PORT OF THE AMERICAS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
Basic Financial Statements
June 30, 2013

(With Independent Auditors' Report Theron)

ZAYAS, MORAZZANI & CO.
CERTIFIED PUBLIC ACCOUNTANTS

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(A Component Unit of the Commonwealth of Puerto Rico)
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Independent Auditors' Report

To the Board of Directors of
Ports of the Américas Authority:

We have audited the accompanying financial statements of Port of the Américas Authority (the "Authority"), a component unit of the Commonwealth of Puerto Rico, which compromise the statement of net position as of and for the fiscal year ended June 30, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the fiscal year then ended and the related notes to the financial statements.

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, due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the financial statements, whether due to 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. And 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 opinion.

Basis for Qualified Opinion

The Authority has been able to obtain financing to cover the costs of its construction in process project. Since inception, the interest costs incurred for the cumulative amount of $75 million have been capitalized, as usually allowed or prescribed by the Generally Accepted Accounting Principles. However, a substantial portion of the interest charges has been paid with funds obtained through grant contributions from the Commonwealth of Puerto Rico for such specified purposes. It is our understanding that under such circumstances, the Authority does not have the option to capitalize the related interest costs. The effect of the correction of the referred matter in the accompanying financial statements would be a reduction in the balance of capital assets and the net assets, as result, in the amount of $57.9 million.

Qualified Opinion

In our opinion, except for the effects of the capitalization of interest costs paid with grants from the Commonwealth of Puerto Rico, as discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Authority as of June 30, 2013, and the results of its operations and cash flows for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 12 to the financial statements, there are various uncertainties that may adversely affect the Authority's financial condition. These financial statements do not include adjustments, if any, that may result from the outcome of these uncertainties. Our opinion is not modified with respect to that matter.

Uncertainties Regarding the Future Outcome of Litigation

As discussed in Note 9 to the financial statements, the Authority is the defendant in a lawsuit alleging "delay events" that affected the construction of the Port and claiming extended overhead and equipment stand-by costs damages. As well the Authority is claiming damages against various contractors. Hearings and discovering proceedings on both actions are in progress. The ultimate outcome of the lawsuits cannot presently be determined by management due to uncertainties. Our opinion is not modified with respect to that matter.

Supplement to the Basic Financial Statements

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis ("MD&A"), on pages 3 through 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 inquiries 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.

January 31, 2014

Zayas, Morazzani & Co.

Stamp No. E93462 of the Puerto
Rico Society of Certified Public
Accountants was affixed to original.

PORT OF THE AMERICAS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

INTRODUCTION

The Port of the Américas Authority ("the Authority"), a public corporation and a component unit of the Commonwealth of Puerto Rico, was created by Act No. 171 enacted on August 11, 2002. The main purpose of the Authority is to develop a deep draft port in the Southern Region of Puerto Rico. This development is part of the Commonwealth's efforts to create a world-class public marine terminal and to stimulate large-scale industrial zone in the Southern Region of Puerto Rico.

On December 12, 2011, the Puerto Rico Governor signed the Law No. 240 of 2011, known as the Law of the Ponce Ports Authority (the "New Law"), which establishes general directives for the further development of the Port of the Américas and its integration to certain development strategies proposed by the Municipality of Ponce. The Law created the Ponce Ports Authority ("PPA") for continuing the development of the port and handle the Port's future operations. The Board of Directors of the PPA shall consist of members from the Authority and representatives from the Municipality of Ponce. All of the assets rights and duties of the Authority shall be transferred to the PPA. As of the date issuing the Authority financial statements, the Board of Directors of the PAA had not been formed, and as such the assets has not been transferred out from the Authority

Pursuant to the provisions of the New Law, the Port of the America's Authority shall continue to handle the obligations, liabilities and commitments incurred prior to the enactment of the New Law.

Subsequently, Law No. 156 of 2013 is issued on December 19, 2013 to amend Articles 2,3,5 and 7 of Law No. 240 of 2011; to restructure the composition of the Board of Directors of the Authority of the Port of Ponce; establish the responsibilities of the Board, for addressing the objectives, duties, rights and privileges with public policy to be established for the development of the Port of the Americas, Rafael Cordero Santiago, as well as expedite any negotiating process; grant to the authority of the Port of Ponce the right to exercise the franchise on the quay of Ponce for a period of ten (10) years; assign operational funds and infrastructure to temper the legislation on the development of the port of the Americas, with the purposes of this Act; and for other purposes.

The following Management's Discussion and Analysis ("MD&A") of the Authority's activities and financial performance provides an introduction to the financial statements of the Authority for the fiscal year ended June 30, 2013, with selected comparative information to the fiscal year ended June 30, 2012. The information contained in this MD&A has been prepared by management and should be considered in conjunction with the financial statements and the notes thereto, which follow this section.

The notes to the financial statements are essential to a full understanding of the data contained in the financial statements. This report presents certain required supplementary information regarding operations, capital assets and long-term debt activity during the fiscal year, outstanding including outstanding commitments made for construction and development.

OVERVIEW OF THE FINANCIAL STATEMENTS

Governmental accounting policy, practice and procedures fall under auspices of the Government Accounting Standards Board ("GASB"). The Authority's financial transactions and financial statements are presented according to the GASB Statement 34 reporting model, as mandated by the GASB. The purpose of the GASB 34 reporting model is to consolidate two basic forms of governmental accounting (governmental and proprietary) into statements that give the reader a clearer picture of the financial position of the Authority as a whole. The Authority reports its financial position and results of operations as a Proprietary Fund.

The financial statements are prepared on the accrual basis of accounting, therefore, revenues are recognized when earned and expenses are recognized when incurred. The Authority's capital assets are depreciated over the estimated useful lives of the related assets using the straight-line method. Construction in progress is carried at cost during the construction stage and is not depreciated until completion of the related project. Please refer to Note 2 in the accompanying financial statements for a summary of the Authority's significant accounting policies. The financial statements along with the MD&A are designed to provide readers with a comprehensive understanding of the Authority's finances.

The financial section of this annual report consists of three parts: the MD&A, the Authority basic financial statements, and the notes to the financial statements. The report includes the following three statements: the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows.

FINANCIAL POSITION SUMMARY

Statement of Net Position

The Statement of Net Position presents the financial position of the Authority at the end of the fiscal year. The statement identifies the "net position" as the residual of the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. A summarized comparison of the Authority's net position at June 30, 2013 is as follows:

	2013	2012	Variance
Assets:			
Current and other assets	$ 289,009	$ 2,578,609	$ (2,289,600)
Capital assets, net	339,811,608	322,914,731	16,896,877
Total assets	$ 340,100,617	$ 325,493,340	$ 14,607,277
Liabilities:			
Current liabilities	$ 21,678,759	$ 24,518,803	$ (2,840,044)
Contingent reserve - current portion	1,200,000	1,200,000	-
Long-term liabilities:			
Contingent reserve - long-term portion	3,150,000	3,150,000	-
Bond purchase agreements	220,391,609	219,348,915	1,042,694
Total liabilities	246,420,368	248,217,718	(1,797,350)
Net position:			
Net investment in capital assets	93,399,601	98,993,761	(5,594,160)
Unrestricted	280,648	(21,718,139)	21,998,787
Total net position	93,680,249	77,275,622	16,404,627
Total liabilities and net position	$ 340,100,617	$ 325,493,340	$ 14,607,277

Net capital assets balance of $322.9 million for fiscal year 2012 is presented net of a reclassification of $19.9 million to conform with fiscal year 2013 presentation of the construction in progress balance.

At June 30, 2013, the Authority's net capital assets increased by $16.9 million mainly related to $15.4 million of interest expense to the BGD and $1.5 million invested in the development of the Port facilities to increase the total container handling capacity to approximately five-hundred thousand twenty-foot equivalent units ("TEU") per year under Phase III A-2.

During 2011, the United States Army Corps of Engineers ("USCOE") issued an order for initial corrective measures to the Authority, and an order to discontinue any further work under the Department of the Army Permit ("DA Permit") until further notice, alleging that certain violations to federal statutes had occurred. As a result of the Project's suspension under the USCOE orders, the Authority entered into settlement negotiations with USCOE aimed at minimizing or avoiding criminal and civil sanctions and obtaining the necessary approvals to complete the Project. The parties reached a Consent Decree agreement ("CD") effective on June 18, 2013 based on the terms and conditions of this agreement the Authority shall pay a civil penalty of $150,000 which was accrued during fiscal year 2012 and shall perform certain mitigation projects beginning on its fiscal year 2013-2014 and ending on fiscal year 2015 totalizing $4.2 million which was accrued during fiscal year 2012.

Total liabilities decreased by $1.8 million mainly related to drawings from the credit facility to continue funding the project's development.

For the Fiscal Year ended June 30, 2013, the largest portion of the Authority's net position represents its investment in capital assets, less the related debts outstanding used to acquire those capital assets.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position is an indicator of the overall fiscal condition of the Authority. Following is a summary of the Statements of Revenues, Expenses, and Changes in Net Position:

	2013	2012	Variance
Revenues	$ -	$ -	$ -
Operating expenses	(751,442)	(1,273,240)	(2,024,682)
Operating loss before non-operating revenues	(751,442)	(1,273,240)	(2,024,682)
Non-operating revenues:			
Contributions from the Commonwealth of Puerto Rico	17,117,000	17,315,000	(198,000)
Other income	38,113	-	38,113
Interest	956	2,709	(1,753)
	17,156,069	17,317,709	(161,640)
Changes in Net Position	16,404,627	16,044,469	360,158
Total net position, beginning of year	77,275,622	61,231,153	16,044,469
Total net position, end of year	$ 93,680,249	$ 77,275,622	$ 16,404,627

The highlights for the Statement of Revenues, Expenses and Changes in Net Position are as follow:

- Overall increase in Net Position for fiscal year 2013 was approximately $16 million compared to an increase of $16 million in fiscal year 2012, mostly as result of the contributions from the Commonwealth of $17 million net from operating expenses of $2 million.

- Overall decrease in operating expenses for fiscal year 2013 was approximately $2.1 million compared to an increase of $220 thousand in fiscal year 2012, mostly as result of cost associated with handling of USCOE proceedings during fiscal year 2012.

CAPITAL ASSETS

The Authority's capital assets consist mainly of construction in progress, which is carried at cost during the construction stage and is not depreciated until completion of the related projects.

At the end of fiscal year 2013, the Authority's net capital assets amount to $339.8 million. This amount represents an increase of approximately $16.9 million when compared to fiscal year 2012, all related to the continuance of the facility's development including $15.4 million in capitalized interest in the fiscal year.

DEBT ADMINISTRATION

As of June 30, 2013, the principal balance outstanding on the Authority's credit facilities amounted to $220.4 million, which composed by Series A Bond amounting to $49.9 million, Series B Bond amounting to $40 million, and Series C Bond amounting to $130.5 million respectively.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives and expends. Questions concerning this report or request for additional information should be addressed to Mr. Ivan Ríos-Mena, Esq., Acting Director, Port of the Américas Authority, P.O. Box 362350, San Juan, Puerto Rico 00936-2350.

PORT OF THE AMERICAS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS		
Cash	$	284,960
Accounts receivable		1,549
Prepaid insurance		2,500
Capital assets, net (note 4)		339,811,608
Total assets	$	340,100,617
LIABILITIES		
Accounts payable:		
Trade and contractors	$	577,583
Contractors retainage		6,993,054
Compensated absences, due within one year		7,094
Contingent reserve		4,350,000
Accrued interest payable		14,099,761
Bond purchase agreements (note 6)		220,391,609
Other liabilities		1,267
Total liabilities		246,420,368
NET POSITION		
Unrestricted		280,648
Net investment in capital assets (note 7)		93,399,601
		93,680,249
Total liabilities and net position	$	340,100,617

See accompanying independent auditors' report
and notes to financial statements.

PORT OF THE AMERICAS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Operating expenses:		
Maintenance	$	79,329
General and administrative		174,163
Insurance		247,026
Salaries		118,946
Professional services		79,579
Payroll taxes and fringe benefits		49,367
Depreciation		3,032
Total operating expenses (note 1)		751,442
Operating loss before non-operating revenues		(751,442)
Non-operating revenues:		
Contributions from the Commonwealth of Puerto Rico (restricted funds for debt service)		17,117,000
Interest income		956
Other income		38,113
Total non-operating revenues		17,156,069
Increase in net position		16,404,627
Net position, beginning of year		77,275,622
Net position, end of year	$	93,680,249

See accompanying independent auditors' report
and notes to financial statements.

PORT OF THE AMERICAS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Cash flows used in operating activities:		
Cash paid to suppliers and other	$	(3,917,828)
Cash paid to employees and other		(205,101)
Cash received from insurance claim		38,113
Net cash used in operating activities		(4,084,816)
Cash flows provided by capital and related financing activities:		
Contributions from the Commonwealth of Puerto Rico		17,117,000
Principal payments on bond purchase agreements		(2,116,021)
Interests payments on bond purchase agreements		(15,000,980)
Advances from bond purchase agreements		3,158,715
Payments for capital expenditures		(1,276,372)
Net cash provided by capital and related financing activities		1,882,342
Cash flows provided by investing activities:		
Interest received		956
Net decrease in cash		(2,201,518)
Cash, beginning of year		2,486,478
Cash, end of year		284,960
Reconciliation of operating income to net cash used in operating activities		
Operating loss before non-operating revenues		(751,442)
Adjustments to reconcile operating income to net cash used in operating activities:		
Depreciation		3,032
Changes in assets and liabilities:		
Decrease in prepaid expenses and other assets		88,082
Decrease in accounts payable trade, contractors payable and retainage		(3,424,488)
Net cash used in operating activities	$	(4,084,816)

See accompanying independent auditors' report and notes to financial statements.

1. NATURE OF THE AUTHORITY

Port of the Américas Authority (the "Authority") is a component unit of the Commonwealth of Puerto Rico created by Law No. 171 of August 11, 2002, as amended. On June 28, 2004 the law that created the Authority was amended by Law No. 166 to change the name of the port to "Puerto de Las Américas Rafael "Churumba" Cordero Santiago". Also, on September 22, 2004, the Puerto Rico Legislature enacted Law No. 409 to provide a $250 million financing for the development of the project. The main purpose of the Authority is the planning, development and construction of a large scale container terminal in the city of Ponce, Puerto Rico. By law, the Puerto Rico Infrastructure Financing Authority ("PRIFA") provides administrative and other assistance to the Authority, until the Board of Directors of the Port of the Américas Authority determines, through the adoption of a resolution, that the Authority is prepared to continue operations on its own. Refer to Note 12 for additional disclosures regarding the Authority.

On December 12, 2011, the Puerto Rico Governor signed the Law No. 240 of 2011, known as the Law of the Ponce Ports Authority (the "New Law"), which establishes general directives for the further development of the Port of the Américas and its integration to certain development strategies proposed by the Municipality of Ponce. The Law created the Ponce Ports Authority ("PPA") for continuing the development of the port and handle the Port's future operations. The Board of Directors of the PPA shall consist of members from the Authority and representatives from the Municipality of Ponce. All of the rights and duties of the Ports of the Américas Authority shall be transferred to the PPA. As of June 30, 2012 the Board of Directors of the PAA had not been conformed and the PPA has not commenced its operations.

Pursuant to the provisions of the New Law, the Port of the America's Authority shall continue to handle the obligations, liabilities and commitments incurred prior to the enactment of the New Law.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The Authority has established its financial activities as business type. Business-type activities are used to account for operations that are financed and operated in a manner similar to private business enterprises on which the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The business-type activities account for resources devoted to finance the general services that the Authority provides. Contributions from the Legislature of Puerto Rico, and other sources of revenues, used to finance the operations of the Authority, are also included.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Measurement Focus and Basis of Accounting - Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The Authority utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or non-current, financial or non-financial) associated with their activities are reported. The difference between assets and liabilities is classified as net assets of the business-type activities.

The accrual basis of accounting is used by the Authority. Under the accrual basis, revenue is recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash collections. Grants and similar resources are recognized as revenue as soon as all eligibility requirements have been met.

Based on Governmental Accounting Standards Board ("GASB") Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Enterprises that Use Proprietary Fund Accounting", as amended by GASB No. 34, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board ("FASB"), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Concentration of Credit Risk - The Authority maintains its cash deposits with the Government Development Bank for Puerto Rico ("GDB"). Deposits with the GDB are exempt from collateralization requirements imposed to private banking entities in Puerto Rico. Deposits with the GDB carry a custodial credit risk, since in case of bankruptcy of the GDB, the entity may not recover its deposits.

Cash and Cash Equivalents - Cash and cash equivalents include petty cash, bank checking account and other instruments with original maturities of three months or less.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Capital Assets - Capital assets are stated at cost when purchased or at estimated fair market value when donated. Costs of repairs and maintenance, which do not increase or extend the life of the respective assets, are expensed as incurred. Assets whose cost or estimated fair value is stated over $750, are capitalized when purchased or received as a donation. Upon retirement or other disposal of properties, the related cost and accumulated depreciation are removed from the accounts. Gains or losses on sale or retirement of properties are reflected in earnings.

The Authority's capital assets are depreciated over the estimated useful lives of the related assets using the straight-line method. Construction in progress is carried at cost during the construction stage and is not depreciated until completion of the related project.

Estimated useful lives of office equipment and vehicle are three and five years, respectively.

Impairment of Long-lived Assets - The Authority evaluates for impairment its long-lived assets held and used whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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. Refer to Notes 4 and 9 to the financial statements for potential impairment conditions that may arise from the future resolution of certain uncertainties therein described.

Compensated Absences - It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The excess over 60 days of vacations and over 90 days of sick leave benefits are paid to the employee. A liability is reported only for the amount due, for example, as a result of employee resignation or retirement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Net Position - Net position represents the difference between all other elements in a statement of financial position and should be displayed in three components – net investment in capital assets; restricted; and unrestricted as defined below:

The *net investment in capital assets* component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.

The *restricted* component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

The *unrestricted* component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Revenues and Expenses - Operating revenues and expenses for business-type activities are those that result from providing services and producing and delivering goods and/or services. It also includes all revenues and expenses not related to capital and related financing, non-capital financing or investing activities. Non-exchange revenues, including contributions received for purposes other than capital assets acquisitions, are reported as non-operating revenues.

Governmental Contributions - Governmental contributions are recorded in the year in which funds are available to the Authority. When their use is restricted for the acquisition of or construction of capital assets and related activities, they are recorded as capital contributions. Funds not used at the end of the year are reported as restricted net assets and restricted cash, when applicable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Risk Management - The Authority is exposed to various risks of loss from torts, theft, damages, destruction of assets, employee injuries and illnesses, natural disasters, and other losses, which may arise during the normal course of business. Insurance coverage is maintained to protect the Authority from claims arising if such matters occur. The various insurance premiums are negotiated by the Authority and the Department of Treasury of the Commonwealth of Puerto Rico. The cost is paid by the Department of Treasury and reimbursed by the Authority.

Recently Issued Accounting Guidance:

(a) In December 2010, the GASB issued GASB Statement No. 62, Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) FASB Statements and Interpretations; (2) Accounting Principles Board Opinions; and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. This Statement applies the Authority during this fiscal year.

(b) (d) In June 2011, the GASB issued GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. This Statement applies during this fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

(c) In March 2012 the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. In addition, this Statement amends or supersedes requirements for the determination of major funds and addresses other statement of net position and governmental funds balance sheet presentation issues. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. This Statement applies to the Authority for the fiscal year 2013-2014.

(d) In March 2012 the GASB issued Statement No. 66 Technical Corrections 2012 an amendment of GASB Statements No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. This Statement applies to the Authority during this fiscal year.

(e) In June 2012 the GASB issued Statement No. 67 Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trust or equivalent arrangements (hereafter jointly referred to as trust) that meet certain criteria. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. This Statement does not apply to the Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

(f) In June 2012 the GASB issued Statement 68 Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The Statement is effective for fiscal years beginning after June 15, 2014. This Statement does not apply to the Authority.

(g) In January 2013 the GASB issued Statement 69 Government Combinations and Disposal of Government Operations. The Statement is effective for fiscal years beginning after December 15, 2013. This Statement provides guidance for disposals of government operations that have been transferred or sold. This Statement does not apply to the Authority.

(h) In April 2013 the GASB issued Statement 70 Accounting and Financial Reporting for Non-exchange Financial Guarantees. The Statement is effective for financial statements for reporting beginning after June 15, 2013. This Statement does not apply to the Authority.

(i) In November 2013 the GASB issued Statement 71 Pension Transition for Contributions Made Subsequent to the Measurement Date. The provisions of this Statement should be applied simultaneously with the provision of Statement 68. This Statement does not apply to the Authority.

3. CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits might not be recovered. The Authority maintains all cash deposits with the GDB. The Commonwealth of Puerto Rico requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Deposits maintained in GDB are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk, because in the event of GDB's failure, the Authority may not be able to recover these deposits. The bank balance of the Authority's deposits with GDB amounted to approximately $285 thousand as of June 30, 2013.

4. CAPITAL ASSETS

The Authority's net capital assets at June 30, 2013, were as follows:

	June 30, 2012	Additions/ (Depreciation Expense)	Retirements	June 30, 2013
Depreciable assets:				
Office equipment	$ 12,457	$ -	$ -	$ 12,457
Vehicle	22,018	-	-	22,018
	34,475	-	-	34,475
Less: Accumulated depreciation	(31,442)	(3,033)	-	(34,475)
Net depreciable assets	3,033	(3,033)	-	-
Non-depreciable :				
Construction in progress	322,911,698	16,899,910	-	339,811,608
	$ 322,914,731	$ 16,896,877	$ -	$ 339,811,608

The Authority capitalized interest in the amount of $15.4 million during the year ended June 30, 2013, as part of its construction projects.

The Authority is developing a deep draft port (the "Project") in the southern coast of Puerto Rico (Municipality of Ponce) with a terminal at Ponce Harbor. The Project required federal authorizations under Section 10 of the Rivers and Harbors Act as well as under Section 404 of the Clean Water Act (Section 10 and Section 404 Permits). An additional permit under Section 103 of the Marine Protection, Research and Sanctuaries Act (Section 103 Permit) was also required for the Ponce Harbor navigation channel for dredging and ocean disposal of the dredged material. During 2005, the United States Army Corps of Engineers ("USCOE" or “COE”) issued a Department of the Army Permit ("DA Permit") for the construction of the Project, pursuant to certain conditions including conducting archaeological studies in the Value Added Industrial Area ("VAIA") and the designation and submittal of a buffer zone adjacent to the Ponce Historical District for the USCOE's and the State Historic Preservation Office's ("SHPO") approval.

4. CAPITAL ASSETS, Continued

The Authority evaluates for impairment its long-lived assets held and used whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As disclosed in Note 9, during 2011 USCOE issued an order for initial corrective measures to the Authority, and an order to discontinue any further work under the DA Permit until further notice, alleging that certain violations to federal statutes had occurred. In a letter dated July 20, 2011, and further to the Authority's request, USCOE confirmed that the Authority could continue to work in certain areas of the Project. Nonetheless, areas not specifically addressed by USCOE in the July 20, 2011 letter remained subjected to the no-further-work requirement. The parties reached an agreement effective on June 18, 2013; based on the terms and conditions of this agreement the Authority shall pay a civil penalty of $150,000 and $4.2 million by performing certain mitigation projects. As a result, a contingent reserve of $4.350 million was accrued during fiscal year 2012. Additional information is disclosed in Note 9.

5. LAND FACILITIES

The Port of Ponce is owned by the Autonomous Municipality of Ponce. The Authority had an agreement with the Municipality, which was renewed in several occasions, for the use and exploitation of the facilities and some of the Municipality's adjacent properties and establishing the general terms and conditions for the Facility Transfer Agreement. This agreement was not renewed when it expired in September 30, 2010, as the Municipality of Ponce commenced negotiations with the Central Government to continue directly with the development and operation of the port facilities.

6. BOND PURCHASE AGREEMENTS WITH GDB

The Authority entered into various bond purchase agreements with the Government Development Bank for Puerto Rico (GDB) as follows:

a) Bonds 2005 Series A - On April 20, 2005 the Authority entered into a bond purchase agreement with the Government Development Bank for Puerto Rico (GDB), whereby GDB agreed to disburse the Authority from time to time certain principal advances up to a maximum aggregate principal amount of $70 million. The aggregate unpaid principal balance of all outstanding bond principal advances shall be payable in full on January 1, 2015. The principal amount may be paid with any of the following: (1) a long-term bond issuance once the project is completed, (2) other revenue of the Port of the Américas Authority, or (3) legislative appropriations as established in Act No 409 of September 22, 2004 (Act No. 409). Principal and interest payments are guaranteed by the Commonwealth of Puerto Rico by Act No. 409. As of June 30, 2013, the principal outstanding Series A Bond purchase agreement amounted to $49.9 million.

b) Bonds 2005 Series B - On August 31, 2005 the Authority entered into an additional bond purchase agreement with GDB whereby GDB agreed to disburse the Authority from time-to-time certain bond principal advances up to a maximum aggregate principal amount of $40 million. The aggregate unpaid principal balance of all outstanding bond principal advances shall be payable on January 1, 2015. The principal amount should be paid with any of the following: (1) a long-term bond issue once the project is completed, (2) other revenue of the Authority, or (3) legislative appropriations as established in Act No. 409. As of June 30, 2013, the principal balance outstanding under the Series B Bond purchase agreement amounted to $40 million.

c) Bonds 2005 Series C - On November 10, 2005, the Authority entered into an additional bond purchase agreements with GDB whereby GDB agreed to disburse the Authority from time-to-time certain bond principal advances up to a maximum aggregate principal amount of $140 million. The aggregate unpaid principal balance of all outstanding bond principal advances shall be payable on January 1, 2015. The principal amount should be paid with any of the following: (1) a long-term bond issue once the project is completed, (2) other revenue of the Authority, or (3) legislative appropriations as established in Act No. 409. As of June 30, 2013, the principal balance outstanding under the Series C Bond amounted to $130.5 million.

Interest rate for each of the three bond purchase agreements is determined annually by GDB based on a spread ranging between 150 - 175 basis points over the interest rate of underlying commercial paper issued by the GDB in connection with these credit facilities. The interest rate as of June 30, 2013 was 7.00%.

6. BOND PURCHASE AGREEMENTS WITH GDB, Continued

The following summarizes the activity in bond purchase agreements for the fiscal year ended June 30, 2013:

	Beginning Balance	Advances	Principal Payments	Ending Balance
2005 Series A Bond	$ 51,973,203	$ -	$ (2,116,021)	$ 49,857,182
2005 Series B Bond	40,000,000	-	-	40,000,000
2005 Series C Bond	127,375,712	3,158,715	-	130,534,427
	$ 219,348,915	$ 3,158,715	$ (2,116,021)	$ 220,391,609

Scheduled principal maturities and interest payments on the Authority's bond purchase agreements are as follow:

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	$ -	15,427,413	15,427,413
2015	220,391,609	15,427,413	235,819,022
	$ 220,391,609	30,854,826	251,246,435

7. NET INVESTMENT IN CAPITAL ASSETS

At June 30, 2013, the Authority's net investment in capital assets, is as follows:

Capital assets, net of accumulated depreciation	$ 339,811,608
Bond purchase agreements attributable to the acquisition, construction and improvements of capital assets	(220,391,609)
Interest payable on bond purchase agreements	(14,099,761)
Contingent reserve	(4,350,000)
Trade payable, contractors payable and contractors retainage	(7,570,637)
	$ 93,399,601

8. CONSTRUCTION COMMITMENTS

The Authority has entered into various construction agreements to develop the Port. The total contracted amount, payments during the year and commitment balance on major commitments as of June 30, 2013 were as follows:

Construction of Phase II - On April 20, 2006, the Authority contracted the services of Del Valle Group, S.P. ("DVG") to build Phase II, rehabilitation of a container yard adjacent to Piers 4, 5 and 6. The contract amount, including amendments through March 23, 2009, is $46,551,884. The balance of the contract is $183 as of June 30, 2012. The project is completed.

Construction of Phase III - On March 12, 2007, the Authority contracted the services of DVG, to build Phase III, an improvement to the entrance of the Port. The contract amount, as amended through November 30, 2008, is $4,755,622. The balance of the contract is a retainage payable of $15,000 as of June 30, 2012. The project is substantially completed.

Construction of Phase III A.2 - On July 2, 2008 the Authority contracted the services of DVG, to construct a storm sewer channel, relocate the sewer, potable water and power distribution system. The contract amount, including amendments through December 31, 2012 is $84,034,905. Construction costs totaling $4,304,443 were paid during the year ended June 30, 2013. The balance of the contract is $1,434,106, including a retainage payable of $5,963,115, as of June 30, 2013. The project is under construction.

Dredging Project - On June 19, 2005, the Authority contracted the services of Weeks de Puerto Rico, Inc. for the dredging project of the Ponce Bay. The contract amount, including amendments through November 25, 2006, is $13,287,333. The balance of the contract was a retainage payable of $99,748 paid in July 30, 2012. The project is completed.

8. CONSTRUCTION COMMITMENTS, Continued

Inter-Agency Agreement - On August 29, 2007 the Authority signed an agreement with the Puerto Rico Aqueduct and Sewer Authority ("PRASA") in which the PRASA agreed to reimburse the Authority up to $4 million for the relocation of the sewer and potable water distribution system to support the Port of the Américas. The cost of this construction is estimated at approximately $10.4 million. During April 2011 PRASA reimbursed the Authority for the agreed amount of $4 million. Such amount was recorded as a reduction to the capitalized construction in progress. Upon completion of the relocation project the resulting infrastructure will be held and maintained by PRASA. Once the project is completed and accepted by PRASA, the total amount invested in the project, net of PRASA's reimbursement will be deducted from the Authority's construction-in-progress and transferred as a contribution to PRASA. As of June 30, 2013, the project has not been transferred to PRASA, as there are still activities pending related to the water distribution infrastructure.

9. COMMITMENTS AND CONTINGENCIES

The Authority is a defendant in numerous legal proceeding pertaining to matters incidental to the construction of the Port as follows:

USCOE Proceedings:

As disclosed in Note 4 to the financial statements, during 2011 the USCOE issued an order for initial corrective measures to the Authority, and an order to discontinue any further work under the DA Permit until further notice, alleging that certain violations to federal statutes had occurred. On June 18, 2013, become effective a Consent Decree (“CD”) agreement between the USCOE and the Authority for injunctive relief, civil penalty and mitigation projects.

The Authority shall pay a civil penalty to the United States Department of Justice in the amount of one hundred and fifty thousand dollars ($150,000) within thirty (30) days of the Consent Decree effectiveness.

Also, as in-lieu mitigation projects (“ILMP”) the Authority shall establish an escrow account for the deposit of funds to be used for the development and implementation of one or more ILMP by one or more not-for-profit organizations as instructed by the USCOE. For such, the Authority will deposit four million two hundred thousand dollars ($4,200,000) in four (4) individuals payments of one million fifty thousand dollars ($1,050,000) in a specified payment schedule beginning within sixty-five (65) days from the effectiveness of the CD and ending on fiscal year 2015.

9. COMMITMENTS AND CONTINGENCIES, Continued

Potential claims against contractors and commitment to purchase lands:

On May 18, 2011, the USCOE and the State Historic Preservation Office ("SHPO") conducted and inspection in the area of the Project. As a result of the inspection, the USCOE notified the Authority of its non-compliance with several requirements in the Permit number SAJ-2002-06525 (the "Permit") issued on May 5, 2005 which required the implementation of certain requirements including, among others, conducting certain archeological studies at the Value Added Industrial Area, a study at the Ponce Playa Historical District, the expropriation of lands, and the designation and submittal of a buffer zone. Later, on June 7, 2011, the USCOE issued a stop-work order for any work related to the Permit.

As set forth by the USCOE in its June 7, 2011 letter, the non-compliance with requirements in the Permit resulted in criminal and civil sanctions for the Authority. Amid this scenario and to secure the viability claim against the parties, including contractors, potentially responsible for the damages that the Authority might suffer as a result of this situation the Authority sent demand letters for an amount not less that approximately $30 million to the individuals and entities that were involved in the planning, design, and or construction activities connected with the Project work related.

As a result, one of those entities answered the demand and is counterclaiming against the Authority claiming that the USCOE decision to stop-the-work affected the work of such contractor, resulting in a "delay event" under the contract and is claiming extended over-head and equipment stand-by costs for an amount of approximately $3 million.

Further to the issue disclosed above, the Authority shall pay for the acquisition of lands considered as part of the Permit. The costs of such lands may be approximately $16 million which was the initially paid amount by the government; but final acquisition price is under negotiation by the Authority with the pertaining governmental agencies at the close of its fiscal year.

The Authority management did not accrue any amount regarding the possible outcome of favorable and or unfavorable potential claims discussed above on its financial statements as of June 30, 2013.

10. LIQUIDITY UNCERTAINTY

Pursuant to the provisions of Law No. 409 of September of 2004, the Puerto Rico Commonwealth has pledged to secure the payment of up to $250 million bond purchase agreements between the Authority and GDB for financing the construction of the Port. As of June 30, 2013, the Authority has approximately $3.2 million available for further drawing under the Series C credit facility disclosed in Note 6. Such amount may not be sufficient to cover the total outstanding contractual commitments as of June 30, 2013.

In addition, the Authority bears a potential liquidity risk if a significant change order is required in any of the construction phases in progress or in the event that any legal proceedings result in an unfavorable monetary outcome to the Authority.

11. SUBSEQUENT EVENTS

Management evaluated subsequent events through January 31, 2014, the date on which the financial statements were available to be issued. There were no additional material subsequent events, which would require further disclosure in the Authority's financial statements except for the possible impact of Law No. 156 of 2013. The Law No. 156 of 2013 is issued on December 19, 2013 to amend Articles 2,3,5 and 7 of Law No. 240 of 2011; to restructure the composition of the Board of Directors of the Authority of the Port of Ponce; establish the responsibilities of the Board, for addressing the objectives, duties, rights and privileges with public policy to be established for the development of the Port of the Americas, Rafael Cordero Santiago, as well as expedite any negotiating process; grant to the authority of the Port of Ponce the right to exercise the franchise on the quay of Ponce for a period of ten (10) years; assign operational funds and infrastructure to temper the legislation on the development of the port of the Americas, with the purposes of this Act; and for other purposes.

As a result of the Consent Decree Agreement, the Authority subsequently paid $1,050,000 and $150,000 (during July 2013 and August 2013, respectively) to the USCOE using a line of credit entered with the GDB, whereby GDB agreed to disburse the Authority certain advances up to a maximum aggregate principal of $1.7 million plus any accrued interest. Interest would be based on 1.5% over the prime rate, with a floor of 6% and a ceiling of 12%. The proceeds of the line of credit are to finance some of the terms of the Consent Decree Agreement. Additional details are disclosed in note 9.

12. GOING CONCERN

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. The final outcome of the events and proceedings disclosed in Notes 9 and 10 and the changes that may result from the Law No. 240 of 2011 and Law No. 156 of 2013 may adversely affect the Authority's financial condition. These financial statements do not include adjustments, if any, that may result from the outcome of these uncertainties.