calculated based on the Annual Required Contribution of the employer (ARC). The Authority engaged an actuary to calculate the ARC and related information per the provisions of GASB No. 45 for employers with more than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Authority's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the Plan and the Authority's net OPEB obligation to the Plan at June 30, 2010 (In Thousands):

Normal cost	$ 1,289
Amortization of unfunded actuarial accrued liability	2,808
Annual required contribution	$ 4,097
OPEB contributions made during the fiscal year	$ 2,647
Percentage of expense contributed	65%

As of June 30, 2010, the actuarial accrued liability for benefits amounted to $34.4 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was $36.7 million during the year ended June 30, 2010, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 93.7%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the Annual Required Contributions of the employer are subject to continuous revisions as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the Substantive Plan (the Plan as understood by the employer and plan members) and include the types of benefits provided at the time of valuation and the historical pattern of benefit costs paid by the employer to date. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The amortization method of the initial unfunded actuarial accrued liability is the level dollar for a period of 30 years-closed. The amortization method for the gain or loss is the level dollar for a period of 15 years-closed.

The valuation date was June 30, 2010 and the Projected Unit Credit Cost Method was used. The actuarial assumptions were based on a set of assumptions supplied by the Authority. Turnover rates were based on service and age-related turnover. A discount rate of 5.5% was used. This rate is the best actuarial estimate of expected long-term experience and is in accordance with guidelines for selection of these rates under GASB 45. The healthcare trend rates are based on the actuarial knowledge of the general healthcare environment and the specific coverage offered by the Authority.

13. RETIREMENT PLAN

Substantially all of the Authority's employees participate in the Retirement System of the Government of Puerto Rico (the System), a cost sharing multi-employer defined benefit pension plan. The payroll for employees covered by the System for the years ended June 30, 2010 was approximately $36.7 million.

All Authority's employees, who at the time of employment are 55 years old or less, are eligible to participate in the System. Employees who retire at or after age 55 with 25 years of credited service or age 58 with 10 years of credited service are entitled to a retirement benefit, payable each month for life, computed based on a benefit rate set forth by Government statute.

The System also provides death and disability benefits established by Government statute. Government legislation requires employees to contribute 5.775% for the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. The Authority is required by the same statute to contribute 9.275% of the participant's gross salary. Total employer contributions during the year ended June 30, 2010 under this plan amounted to approximately $2,876,640.

On September 24, 1999, an amendment to Act No. 447 of May 1, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Employees joining the Authority on or after January 1, 2001, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. The Government of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula that takes into account each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) and investment income as defined in the Plan. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The Authority's contributions under this Plan for the year ended June 30, 2010 amounted to approximately $1,256,921.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2010, a copy of which can be obtained from the Retirement System Administration, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

Other Retirement Benefit

The Authority has labor union contracts that provide all union employees who work for the Authority upon retirement with a lump-sum bonus payable at the retirement date of $900 per year of service up to a maximum of $27,000. In addition, non union employees have similar benefits under the same conditions granted to labor union personnel.

The Plan can be amended by action of the Authority subject to applicable collective bargaining and employment agreements. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy

The obligations of the employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. There is no participants' contribution. The Authority currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Authority.

Annual pension cost and net pension obligation/(asset)

The Authority's annual pension expense is calculated based on the ARC. The Authority engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement No. 27 "Accounting for Pensions by State and Local Governmental Employers" (GASB 27) for employers with more than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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The following table shows the Authority's annual pension cost for the year ended June 30, 2010 and the amount actually contributed at June 30, 2010 (in thousands):

Annual Pension Cost	$ 548
Actual Funding Contribution	$ 743

As of June 30, 2010, the actuarial accrued liability for benefits amount to $4.8 million all of which was unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continuous revisions as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the Substantive Plan (the Plan as understood by the employer and plan members) and include the types of benefits provided at the time of valuation and the historical pattern of benefit costs paid by the employer to date.

The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The valuation date was June 30, 2010 and the Projected Unit Credit Cost Method was used. The actuarial assumptions were based on a set of assumptions supplied by the Authority. Turnover rates were based on service and age-related turnover. A discount rate of 5.5% was used. This rate is the best actuarial estimate of expected long-term experience and is in accordance with guidelines for selection of these rates under GASB 27.

14. COMMITMENTS AND CONTINGENCIES

Construction

As of June 30, 2010, the Authority had commitments for approximately $25 million, related to construction contracts.

Litigation

The Authority is defendant or co-defendant in various lawsuits under its normal course of operations for alleged damages in cases principally related to its concessionaries. These are generally either fully or partially covered by insurance. The Authority based on legal advice, has recorded an adequate provision to cover probable losses on those claims not fully covered by insurance. In the opinion of the Authority's Management, based on legal advice, any liability in excess of the insurance coverage and/or the recorded provision that may arise from such claims, would not be significant to negatively affect the Authority's financial position or result of operations.

Environmental Remediation

On May 23, 2002 the Authority, as well as other oil companies (the members), was contacted by the United States Environmental Protection Agency (EPA) regarding certain alleged environmental condition at the LMMIA related to the Hydrant Fuel System (HFS). The Authority and the other members entered into an Administrative Order Consent (AOC) with EPA to perform a subsurface investigation and certain other tasks in connection with the HFS, with the exception of the assessment of the HFS which will be undertaken by the Authority. In March 2003, the Authority and the other members entered into a Joint Defense, Participation and Cost Sharing Agreement to jointly conduct the subsurface investigation established in the AOC, constituted a Steering Committee and share the costs. The Steering Committee established a budget for the sampling stage of the works for which the Authority is responsible for $900,000 in the balance sheet as of June 30, 2010. This amount is shown at the Legal Reserve. The budget established by the Steering Committee covers only the sampling stage of the works in which they are currently on. Subsequent remediation and responsibility actions will be renegotiated in the future. The second sampling stage began in early 2010 and should continue until 2011.

Tenant Lease Agreements

The Authority entered in two lease agreements with a tenant for a tract of land at LMMIA. The lease agreements are for twenty-five (25) years with options to renew for two (2) additional five (5) year terms. One of the agreements was effective in September 1988 and the other in June 1995. Under the terms of the Agreements, the Authority will charge a fixed monthly rent plus an additional rent based on sales volume. The Authority also agreed to grant rental credits, up to $34.4 million plus interest at 9.5%, to reimburse the lessee for the permanent improvements to the leased property. The title to such improvements will revert to the Authority at no further cost at the end of the lease term or at a prior date in case of default. The rental credit to be granted is limited to the amount invested by the lessee, which is required to submit evidence of the amount invested, in the leased property. During the year ended June 30, 1997 the Authority recorded property and equipment and deferred revenues for approximately $19 million in connection with these agreements. As of June 30, 2010 these deferred revenues are fully amortized. As of June 30, 2010 the tenant and the Authority are currently litigating the lease agreements.

15. SPECIAL FACILITY REVENUE BONDS

The Authority has issued $39,810,000 in Special Facility Revenue Bonds, under the provisions of a Trust Agreement, dated as of June 1, 1993, and $115,600,000 in Special Facility Revenue Bonds, under the provisions of a Trust Agreement dated May 1, 1996, between the Authority and The Chase Manhattan Bank (National Association), New York, as Trustee (now JP Morgan Chase Bank) These bonds are limited obligations of the Authority, and are payable solely from and secured by a pledge of certain payments made under Special Facilities Agreements with American Airlines, Inc. (American) and certain other monies. Neither the credit of the Government of Puerto Rico, nor that any of its political subdivisions is pledged for the repayment of these bonds. In addition, all the Special Facility Revenue Bonds are unconditionally guaranteed by American's Parent Company, AMR Corporation. The proceeds were used for the construction, acquisition of equipment and improvement of certain facilities at LMMIA for the benefit of American Airlines. The property is owned by the Authority and leased to AMR Corporation. Therefore, the liability related to these bonds is not recorded in the accompanying financial statements.

Pursuant to the Special Facilities Agreements between the Authority and American, American has agreed to pay amounts sufficient to pay the principal of and premium, if any, and interest on the above bonds. The bonds are not collateralized by any property, but are payable solely from certain pledged payments by American under Special Facilities Agreements or by AMR Corporation under its unconditional guarantee.

16. PASSENGER FACILITY CHARGE

Pursuant to the Aviation Safety and Capacity Act of 1990 (the Act), airports may collect a Passenger Facility Charge (PFC) of up to $4.50 per ticket. Under the Act, PFC revenues are restricted to be used to finance eligible airport-related projects that preserve or enhance safety, capacity or security of the air transportation system subject to the approval of the Secretary of Transportation of the United States. The PFC income for the year ended June 30, 2010 amounted to approximately $19.6 million. As of June 30, 2010, the Authority has unexpended resources amounting to approximately $14.6 million, which are restricted for PFC projects. PFC revenues are recognized as collected and are included in non-operating revenues.

17. RENTAL INCOME

The Authority leases its property to commercial airlines, car rental companies, concessionaires, several fixed base operators who service the airline industry, the TSA, and other Federal and Government agencies.

Minimum future rentals to be received on non-cancelable operating leases for each of the next five years are approximately as follows (in thousands):

Year Ending June 30,	Amount
2011	$ 32,952
2012	30,009
2013	27,987
2014	25,867
2015	24,890
Total	$ 141,705

The Authority also has several leases that require the lessees to remit a percentage of their revenues or fuel consumption as their rental charges. Rental income under leases of this type is not included in future minimum rental amounts above. Rental income for 2010 received through these leases was approximately $2.4 million. Although the actual income to be received in future periods cannot be known due to the nature of these leases, management does not anticipate significant changes in these rental amounts.

18. FEDERAL ASSISTANCE PROGRAMS

The Authority participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* or to compliance audits by grantor agencies. The resolution of certain previously identified findings has not occurred.

Federal financial assistance and Commonwealth of Puerto Rico appropriations for the year ended June 30, 2010 consist of grants and donations as follow (in thousands):

Federal financial assistance:		
Federal grants received from:		
Federal Aviation Administration	$	14,376
Federal Transit Administration		8,304
US Department of Homeland Security		815
Total grants		23,495
Less:		
Pass - through grant program payments		(8,105)
		15,390
Commonwealth of Puerto Rico appropriations:		
Puerto Rico Infrastructure Finance Authority		242
Other contributions		163
		405
Net	$	15,795

The Single Audit reports of the MTA for the years ended June 30, 2010 and 2009 reported questioned costs for $6,825,119 and $397,491, respectively, related to federal funds sub-granted by the Authority to MTA. According to those reports, the funds were not used for the intended purpose and the external auditors determined the amount to be questioned costs.

The Authority is in the process of investigating and reaching a management determination regarding the use of such funds. The final outcome of the investigation cannot be anticipated at this moment and, therefore, the Authority's basic financial statement does not include any adjustment that may arise as a result of this situation.

19. OPERATING REVENUES

Operating revenues for the year ended on June 30, 2010 consist of (in thousands):

Maritime operations:	
Wharfare, dockage and port services	$ 30,015
Tourist ship fees	15,062
Equipment and property rental	16,078
Demurrage, utilities and other	1,037
Adjustment to provision for doubtful accounts	11,058
	73,250
Airport operations:	
Landing fees	32,138
Passenger fees	14,184
Space rentals	43,291
Utilities, gas sales and other	1,570
Less: provision for doubtful accounts	(24,123)
	67,060
Total revenues	140,310
Less: discounts and incentives	(1,981)
Total net operating revenues	$ 138,329

20. SUBSEQUENT EVENTS

On July 21, 2010, the Puerto Rico Ports Authority amended and restated a credit agreement with Banco Bilbao Vizcaya Argentaria Puerto Rico (BBVAPR) for an aggregate amount of $83,721,083. Under the Amended and Restated Credit Agreement dated July 21, 2010, the Authority will commence monthly payments of principal of $768,083, plus interest. A final installment of $74,504,084 plus accrued and unpaid interest will be due on June 30, 2011, the Termination Date. Concurrently, on July 21, 2010, the Authority and the GDB amended the Letter of Credit Disbursement and Reimbursement Agreement in which the GDB agreed to issue a Letter of Credit in the amount of $92,087,399 in favor of BBVAPR as security for the Authority's repayment obligation under a certain amended and restated credit agreement, dated on July 21, 2010, between the Authority and BBVAPR.

The Fiscal Oversight Agreement, dated July 1, 2009, between the Government Development Bank for Puerto Rico (GDB) and the Puerto Rico Ports Authority (the Authority) was amended on August 23, 2010 to in order to provide for streamlined monthly financial and operational reporting. The GDB serves as a bank, fiscal agent and financial advisor for the Government of Puerto Rico, and its instrumentalities.

On October 29, 2010, the Authority adopted an Employee Early Retirement Program (the "Program"), pursuant to Act 70 dated July 2, 2010. Initial surveys conducted by the Authority indicate that between five and ten percent of the workforce will participate in the Program. Management anticipates that by adoption of this Program, there will be significant savings in salaries and benefits expenses and the operations of the Authority will not be affected adversely.

On December 3, 2010, the Authority obtained a refunding related to the borrowings under a line of credit agreement with Wells Fargo for $71,898,000. Under the term loan agreement dated on December 3, 2010, the Authority will commence payment of annual principal installments, with each principal installment to be in an amount of $4,493,625 per installment plus interest, payable on each July 1 of each year commencing on July 1, 2011, with a final installment in the amount of all principal payable on April 30, 2012. Also, on December 1, 2010, the Authority and Wells Fargo Bank entered in a Collateral Security Agreement granting a security interest in favor of Wells Fargo Bank in the accounts receivable constituting PFC revenues and the proceeds thereof deposited in specified bank accounts and to pledge and assign to Wells Fargo Bank each of the Authority's rights in and to the aforesaid accounts receivable and deposit accounts, as collateral security for all obligations of the Authority under the term loan agreement dated on December 3, 2010. Additionally, on December 3, 2010 the Authority and the GDB entered into a Letter of Credit and Reimbursement Agreement in which the GDB agreed to issue a letter of credit in the amount of $73,168,198 in favor of Wells Fargo Bank as security for the Authority's repayment obligation under a certain term loan agreement dated on December 3, 2010, between the Authority and Wells Fargo Bank.

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Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Schedule of Expenditures of Federal Awards (In Thousands)
Year Ended June 30, 2010

Federal Grantor/Pass through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
US Department of Transportation		
Federal Aviation Administration:		
Airport Improvement Program	20.106	$ 9,263
ARRA - Airport Improvement Program	20.106	5,113
Federal Transit Administration:		
Urban Mass Transportation Capital and Operating Assistance Formula Grant	20.507	6,634
ARRA - Urban Mass Transportation Capital and Operating Assistance Formula Grant	20.507	1,670
US Department of Homeland Security		
Port Security Grant Program	97.056	74
Law Enforcement Officer Reimbursement Program	97.090	65
Transportation Security Administration	Not available	676
TOTAL		$ 23,495

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1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Authority and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

2. SUBRECIPIENT

The Authority provided federal awards to a sub-recipient as follows:

Program Title	Federal CFDA Number	Amount Provided (In Thousands)
US Department of Transportation		
Federal Transit Administration		
Urban Mass Transportation Capital and Operating Assistance Formula Grant	20.507	$ 8,105

Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Schedule of Computation of Net Income Applicable to the Operations of Puerto Rico Ports Authority Properties as Defined in the Trust Agreement
Years Ended June 30, 2010 (In Thousands)

Revenues:		
Maritime operations		
Wharfage, dockage and port services	$	30,015
Tourist ship fees		15,062
Equipment and property rental		15,841
Demurrage, utilities and other		1,037
Adjustment to Provision for doubtful accounts		11,058
Total maritime		73,013
Airport operations		
Landing fees		32,138
Passenger fees		14,184
Space rentals		43,291
Utilities gas sales and other		1,570
Less: Provision for doubtful accounts		(24,123)
Total airport		67,060
Total operating revenues		140,073
Less:		
Discounts and incentive fees		(1,981)
Net operating revenues		138,092
Operating expenses:		
Salaries and employee benefits		77,253
General and administrative		26,520
Professional services		12,537
Insurance		8,457
Repairs and maintanance		3,926
Rent		420
Total operating expenses		129,113
Income before non operating revenues		8,979
Non operating revenues:		
Fuel flowage fees		2,352
Interest income		125
Penalties and other fees		1,503
Total non operating revenues		3,980
Net income as defined in the Trust Agreement		12,959
Debt service requirements	$	3,011
Debt service coverage ratio:		
Required		125%
Actual		430%

See notes to schedules.

Bonds		Principal Amount *(In Thousands)*
Revenue Refunding Bonds Series E maturing June 15, 2028	$	46,326
Less: bond discounts		(3,660)
Net bonds payable	$	42,666
Principal paid during the year ended June 30, 2010:		
Series D	$	58,545
Series E		—
		58,545

	(In Thousands
Land and land improvements	$ 189,750
Infrastructure	150,446
Buildings, piers, improvements and other structures	673,783
Roads and parking areas	335,382
Construction in progress	211,619
Total	1,560,980
Less accumulated depreciation and amortization	(630,943)
Net book value	$ 930,037

See notes to schedules.

Puerto Rico Ports Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Schedule of Receipts and Disbursement of Funds Subject to the Trust Agreement
Year Ended June 30, 2010

	Balance June 30, 2009	Receipts: Fuel Flowage Fees	Receipts: Others	Disbursements	Interfund Transfers Dr. (Cr.)	Balance June 30, 2010
			(In Thousands)			
Funds deposited with Co-Trustee:						
General operating fund	$ —	—	—	(116,656)	116,656	—
Construction fund	—	—	4	(132,093)	132,089	—
Revenue fund	820	—	2	—	(572)	250
Maintenance reserve fund	5,366		13	—	200	5,579
Renewal and replacements fund	5,277	—	11	—	(1,687)	3,601
Other funds	82	—	—	—	—	82
Total	11,545	—	30	(248,749)	246,686	9,512
Funds held by the Trustee:						
Bond service account	2,438	—	—	(5,662)	3,224	—
Reserve account	6,788	—	4	(5,560)	(1,232)	—
Redemption account	2,978	—	1	(5,886)	2,907	—
Total funds held by the Trustee	12,204	—	5	(17,108)	4,899	—
Total	$ 23,749	—	35	(265,857)	251,585	9,512

See notes to schedules.

Puerto Rico Ports Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Detail of Funds Subject to the Trust Agreement – Invested and Not Invested

June 30, 2010

	Maintenance Reserve Fund	Renewal Replacements Fund	Other Funds	Sinking Fund	Total
			(In Thousands)		
Invested funds					
U.S. Treasury Bills	$ 5,579	3,600	79	—	9,258
Time Deposits	—	—	3	251	254
Total fund invested	5,579	3,600	82	251	9,512
Funds not invested	—	—	—	—	—
Total funds subject to the Trust Agreement	$ 5,579	3,600	82	251	9,512

See notes to schedules.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The schedules comprising the accompanying information have been prepared in accordance with the Trust Agreement entered into by the Authority and the Trustee and Co-trustee, dated January 1, 1972.

Revenues – The Authority's revenues, as defined in the Trust Agreement, will be revised as necessary to be sufficient for the payment of current expenses, and also provide for the higher of either the amounts needed for making the deposits in each fiscal year to the credit of the Sinking Fund and the Maintenance Reserve Fund or an amount not less than 125% of the maximum aggregate principal and interest requirements for any fiscal year for all bonds then outstanding.

Deferred revenues – Deferred revenues include the cost of construction of airport and maritime facilities, incurred by lessees and is being amortized into income based on the terms established in the lease agreements.

Capital assets – The schedule of property and equipment subject to the provisions of the trust agreement is stated at cost and does not include $88 million worth of land donated by the Federal Government and contributions of property received from the Government of Puerto Rico and others. The cost of projects constructed by the Authority includes a portion of interest allocated during the construction period. Provision for depreciation and amortization of capital assets has been excluded from the schedule of computation of net income.

Bonds payable, amortization of bond discounts and bond issue costs – The Authority issued bonds at various times for the purpose of financing certain facilities and improvements to airports and pier facilities.

Bond discounts and bond issue costs associated with the issuance of the Authority's Revenue Bonds have been excluded from the schedule of computation of net income applicable to the operations of Puerto Rico Ports Authority Properties as Defined in the Trust Agreement.

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