RSM ROC & Company
Certified Public Accountants & Consultants

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

Basic Financial Statements and Required Supplementary Information
For the Fiscal Year Ended June 30, 2013

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Puerto Rico Infrastructure Financing Authority, a Component Unit of the Commonwealth of Puerto Rico, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Puerto Rico Infrastructure Financing Authority, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Juan, Puerto Rico
February 10, 2014.

RSM ROC & Company

Stamp No. E95251 was affixed to
the original of this report.

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

1. FINANCIAL HIGHLIGHTS

- During the year ended June 30, 2013, the Authority completed projects with a value of approximately $20 million that were transferred to one agency of the Commonwealth of Puerto Rico (the Commonwealth) and one municipality.
- During the year ended June 30, 2013, the restricted investment in bonds of the Puerto Rico Sales Tax Financing Corporation (COFINA, for its acronym in Spanish) had a net decrease in market value of approximately $31.8 million.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All the Authority's funds are governmental funds. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements. Because the focus of governmental funds financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

By doing so, readers may better understand the long-term impact of financial decisions related to the Authority's governmental activities. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

3. GOVERNMENT-WIDE FINANCIAL ANALYSIS

Governmental entities are required by accounting principles generally accepted in United States of America ("US GAAP"), as prescribed by the Governmental Accounting Standards Board ("GASB"), to report on their net position/deficit. The Statement of Net Position/(Deficit) presents the value of all of the Authority's assets and liabilities, with the difference between them reported as net position. The following is a condensed summary of the Authority's Statement of Net Position/(Deficit) as of June 30, 2013 and 2012:

	2013	2012	Change	Percentage
Assets:				
Current assets	$ 3,765,147	$ 3,425,774	$ 339,373	9.9%
Capital assets, net	35,331,039	54,955,064	(19,624,025)	-35.7%
Other noncurrent assets	554,866,349	711,243,967	(156,377,618)	-22.0%
Total assets	593,962,535	769,624,805	(175,662,270)	-22.8%
Liabilities:				
Other liabilities	211,045,586	339,270,932	(128,225,346)	-37.8%
Long-term liabilities	1,935,735,329	1,956,758,213	(21,022,884)	-1.1%
Total liabilities	2,146,780,915	2,296,029,145	(149,248,230)	-6.5%
Net position/(deficit):				
Net investment in capital assets	3,252,225	(1,212,543)	4,464,768	-368.2%
Restricted for:				
Debt service	122,972,581	116,871,902	6,100,679	5.2%
Other puposes	225,608,313	257,439,088	(31,830,775)	-12.4%
Unrestricted	(1,904,651,499)	(1,899,502,787)	(5,148,712)	0.3%
Net deficit	$ (1,552,818,380)	$ (1,526,404,340)	$ (26,414,040)	1.7%

In overall, the Authority's deficit increased by approximately $26.4 million, or 1.7%, mainly as a result of the transfer of completed projects to one agency of the Commonwealth and one municipality, for approximately $20 million during the year ended June 30, 2013.

Total assets decreased by approximately $175.7 million, or 22.8%, mainly driven by a decrease in the amounts due from other governmental entities that decreased by approximately $131 million resulting from substantial completion of construction activies for the program "Schools for the 21st Century" and "Schools Rehabilitation under the Qualified Zone Academic Bonds" during 2012. Such reduction provided funds that were mainly used to pay current liabilities due within one year that decreased by approximately $128 million for the year ended June 30, 2013.

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

	2013	2012	Change	Percentage
Revenues -				
Program revenues - operating grants and contributions, and earnings on investments	$ 107,490,291	$ 306,803,446	$ (199,313,155)	-65.0%
General revenues -				
Proceeds from legal settlement	1,028,562	-	1,028,562	100.0%
Investment earnings	341,861	313,673	28,188	9.0%
Total revenues	108,860,714	307,117,119	(198,256,405)	-64.6%
Expenses:				
Functions/Programs:				
General government	9,091,855	5,665,573	3,426,282	60.5%
Education, aqueduct and sewers, and transportation	1,450,669	31,704,893	(30,254,224)	-95.4%
Economic development program	2,360,904	12,337,713	(9,976,809)	-80.9%
Recreation and sports	3,791,542	5,972,970	(2,181,428)	-36.5%
Edifications	-	53,656,545	(53,656,545)	-100.0%
Arts and entertainment	19,652,387	215,275	19,437,112	9029.0%
Public safety	24,435	118,751	(94,316)	-79.4%
Weatherization program	2,882,624	63,991,500	(61,108,876)	-95.5%
Interest on long-term debt	96,020,338	96,935,139	(914,801)	-0.9%
Total expenses	135,274,754	270,598,359	(135,323,605)	-50.0%
Change in net position/(deficit)	(26,414,040)	36,518,760	(62,932,800)	-172.3%
Beginning net position/(deficit)	(1,526,404,340)	(1,562,923,100)	36,518,760	-2.3%
Ending net deficit	$ (1,552,818,380)	$ (1,526,404,340)	$ (26,414,040)	1.7%

Revenues – Program revenues decreased approximately $199.3 million, or 65% mainly because the restricted investment in COFINA's bonds experimented a loss of approximately $31.8 million during 2013, while during 2012, the investment yielded approximately $91.6 million, for an overall annual change of approximately $123.4 million. In addition, the ARRA program funding concluded during 2013. ARRA funding during 2013 was only approximately $619 thousand while in 2012 was approximately $59.6 million. This reduction was expected as the ARRA program federal appropriation period has concluded.

Expenses – Major changes in expenses were the reduction of ARRA expenses that were in line with the conclusion of the federal program, for approximately $61 million. In addition, the transfer of completed projects to one agency of the Commonwealth and one municipality during the year ended June 30, 2013 amounted to approximately $20 million, while in 2012 these amounted to approximately $79 million, for a reduction of approximately $59 million.

4. GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

General Fund – Total assets in the general fund decreased approximately $31 million as a direct result of the negative investment yield of the restricted investment of COFINA's bonds that had a market value of approximately $275 million in 2012, to approximately $244 million in 2013. This reduction results from the effect of the overall market's negative valuation of investment in COFINA's bonds. Other assets and the liabilities remained similar in 2013 when compared to 2012. The fund balance decreased from approximately $260 million to approximately $230 million, or 11.5%, specifically due to this decrease in valuation of the restricted investment of COFINA bonds.

Revenues in the general fund decreased from approximately $210 million to approximately $88.6 million directly by the effect of the valuation of the nonspendable investment. Investment income during 2012 was approximately $91.6 million, while in 2013 there was a net investment loss of approximately $31.8 million, for a total decrease of approximately $123.4 million. General government expenditures increased from approximately $6.1 million in 2012, to approximately $8.7 million, or 43% because the 2013 expenditures includes a full year of the operation and administration of a new building that was acquired in March 2012, while such expenditures for the year ended June 30, 2012 were for only four months. Capital outlays decreased from approximately $27.3 million in 2012 to approximately $1.2 million in 2013 because during 2012 the Authority acquired a new building, and there was no similar transaction in 2013.

ARRA Fund – The ARRA federal program reached its sunset date during 2012. During 2013 its activities were very limited as compared to 2012. At June 30, 2013, assets were basically the restricted cash on hand that are to be used to pay for related program liabilities. Assets decreased from approximately $6.7 million to approximately $1.7 million as funding for the year was less than $1 million, and the fund continues paying for corresponding expenditures. Liabilities also decreased in a similar manner from approximately $8.9 million in 2012 to approximately $2 million in 2013. Currently, the ARRA fund presents a deficit that was reduced from approximately $2.2 million in 2012 to approximately $255 thousand in 2013.

ARRA program revenues decreased from approximately $68.5 million to approximately $2.9 million because the federal program reached its sunset date. Remaining activity is only to conclude pending and administrative matters related to the program.

Capital Projects Fund – Total assets decreased from approximately $277.7 in 2012 million to approximately $160.1 million in 2013, or 73%. This significant reduction is in line with the reduction of accounts receivable for $133 million. This reduction relates to the amounts that are receivable from the different Commonwealth agencies for which the Authority carries out construction of facilities that are later transferred to these entities. This is in line with a reduction in these activities for the year ended June 30, 2013. In line with this reduction, total liabilities also decreased significantly, from approximately $238 million in 2012 to approximately $115 million in 2013, for a net decrease of approximately $123 million, or 52%.

Total revenue decreased from approximately $29.2 million in 2012 to approximately $12.7 million in 2013, for a decrease of approximately $16.5 million, or 66%, mainy driven by a decrease in contribution from the Commonwealth from approximately $26 million to approximately $11 million. This decrease resulted because some construction programs funded by the Commonwealth were substantially completed during 2012.

Debt Service Fund – Total assets remained similar at approximately $77.7 and approximately $77.5 million at 2013 and 2012, respectively. Direct financing lease revenue increased to approximately $5.8 million from approximately $2.9 for the years ended June 30, 2013 and 2012, respectively because the debt service increased and the funding source for the payment of the debt service is the rent charged to the tenant. Accordingly, both revenue and the related debt service have a lineal correlation and these behave similarly. Debt service payments remained similar at approximately $118 million and approximately $120 million for the years ended June 30, 2013 and 2012, respectively.

5. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Non-depreciable capital assets represent construction work in progress, including land in which infrastructure projects are or will be developed. Depreciable assets include furniture and equipment, vehicles and building.

The following is a schedule of the Authority's capital assets as of June 30, 2013:

	2013	2012	Change	Percentage
Land	$ 11,968,376	$ 12,240,427	$ (272,051)	-2.2%
Construction in progress	1,301,521	20,219,111	(18,917,590)	-93.6%
Building	22,561,474	22,561,474	-	0.0%
Furniture and equipment	1,150,818	936,450	214,368	22.9%
Vehicles	57,692	88,259	(30,567)	-34.6%
Total	37,039,881	56,045,721	(19,005,840)	-33.9%
Less: Accumulated depreciation	1,708,842	1,090,657	618,185	56.7%
Capital assets – net	$ 35,331,039	$ 54,955,064	$ (19,624,025)	-35.7%

Overall capital assets decrease resulted from the transfer of completed projects to one agency of the Commonwealth and one municipality for approximately $20 million during the year ended June 30, 2013.

Debt Outstanding

As of June 30, 2013, the Authority had approximately $1,977 million in long-term liabilities, mainly composed of approximately $1,923 million of bonds payable, net of premiums and discounts. Total long-term liabilities include bonds and loans payable, liability for legal matters, termination benefits, and accrued compensated absences. In overall, long-term debt decreased by approximately $20.8 million as a result of the net effect of a new loan taken for approximately $6.4 million that was used for operation and administration of the new building, and to carryout the monitoring of ARRA funds received in Puerto Rico, among other activities, the repayment of approximately $37 million of bonds, and the net effect of the discount accretion, amortization of premiums and deferred loss for approximately $10 million.

6. SUBSEQUENT EVENTS

On July 9, 2013, the Authority entered into a Bond Purchase Agreement (the Agreement) of its Revenue Bonds (Ports Authority Project), Series 2011 C-1 bonds, for $96.8 million. The Agreement provides for the establishment of a new term rate period that ended on November 14, 2013, with a new term rate not to exceed 3.25%.

7. REQUEST FOR INFORMATION

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

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Net Position/(Deficit)
June 30, 2013

	Governmental Activities
ASSETS:	
Cash and cash equivalents	$ 2,569,213
Accounts receivable	370,960
Due from Commonwealth	576,963
Prepaid expenses and other assets	248,011
Due from Government Development Bank for Puerto Rico	12,403
Due from Municipality of San Juan	855,334
Bond and debt issuance costs	32,732,247
Restricted assets:	
Cash and cash equivalents	167,588,041
Accrued interest receivable	6,525
Investments and investment contracts	228,866,540
Due from Commonwealth	12,347,179
Accounts receivable	74,658,080
Net investment in direct financing lease	37,800,000
Capital assets, net:	
Nondepreciable:	
Land	11,968,376
Construction in progress	1,301,521
Depreciable, net	22,061,142
Total assets	593,962,535
LIABILITIES:	
Accounts payable and accrued liabilities:	
Due in one year	2,046,069
Due in more than one year	8,318,496
Liabilities payable from restricted assets:	
Accounts payable and accrued liabilities	104,760,611
Accrued interest payable	42,255,681
Due to Commonwealth	19,476,987
Bonds and loans payable:	
Due in one year	42,506,238
Due in more than one year	1,927,416,833
Total liabilities	2,146,780,915
NET POSITION/(DEFICIT):	
Net investment in capital assets	3,252,225
Restricted for:	
Debt service	122,972,581
Other purposes	225,608,313
Unrestricted	(1,904,651,499)
TOTAL NET POSITION/(DEFICIT)	$ (1,552,818,380)

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

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Activities
for the Year Ended June 30, 2013

FUNCTIONS / PROGRAMS	Expenses	Program Revenues: Operating Grants and Contributions	Program Revenues: Charges for Services	Program Revenues: Losses on Investment	Net (Expenses) Revenues and Changes in Net Deficit - Governmental Activities
GOVERNMENTAL ACTIVITIES:					
General government	$ 9,091,855	$ 128,597,860	$ 10,100,987	$ (31,827,659)	$ 97,779,333
Education, aqueduct and sewers, and transportation	1,450,669	-	-	-	(1,450,669)
Economic development program	2,360,904	-	-	-	(2,360,904)
Recreation and sports	3,791,542	-	-	-	(3,791,542)
Arts and entertainment	19,652,387	-	-	-	(19,652,387)
Public safety	24,435	-	-	-	(24,435)
Weatherization program	2,882,624	619,103	-	-	(2,263,521)
Interest on long-term debt	96,020,338	-	-	-	(96,020,338)
Total governmental activities	$ 135,274,754	$ 129,216,963	$ 10,100,987	$ (31,827,659)	(27,784,463)
GENERAL REVENUES:					
Proceeds from legal settlement					1,028,562
Unrestricted investment earnings					341,861
CHANGE IN NET POSITION/(DEFICIT)					(26,414,040)
NET DEFICIT, beginning of year					(1,526,404,340)
NET DEFICIT, end of year					$ (1,552,818,380)

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

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Balance Sheet – Governmental Funds
June 30, 2013

	General Fund		ARRA Fund		Capital Projects Fund		Debt Service Fund		Total Governmental Funds
ASSETS									
Cash and cash equivalents	$	2,569,213	$	-	$	-	$	-	$	2,569,213
Accounts receivable		370,960		-		-		-		370,960
Due from other funds		3,353,342		30		1,389,547		21,800		4,764,719
Due from Commonwealth		264,592		-		-		-		264,592
Due from Government Development Bank for Puerto Rico		12,403		-		-		-		12,403
Restricted assets:										
Cash and cash equivalents		12,547,031		1,761,731		78,720,216		74,559,063		167,588,041
Accrued interest receivable		-		-		3,528		2,997		6,525
Investments and investment contracts		225,100,332		-		627,700		3,138,508		228,866,540
Accounts receivable		-		-		74,658,080		-		74,658,080
Due from Commonwealth		-		-		4,722,615		22,376		4,744,991
	$	244,217,873	$	1,761,761	$	160,121,686	$	77,744,744	$	483,846,064

Continues

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

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Balance Sheet – Governmental Funds
June 30, 2013

Continued

	General Fund	ARRA Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
LIABILITIES AND FUND BALANCES/(DEFICIT)					
LIABILITIES:					
Accounts payable and accrued liabilities	$ 2,046,069	$ -	$ -	$ -	$ 2,046,069
Liabilities payable from restricted assets:					
Accounts payable and accrued liabilities	12,039,049	111,509	92,610,053	-	104,760,611
Due to Commonwealth	-	-	19,476,987	-	19,476,987
Due to other funds	52,205	1,905,705	2,806,809	-	4,764,719
Total liabilities	14,137,323	2,017,214	114,893,849	-	131,048,386
FUND BALANCES/(DEFICIT):					
Non-spendable	225,100,332	-	-	-	225,100,332
Restricted	507,981	-	45,227,837	77,744,744	123,480,562
Unassigned	4,472,237	(255,453)	-	-	4,216,784
Total fund balances/(deficit)	230,080,550	(255,453)	45,227,837	77,744,744	352,797,678
	$ 244,217,873	$ 1,761,761	$ 160,121,686	$ 77,744,744	$ 483,846,064

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

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Reconciliation of Balance Sheet – Governmental Funds to
the Statement of Net Position/(Deficit)
June 30, 2013

FUND BALANCES - GOVERNMENTAL FUNDS		$ 352,797,678
Amounts reported for governmental activities in the statement of net position/(deficit) are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Non-depreciable capital assets	13,269,897	
Depreciable capital assets, net	22,061,142	35,331,039
Prepaid expenses and bond issuance costs are not available to pay current period expenditures and, therefore, are not deferred in the funds:		
Bond issuance costs	32,732,247	
Prepaid expenses and other assets	248,011	32,980,258
Other non-current assets are not available to pay current period expenditures and, therefore, are not deferred in the funds:		
Net investment in direct financing lease	37,800,000	
Due from Commonwealth	7,914,559	
Due from Municipality of San Juan	855,334	46,569,893
Liabilities, including bonds payable, loans payable, accrued interest payable, and contingencies are not due and payable currently and, therefore, are not reported in the funds:		
Bonds and loans payable	(1,969,923,071)	
Accrued interest payable	(42,255,681)	
Accounts payable and accrued expenses	(8,318,496)	(2,020,497,248)
DEFICIT OF GOVERNMENTAL ACTIVITIES		$ (1,552,818,380)

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

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
for the Year Ended June 30, 2013

	General Fund	ARRA Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES:					
Intergovernmental revenues:					
Contributions from Commonwealth of Puerto Rico	$ 117,000,000	$ -	$ 10,958,024	$ 209,678	$ 128,167,702
Contributions from Puerto Rico Sales Tax Financing Corporation (COFINA)	-	-	430,158	-	430,158
Weatherization programs	-	2,885,736	-	-	2,885,736
Interest and investment income:					
Interest - bearing demand deposits	3,130	2,058	129,077	207,596	341,861
Investments and investment contracts	(31,827,659)	-	-	-	(31,827,659)
Direct financing lease revenues	-	-	-	5,787,117	5,787,117
Charges for services	2,328,474	-	-	-	2,328,474
Legal settlement proceeds	1,028,562	-	-	-	1,028,562
Other	91,223	11,192	1,166,390	-	1,268,805
Total revenues	88,623,730	2,898,986	12,683,649	6,204,391	110,410,756
EXPENDITURES:					
Current:					
General government	8,654,614	-	-	-	8,654,614
Education, aqueduct and sewers, and transportation	-	-	1,178,618	-	1,178,618
Economic development program	-	-	2,360,904	-	2,360,904
Recreation and sports	-	-	2,029,178	-	2,029,178
Edifications	-	-	-	-	-
Arts and entertainment	-	-	1,400,779	-	1,400,779
Public safety	-	-	24,435	-	24,435
Weatherization program	-	2,882,624	-	-	2,882,624
Debt service:					
Payment of maturing bonds	-	-	-	37,460,000	37,460,000
Repayment of notes payable to Government Development Bank for Puerto Rico	-	-	40,037	-	40,037
Interest	-	-	312,710	81,351,781	81,664,491
Capital outlays:					
General government	1,217,123	-	-	-	1,217,123
Recreation and sports	-	-	35,692	-	35,692
Edifications	-	-	57,935	-	57,935
Total expenditures	9,871,737	2,882,624	7,440,288	118,811,781	139,006,430

Continues

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

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds for the Year Ended June 30, 2013

Continued

	General Fund	ARRA Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES OVER/(UNDER) EXPENDITURES	78,751,993	16,362	5,243,361	(112,607,390)	(28,595,674)
OTHER FINANCING SOURCES/(USES):					
Proceeds from loans payable to Government Development Bank for Puerto Rico	3,856,341	1,929,657	588,229	-	6,374,227
Transfers in	-	-	-	112,887,792	112,887,792
Transfers out	(112,875,747)	-	(12,045)	-	(112,887,792)
Total other financing sources/(uses)	(109,019,406)	1,929,657	576,184	112,887,792	6,374,227
NET CHANGES IN FUND BALANCES	(30,267,413)	1,946,019	5,819,545	280,402	(22,221,447)
FUND BALANCES, beginning of year	260,347,963	(2,201,472)	39,408,292	77,464,342	375,019,125
FUND BALANCES, end of year	$ 230,080,550	$ (255,453)	$45,227,837	$ 77,744,744	$ 352,797,678

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

Puerto Rico Infrastructure Financing Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities
for the Year Ended June 30, 2013

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		$ (22,221,447)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. For the year these amounts are:		
Capital outlays	1,310,750	
Depreciation expense	(648,752)	661,998
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long - term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. For the year, these amounts were:		
Principal payments	37,500,037	
Amortization of bonds premium, issue costs and deferred loss, net	(10,358,415)	
Amortization of bond issue costs	(2,818,721)	
Proceeds from long - term debt	(6,374,227)	17,948,674
Governmental funds recognized revenues that were previously deferred, but were recognized as revenue at the government-wide level		(2,266,633)
Some revenues reported in government wide are not recognized in governmental funds because are not available to pay current expenditures		716,591
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds		(21,253,223)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ (26,414,040)

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

1. REPORTING ENTITY

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Authority conform to accouting principles generally accepted in the United States of America ("US GAAP"), for governments as prescribed by the Governmental Accounting Standard Board ("GASB").

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

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

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

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

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

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

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

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

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

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

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Fund Accounting – The financial activities of the Authority are recorded in individual funds, each of which is deemed to be a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the Authority that are reported in the accompanying basic financial statements have been classified into the following major governmental funds:

- ***General Fund*** – The General Fund is the general operating fund of the Authority that is used to account for all financial resources, except those required to be accounted for in another fund.

- ***ARRA Fund*** – The ARRA Fund, a special revenue fund, accounts for restricted resources used or contributed to meet the specific purposes established by this specific federal financial assistance program.

- ***Capital Projects Fund*** – The Capital Projects Fund accounts for resources used or contributed for the acquisition or construction of capital assets and capital improvements.

- ***Debt Service Fund*** – The Debt Service Fund accounts for the accumulation of resources for payment of interest and principal on long-term obligations.

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

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

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

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

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

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

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

The ranges of the useful lives are as follows:

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

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

Capital assets are evaluated for impairment, using the guidance provided by GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries.

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

Compensated Absences – Compensated absences liability is recorded to account for earned but unused vacation and sick pay benefits that will be paid to employees upon separation from the Authority service if certain criteria are met. These benefits, plus their related tax and retirement costs, are classified as compensated absences. Employees may accumulate sick pay benefits or receive a cash buyout on an annual basis. Both the current and long-term portion of compensated absences are accrued and reported in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if these are currently due and payable, for example as a result of employee resignations and retirements.

Deferred Bond and Debt Issuance Costs and Bond Premiums/Discounts – In the government-wide financial statements, premiums/discounts and bond and debt issuance costs related to long-term debt are deferred and are amortized / accreted over the life of the related debt, using the effective interest method. Loans payable, Special Tax Revenue Bonds, Special Obligation Bonds, and Mental Health Infrastructure Revenue Bonds in the government-wide financial statements, are shown net of unamortized premium or discount.

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

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

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

- **Non-spendable** – Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.

- **Restricted** – Amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of the resource providers.

- **Committed** – Amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board of Directors (the "Board"). Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts, no later than the end of the fiscal year. Currently, the Authorty has no balances under this category.

- **Assigned** – Amounts that are intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed. Currently, the Authority has not assigned any amounts under this category.

- **Unassigned** – Represent the residual classification for the general funds, and includes all spendable amounts not contained on the other classifications. In the other funds, the unassigned classification is only to report a deficit balance resulting from overspending for specific purposes for which the amounts have been restricted, committed or assigned.

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

Risk Management – The Authority is responsible for assuring that the Authority's property is properly insured. Annually, the Authority compiles the information of all property owned and its respective replacement value and purchases property and casualty insurance policies. Insurance coverage for fiscal year 2013 remained similar to those of prior years. For the last three years, insurance settlements have not exceeded the amount of coverage.

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

Use of Estimates – The preparation of the basic financial statements in conformity with US GAAP 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 basic financial statements ant the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

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

- ***GASB Statement No. 65, Items Previously Reported as Assets and Liabilities,*** which is effective for financial statements for periods beginning after December 15, 2012.

- ***GASB Statement No. 66, Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62,*** which is effective for periods beginning after December 15, 2012.

- *GASB* Statement *No. 67, Financial Reporting for Pension Plans – An amendment of GASB Statement No. 25,* which is effective for fiscal years beginning after June 15, 2013.

- *GASB* Statement *No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27,* which is effective for fiscal years beginning after June 15, 2014.

- *GASB Statement No. 69, Government Combinations and Disposal of Government Operations,* which is effective for financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

- *GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees,* which is effective for periods beginning after June 15, 2013.

- *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68,* which is effective simultaneously with GASB Statement No. 68.

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

3. DEFICITS

Governmental Activities – The accompanying statement of net position/(deficit) presents an accumulated deficit of approximately $1.6 billion. This situation occurs because the Authority's normal operations is to acquire and/or construct capital assets that will be transferred to the Commonwealth's agencies or other component units. The acquisition is mainly conducted through the issuance of long term obligations that will be funded by the Commonwealth with future appropriations. The outstanding debt of the Authority is collateralized by the full faith and credit of the Commonwealth.

Governmental Funds – The ARRA fund presents a deficit of approximately $255 thousand because some incurred costs were not allowed to be charged to the federal program. The Authority expects to correct this situation by identifying local resources to fund this deficit in the near future.

4. CASH AND CASH EQUIVALENTS, AND INVESTMENTS AND INVESTMENT CONTRACTS

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

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

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

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

As of June 30, 2013, the Authority held cash, cash equivalents, and investments and investment contracts as follows:

Unrestricted assets:		
Cash	$	2,569,213
Restricted assets:		
Cash		52,104,302
Cash equivalents and investments and investments contracts:		
Cash equivalents		115,483,739
Investments and investment contracts, temporarily restricted		3,766,208
Investments, permanently restricted		225,100,332
Total cash equivalents and investments and investments contracts		344,350,279
	$	399,023,794

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

The following table summarizes the type and maturities of investments held by the Authority as of June 30, 2013. Based on concentrations of credit risk, investment by type in any one issuer representing 5% or more of total investments have been separately disclosed. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Description	Due Within One Year	Due After Ten Years	Total
Time deposits:			
Government Development Bank for Puerto Rico	$ 7,059,442	$ -	$ 7,059,442
Banco Popular de Puerto Rico	811,022	-	811,022
Money market funds:			
U.S. Bank Trust National Association	33,484,095	-	33,484,095
Federated Prime Obligations	74,129,180	-	74,129,180
Nonparticipating investment contracts — Calyon	-	3,766,200	3,766,200
Title insurance and mortgage notes	8	-	8
Sales Tax Financing Corporation, Sales Tax Revenue Bonds, Junior Subordinate, Series 2011A	-	225,100,332	225,100,332
	$ 115,483,747	$ 228,866,532	$ 344,350,279

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

The credit quality ratings for investments and investment contracts at June 30, 2013, are as follows:

Counterparty	Credit Risk Rating	
	Standard & Poor's	Moody's
U.S. Bank Trust National Association	AA-	Aa3
Government Development Bank for Puerto Rico	BBB-	Baa3
Federated Prime Obligations	AAAm	Aaa-mf
Calyon	A-1	A2
Banco Popular de Puerto Rico	BB	Ba2
COFINA	A+	A3

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

On February 7, 2014, Moody's Investors Service lowered its rating on COFINA from A3 to Baa2.

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

As of June 30, 2013, approximately $56.4 million, of the depository bank balance of approximately $57.2 million, was exposed to custodial credit risk since such deposits, all of which are maintained at GDB, are uninsured and uncollateralized.

5. ACCOUNTS RECEIVABLE

Accounts receivable presented in the Balance Sheet – Governmental Funds as of June 30, 2013, consist of the following:

Description	General Fund	Capital Projects Fund	Total
Due from other governmental entities	$ 14,583	$ 74,658,080	$ 74,672,663
Rent and related receivables	356,377	-	356,377
	$ 370,960	$ 74,658,080	$ 75,029,040

The reconciliation to the government-wide statement of net position/(deficit) as of June 30, 2013, is as follows:

Unrestricted assets – accounts receivable	$ 370,960
Restricted assets – accounts receivable	74,658,080
	$ 75,029,040

6. DIRECT FINANCING LEASE

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

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

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

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

The composition of the net investment in direct financing lease at June 30, 2013, is as follows:

Description	Amount
Net minimum lease payments receivable	$ 75,985,400
Less unearned lease income	(38,185,400)
	$ 37,800,000

As of June 30, 2013, the minimum future lease payments due under the direct financing lease are as follows:

Years Ending June 30	Principal	Interest	Total Amount
2014	$ 700,000	$ 2,400,300	$ 3,100,300
2015	700,000	2,361,100	3,061,100
2016	700,000	2,319,625	3,019,625
2017	800,000	2,272,750	3,072,750
2018	800,000	2,222,750	3,022,750
2019-2023	5,000,000	10,245,000	15,245,000
2024-2028	6,900,000	8,381,875	15,281,875
2029-2033	9,300,000	5,788,250	15,088,250
2034-2038	12,900,000	2,193,750	15,093,750
	$ 37,800,000	$ 38,185,400	$ 75,985,400

7. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets:				
Nondepreciable:				
Land	$ 12,240,427	$ -	$ (272,051)	$ 11,968,376
Construction in progress	20,219,111	1,096,382	(20,013,972)	1,301,521
Depreciable:				
Building	22,561,474	-	-	22,561,474
Furniture and equipment	936,450	214,368	-	1,150,818
Vehicles	88,259	-	(30,567)	57,692
Total capital assets	56,045,721	1,310,750	(20,316,590)	37,039,881
Less accumulated depreciation:				
Building	188,026	552,173	-	740,199
Furniture and equipment	844,391	85,041	-	929,432
Vehicles	58,240	11,538	(30,567)	39,211
Total accumulated depreciation	1,090,657	648,752	(30,567)	1,708,842
Capital assets — net	$ 54,955,064	$ 661,998	$ (20,286,023)	$ 35,331,039

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

On February 24, 2012, the Authority entered into an Assistance Agreement with the Puerto Rico Department of Justice ("PRDOJ") and GDB to acquire, refurbish and administer of a real estate ("Property"), to relocate the PRDOJ main offices. In connection with the assistance agreement, GDB provided a $35 million credit facility to the Authority to undertake the acquisition and administration of the Property and manage the initial phase of the rehabilitation and refurbishment of the Property. On March 8, 2012, the Authority acquired the Property for approximately $27 million. The credit facility is payable solely from, and secured by the assignment of, the PRDOJ lease agreement and any other existing and future lease agreement and by a mortgage lien on the Property.

The Authority has issued certain bonds and notes to finance the construction of certain capital projects for the benefit of Puerto Rico Aqueduct and Sewer Authority ("PRASA"), municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth. The capital projects include the construction of infrastructure and buildings to be used in the operations of, and managed by, PRASA, municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth in their respective operations. These capital projects, including land acquired, are included as part of the Authority's capital assets until construction is completed and the conditions for transfers to the ultimate beneficiaries are met, at which time they are recorded as an expense in the statement of activities.

During the year ended June 30, 2013, the Authority incurred construction costs for the benefit of other instrumentalities which are presented as current expenditures in the accompanying statement of revenues, expenditures, and changes in fund balances – governmental funds as follows:

Function/Programs	**Amount**
Education, aqueduct and sewers, and transportation	$ 1,178,618
Economic development program	2,360,904
Recreation and sports	2,029,178
Arts and entertainment	1,400,779
Public safety	24,435
	$ 6,993,914

During the year ended June 30, 2013, depreciation expense of approximately $649 thousand was charged to the general government function in the accompanying statement of activities.

8. INTERFUND BALANCES AND TRANSFERS

The summary of the amounts due from/to other funds as of June 30, 2013, is as follows:

Receivable By	Payable By	Purpose	Amount
General Fund	Capital Projects Fund	Reimbursement of administrative costs	$ 2,784,979
General Fund	ARRA Fund	Reimbursement of administrative costs	568,363
ARRA Fund	Capital Projects Fund	Reimbursement of administrative costs	30
Capital Projects Fund	General Fund	Reimbursement of administrative costs	52,205
Capital Projects Fund	ARRA Fund	Reimbursement of administrative costs	1,337,342
Debt Service Fund	Capital Projects Fund	Reimbursement of administrative costs	21,800
			$ 4,764,719

Interfund transfers for the year ended June 30, 2013, consist of the following:

Transfer Out	Transfer In	Purpose	Amount
General Fund	Debt Service Fund	Debt service payments	$ 112,875,747
Capital Projects Funds	Debt Service Fund	Debt service payments	12,045
			$ 112,887,792

9. RESTRICTED NET POSITION/FUND BALANCES

Restricted assets of the Authority included in the statement of net position/fund balances as of June 30, 2013, consist of cash and cash equivalents, receivables, investments, and other assets, net of its related liabilities payable from those restricted assets, to be used for the following purposes:

Description	Amount
Restricted for the debt service payments for the outstanding debt of capital projects	$ 122,972,581
Other purposes:	
Restricted for investment in capital appreciation bonds of COFINA, whereby the Authority is not allowed o use the interest earned in this investment. In the governmental funds financial statements this amount is presented as non-spendable fund balance.	225,100,332
Cash restricted by Act No. 3 of Juanuary 14, 2009	507,981
	$ 348,580,894

10. BONDS PAYABLE

Special Tax Revenue Bonds – On June 16, 2005, the Authority issued $309,102,577 Special Tax Revenue Bonds, Series 2005 A (the "Series 2005 A Bonds"), $324,625,000 Special Tax Revenue Bonds, Series 2005 B (the "Series 2005 B Bonds"), and $699,235,339 Special Tax Revenue Refunding Bonds, Series 2005 C (the "Series 2005 C Bonds"). The Series 2005 A Bonds maturing at various dates from July 1, 2029 through 2045, inclusive, and the Series 2005 C Bonds maturing on July 1, 2028, were issued as Capital Appreciation Bonds.

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

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

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

The Series 2005 A Bonds and 2005 Series B, Bonds and 2005 Series C Bonds bear interest, payable semiannually on January 1 and July 1 at rates ranging from 4% to 5.5%, and mature at various dates through July 1, 2045. Accrued interest on the Capital Appreciation Bonds will be paid at maturity as part of the bonds accreted value. The Series 2005 B Bonds maturing July 1, 2037 and 2041, may be redeemed by the Authority prior to maturity, upon not less than 30 days prior notice, either in whole or in part, and if in part, as directed by the Authority. The Series 2005 A Bonds and 2005 Series C Bonds are not subject to redemption prior to maturity.

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

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

Act No. 44, as amended, requires that in each fiscal year through fiscal year 2057, the first $117 million of certain federal excise taxes received by the Commonwealth be transferred to the Authority. Such taxes consist of the federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the U.S. treasury and returned to the Commonwealth. For the year ended June 30, 2013, of the total of $117 million received by the Authority from the Commonwealth, a total of $113 million was pledged for the debt service of the Special Tax Revenue Bonds. For the year ended June 30, 2013, principal and interest paid on Special Tax Revenue Bonds amounted to approximately $112.1 million.

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

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

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

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

As of June 30, 2013, debt service requirements for special tax revenue bonds were as follows:

Years Ending June 30	Principal	Interest	Total
2014	$ 35,195,000	$ 76,872,050	$ 112,067,050
2015	37,055,000	74,953,825	112,008,825
2016	39,030,000	72,923,500	111,953,500
2017	41,115,000	70,795,025	111,910,025
2018	43,290,000	68,563,363	111,853,363
2019-2023	253,545,000	304,613,906	558,158,906
2024-2028	330,205,000	225,788,575	555,993,575
2029-2033	397,295,000	165,665,313	562,960,313
2034-2038	412,095,000	150,884,250	562,979,250
2039-2043	471,305,000	84,051,375	555,356,375
2044-2048	424,120,000	23,646,125	447,766,125
	2,484,250,000	$ 1,318,757,307	$ 3,803,007,307
Add — Premium	98,420,313		
Less:			
Unaccreted discount on capital appreciation bonds	(643,457,423)		
Unamortized deferred loss on refunding bonds	(54,476,495)		
	$ 1,884,736,395		

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

The Series 2007 Bonds were issued under a trust indenture dated October 1, 2007, between the Authority and GDB, which provides for the assignment of a lease with an option to purchase, dated October 24, 2007. The Series 2007 Bonds are payable semiannually on April 1 and October 1, and bear interest at fixed rates of 5.6% through 2014, 6.25% through 2024, and 6.5% through 2038.

As of June 30, 2013, debt service requirements for Mental Health Infrastructure Revenue Bonds were as follows:

Years Ending June 30	Principal	Interest	Total
2014	$ 700,000	$ 2,400,300	$ 3,100,300
2015	700,000	2,361,100	3,061,100
2016	700,000	2,319,625	3,019,625
2017	800,000	2,272,750	3,072,750
2018	800,000	2,222,750	3,022,750
2019-2023	5,000,000	10,245,000	15,245,000
2024-2028	6,900,000	8,381,875	15,281,875
2029-2033	9,300,000	5,788,250	15,088,250
2034-2038	12,900,000	2,193,750	15,093,750
	37,800,000	$ 38,185,400	$ 75,985,400
Add – Premium	523,062		
	$ 38,323,062		

11. LOANS PAYABLE

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

During the fiscal year ended June 30, 2012, PFC refunded the PFC Bonds that were related to the Note, and therefore, the repayment terms were also modified by PFC for the proportionate portion attributable to the Authority. Interest only is payable through June 30, 2015. Afterwards, principal and interest installments are payable annually. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on PFC Bonds. The balance outstanding as of June 30, 2013 is $3,606,472 and matures in June 2031.

Applicable percentage is the percentage representing the proportion of the amount paid by PFC on the note to the aggregate amount paid by PFC on all the notes acquired by PFC under Act No. 164.

During the year ended June 30, 2013, the Authority recorded Commonwealth appropriations amounting to $209,678 that were used to pay the interest on the note included as part of program revenues – operating grants and contributions – general government function in the statement of activities and as part of contributions from Commonwealth of Puerto Rico in the accompanying statement of revenues, expenditures, and changes in fund balances – governmental funds.

On February 18, 2005, the Authority entered into a loan agreement with GDB related to a nonrevolving line of credit in an amount not to exceed $40 million for the construction of an auditorium for Centro de Bellas Artes Luis A. Ferré. The principal amount of the loan is due and payable on June 30, 2018. The loan bears interest at 7% as of June 30, 2013 and interest installments are due annually. As of June 30, 2013, the principal balance outstanding under this loan agreement amounted to $4,528,688.

During the year ended June 30, 2013, the Authority received contributions from the Commonwealth, amounting to \$352,747. These contributions were used to pay the principal and interest due under this loan agreement. These contributions have been recorded as part of program revenues – operating grants and contributions – general government function in the accompanying statement of activities and as part of contributions from Commonwealth in the accompanying statement of revenues, expenditures, and changes in fund balances – governmental funds.

On June 1, 2009, the Authority entered into a revolving line of credit facility with GDB to provide interim financing for costs incurred by the Authority under certain American Recovery and Reinvestment Act Programs (the "ARRA Programs"). This line of credit is repaid from the cost reimbursements received from the federal government under the ARRA Programs and contributions from the Commonwealth. This line of credit matured on June 30, 2011, and was subsequently extended until January 31, 2014, and bears interest at 150 basis points over the prime rate, with a minimum interest rate of 6%. As of June 30, 2013, the principal balance outstanding under the Line of Credit amounted to approximately \$6.6 million.

On March 8, 2012, the Authority entered into a \$35 million line of credit with GDB for the acquisition, refurbishment and maintenance of certain real estate property that will be subsequently leased to the Puerto Rico Department of Justice. The credit facility is secured by a mortgage lien on the property, and is payable from future appropriations from the Commonwealth. Currently, the property is under refurbishment and has not been occupied by the intended tenant. This line of credit matures on June 30, 2017 and bears interest at 150 basis points over the prime rate, with a minimum interest rate of 6%. As of June 30, 2013, the unpaid principal balance and accrued interest under this line of credit amounted to approximately \$32.1 million and \$2.3 million, respectively.

As of June 30, 2013, debt service requirements for loan agreements and line of credit facilities are as follows:

Years Ending June 30	Principal	Interest	Total
2014	$ 6,611,238	$ 587,660	$ 7,198,898
2015	-	201,527	201,527
2016	106,170	198,785	304,955
2017	32,164,941	2,556,910	34,721,851
2018	89,097	192,481	281,578
2019-2023	502,380	901,077	1,403,457
2024-2028	1,269,084	757,408	2,026,492
2029-2031	6,082,303	103,688	6,185,991
	$ 46,825,213	$ 5,499,536	$ 52,324,749

12. CHANGES IN LONG-TERM AND OTHER LIABILITIES

Long-term liability activity in the governmental activities for the year ended June 30, 2013, was as follows:

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Special Tax Revenue Bonds:					
Series 2005 A, B and C Bonds	$ 2,056,334,999	$ -	$ (29,490,000)	$ 2,026,844,999	$ 31,060,000
Series 2006 Bonds	461,345,000	-	(3,940,000)	457,405,000	4,135,000
Mental Health Infrastructure Revenue Bonds – Series 2007 A and B Bonds	41,830,000	-	(4,030,000)	37,800,000	700,000
	2,559,509,999	-	(37,460,000)	2,522,049,999	35,895,000
Net premium/(discount)	107,910,226	-	(8,966,851)	98,943,375	-
Unaccreted discount on capital appreciation bonds	(659,153,392)	-	15,695,969	(643,457,423)	-
Unamortized deferred loss on refunding loans	(58,108,489)	-	3,631,995	(54,476,494)	-
Total bonds payable	1,950,158,344	-	(27,098,887)	1,923,059,457	35,895,000
Loans payable:					
Principal	40,491,022	6,374,227	(40,037)	46,825,212	6,611,238
Net premiums	74,700	-	(4,890)	69,810	-
Unamortized deferred loss on refunding PFC loan	(33,600)	-	2,192	(31,408)	-
Other liabilities:					
Liability for legal matters	7,550,000	-	-	7,550,000	-
Termination benefits	346,813	-	(28,428)	318,385	62,693
	$ 1,998,587,279	$ 6,374,227	$ (27,170,050)	$ 1,977,791,456	$ 42,568,931

As of June 30, 2013, long-term liabilities are presented within the following assertions in the government-wide statement of net position/(deficit) as follows:

Bonds and loans payable - due in more than one year	$ 1,927,416,833
Bonds and loans payable - due in one year	42,506,238
Accounts payable and accrued liabilities – due in more than one year	7,805,692
Accounts payable and accrued liabilities – due in one year	62,693
	$ 1,977,791,456

Compensated Absences – The activity for compensated absences, included within accounts payable and accrued liabilities in the accompanying statement of net position/(deficit), during the year ended June 30, 2013, is as follows:

Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
$ 283,327	$ -	$ (148,947)	$ 134,380	$ 134,380

13. ARBITRAGE

The interest paid by the Authority in the Special Tax Revenue Bonds 2005 Series A and B, Special Tax Revenue Refunding Bonds 2005 Series C and Special Tax Revenue Bond Series 2006 are exempt from federal income tax. As a result, the Authority is subject to Federal Arbitrage Regulations ("FAR"). FAR requires that arbitrage be calculated and rebated to the federal government at the end of each five-year period that tax exempt debt is outstanding (90 percent of the amount due) and at maturity. Arbitrage calculation for the Special Tax Revenue Bonds 2005 Series A and B, Special Tax Revenue Refunding Bonds 2005 Series C was made on June 16, 2010 and the next calculation is schedule to be performed on June 16, 2015. Arbitrage calculation for the Special Tax Revenue Bonds, Series 2006, was made on September 28, 2011 and the next calculation is scheduled to be performed on September 28, 2016. As of June 30, 2013 there is no arbitrage exposure.

14. TERMINATION BENEFITS

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