Secretaría

MANUEL A. TORRES NIEVES
SECRETARIO DEL SENADO

- ☐ Ver al dorso
- ☐ Para su información
- ☐ Notas
- ☐ Para mantenerle al día
- ☑ Expediente
- ☑ Dar Cuenta
- ☐ Registrar y Procesar

Senado
DE PUERTO RICO

EL CAPITOLIO
PO Box 9023431
San Juan, Puerto Rico
00902-3431

T: 787.722.3460
787.722.4012
F: 787.723.5413
E: mantorres@senadopr.us
W: www.senadopr.us

REFERIDO A:

COMISIONES PERMANENTES

- ☐ Hacienda
- ☐ Gobierno
- ☐ Seguridad Pública y Judicatura
- ☐ Salud
- ☐ Educación y Asuntos de la Familia
- ☐ Desarrollo Eonómico y Planificación
- ☐ Urbanismo e Infraestructura
- ☐ Jurídico Penal
- ☐ Jurídico Civil
- ☐ Agricultura
- ☐ Recursos Naturales y Ambientales
- ☐ Comercio y Cooperativismo
- ☐ Turismo y Cultura
- ☐ Trabajo, Asuntos del Veterano y Recursos Humanos
- ☐ Bienestar Social
- ☐ Asuntos Municipales
- ☐ Recreación y Deportes
- ☐ Banca, Asuntos del Consumidor y Corporaciones Públicas
- ☐ Desarrollo de la Región del Oeste
- ☐ Asuntos de la Mujer
- ☐ Asuntos Internos
- ☐ Reglas y Calendario
- ☐ Asuntos Federales
- ☐ De la Montaña
- ☐ Ética

COMISIONES ESPECIALES

- ☐ Puerto de las Américas
- ☐ Derecho de Autodeterminación del Pueblo de Puerto Rico
- ☐ Sobre Reforma Gubernamental

COMISIONES CONJUNTAS

- ☐ Informes Especiales del Contralor
- ☐ Donativos Legislativos de Puerto Rico
- ☐ Internado Córdova-Fernós
- ☐ Internado Pilar Barbosa
- ☐ Internado Ramos Comas
- ☐ Código Penal
- ☐ Revisión y Reforma del Código Civil
- ☐ Alianzas Público Privadas
- ☐ Auditoría Fiscal y Manejo Fondos Públicos
- ☐ Revisión Continua Código Penal y Reforma de las Leyes

Iniciales

SENADO
GOBIERNO DE PUERTO RICO

Oficina del Presidente

Katherine Erazo
Chief of Staff

Fecha 5 diciembre 2011

Referido a Manuel Torres

- [ ] Para su información
- [ ] Evaluar y recomendar
- [ ] Para trabajar y contestar directamente
- [x] Dar cuenta al cuerpo
- [ ] Para otorgar contrato
- [ ] Para nombramiento
- [ ] Autorizado

SOLICITUD DE SERVICIO DE MENSAJERÍA

por: Contabilidad Fecha: 11/29/2011

BANCO GUBERNAMENTAL DE FOMENTO PARA PUERTO RICO

Hon. Thomas Rivera Schatz

mento o Agencia: Senado de PR

n Física: El Capitolio

ntos o Artículos:

o Financiero auditado @ 6/30/2011 AFICA

ones al Mensajero: ☐ Recogido ☒ Entrega ☒ Acuse de Recibo

o

lo por: Brenda Rodz. Fecha _____ Hora _____

PARA USO DE LA SECCIÓN DE CORREO INTERNO

Asignado _____

ensajero _____

09R

COPIA SECCIÓN DE CORREOS

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RECIBIDO SECRETARIA
SENADO DE P.R.

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PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL AND ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

BASIC FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

2011 DEC -5 AM 10:48

SD-16577

PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL AND ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
INDEX TO THE BASIC FINANCIAL STATEMENTS

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SCHERRER
HERNANDEZ & CO.
Member of Polaris International

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Puerto Rico Industrial, Tourist, Educational,
Medical, and Environmental Control
Financing Authority San Juan, Puerto Rico

We have audited the accompanying statement of net deficit of Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (the "Authority"), a component unit of the Commonwealth of Puerto Rico, as of June 30, 2011, and the related statements of revenues, expenses and changes in net deficit and of cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Authority as of June 30, 2011, and its changes in net deficit and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Scherrer Hernandez & Co.

San Juan, Puerto Rico

September 23, 2011

Certified Public Accountants
(of Puerto Rico)
License No. 53 expires December 1, 2012
Stamp 2619455 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

This section presents the management's discussion and analysis of the Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (the "Authority") financial performance for the fiscal year ended June 30, 2011, and is presented as a narrative overview and analysis in conjunction with the basic financial statements.

The Authority was created to issue revenue bonds and to lend the proceeds thereof to finance the acquisition, construction, and equipping of industrial, tourist, educational, medical, and environmental control facilities. The Authority charges a placement fee based on the face value of the bonds issued. The Authority is exempt from taxation in Puerto Rico.

1. Financial Highlights

- The Authority's total net deficit increased $1.9 million or 89% during the fiscal year 2011.

- During the year ended June 30, 2011, conduit debts were issued for the financing of the Galería Tower at San Patricio project amounting to approximately $21.8 million and Trump International Golf Club Puerto Rico project amounting to approximately $26.4 million. The Authority earned approximately $430,000 as placement fees from both bond issuances.

- The Authority's operating income for the year ended June 30, 2011 amounted to approximately $61,000 and an operating loss for the year ended June 30, 2010 amounted to approximately $44,000. This represents an increase of approximately $105,000 or 239% when compared with prior year.

- In August 2009, the Authority entered into a transaction with the Government Development Bank for Puerto Rico (the "Bank"), Puerto Rico Electric Power Authority ("PREPA"), and Puerto Rico Aqueduct and Sewer Authority ("PRASA") for the acquisition of certain assets originally intended to be used by PREPA for its Southern Gas Pipeline Project (the "Project"). The Authority borrowed $59.1 million from the Bank, made a $26.3 million subordinated loan to PREPA to finance a portion of PREPA's acquisition of these assets from the original contractor for the Project, acquired most of these assets from PREPA for $32.8 million, and agreed to sell most of these assets to PRASA, within the next 24 months for $23.5 million in cash plus the assumption of the Authority's subordinated loan to PREPA. The Authority recognized a loss of $9.3 million on certain of these assets. The Authority will make its best effort to recover a portion or all of this loss from PREPA and has engaged in negotiations in this regard. Refer to the subsequent events section for more information regarding this transaction.

2. Financial Statements Overview

The financial statements include the management's discussion and analysis narrative, the independent auditors' report, and the basic financial statements of the Authority. The notes to the basic financial statements provide additional information not disclosed in this section.

3. Required Financial Statements

The accompanying financial statements of the Authority present information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The statement of net deficit includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the net deficit of the Authority and assessing its liquidity and financial flexibility.

Current year revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net deficit. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered its costs through its user fees and other charges.

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

4. Financial Analysis

The statement of net deficit and the statement of revenues, expenses, and changes in net deficit present information about the Authority's activities in a way that will help determine whether the Authority as a whole is better or worse financially as a result of this year's activities. Both statements present the net deficit of the Authority and the changes in them. One can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors must be considered such as changes in economic conditions and new or changed government legislation.

5. Unrestricted Net Deficit and Changes in Net Deficit

Condensed financial information on assets, liabilities and unrestricted net deficit are presented below (dollar amount in thousands):

	June 30,		Change	
	2011	2010	Amount	Percent
ASSETS:				
Current assets	$ 11,963	$ 9,290	$ 2,673	29%
Noncurrent assets	47,357	49,742	(2,385)	-5%
Total assets	59,320	59,032	288	0%
LIABILITIES:				
Current liabilities	4,099	2,098	2,001	95%
Noncurrent liabilities	59,314	59,100	214	0%
Total liabilities	63,413	61,198	2,215	4%
Unrestricted net deficit	$ (4,093)	$ (2,166)	$ (1,927)	89%

Unrestricted net deficit increased approximately $1.9 million in 2011 due to the transaction entered with other component unit of the Commonwealth of Puerto Rico related to the Southern Gas Pipeline Project described in the financial highlights.

Condensed financial information on revenues, expenses, and changes in net deficit are presented below (dollar amount in thousands):

	June 30,		Change	
	2011	2010	Amount	Percent
OPERATING REVENUES:				
Placement fees	$ 430	$ 218	$ 212	97%
OPERATING EXPENSES:				
Service fees	215	109	106	97%
General and administrative	145	153	(8)	-5%
Other	9	-	9	100%
Total operating expenses	369	262	107	41%
Income/(loss) from operations	61	(44)	105	-239%
NON-OPERATING REVENUES/(EXPENSES):				
Interest income from:				
Note receivable	1,605	1,388	217	16%
Deposits	9	9	-	0%
Interest expense	(3,602)	(3,128)	(474)	15%
Loss on the other assets	-	(9,359)	9,359	-100%
	(1,988)	(11,090)	9,102	-82%
Change in net deficit	$ (1,927)	$ (11,134)	$ 9,207	-83%
Net (deficit)/assets, beginning of year	(2,166)	8,968	(11,134)	-124%
Net deficit, end of year	$ (4,093)	$ (2,166)	$ (1,927)	89%

Comparative statements of net deficit show the changes in the Authority's financial position and the statements of revenues, expenses and changes in net deficit provide guidance as to the nature and source of these changes.

The Authority's non-operating activities increase by $9.1 million when compared with fiscal year 2010 due to recognized losses in 2010 in connection to the transaction entered with other component unit of the Commonwealth of Puerto Rico related to the Southern Gas Pipeline Project described in the financial highlights.

6. Debt Administration – Conduit Debt

The Authority's main operations consist of issuing revenue bonds that are considered conduit debt and, therefore, neither these bonds nor the related loans granted by the Authority are presented in the accompanying basic financial statements. Revenue is earned from the collection of a placement fee which generally represents 1% of the face value of the bonds issued, except for bonds issued to finance educational, medical, or environmental control facilities or other projects otherwise eligible to be financed in the U.S. tax-exempt bond market, for which the placement fee charged is one half of 1%. The revenue bonds are special and limited obligations of the Authority and, except to the extent payable from bond proceeds and investments thereof, will be payable solely from and secured by a pledge and assignment of the amounts receivable under the loan agreements between the Authority and the borrowers.

Furthermore, payment of the principal and interest on the revenue bonds is unconditionally guaranteed by the borrowers, their parent companies, or letters of credit generally issued by major U.S. banks or U.S. branches of international banks. The revenue bonds do not constitute a debt or a pledge of the good faith and credit of the Authority or the Commonwealth of Puerto Rico or any political subdivision thereof.

At June 30, 2011, the Authority has issued revenue bonds in an aggregate amount of approximately $6,080 million, which $1,444 million are outstanding. See Note 7 to the basic financial for the composition of the revenues bonds outstanding.

7. Contacting the Authority's Financial Management

This financial report is designed to provide all interested with a general overview of the Authority's finances and to enhance the Authority's accountability for the resources it manages. If you have questions about this report or need additional financial information, contact the Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority, P.O. Box 42001, San Juan, Puerto Rico, 00940-2001.

PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL AND ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET DEFICIT
JUNE 30, 2011

ASSETS

CURRENT ASSETS:		
Cash	$	9,094,366
Other receivable		2,598,990
Accrued interest receivable from:		
Note receivable		269,098
Deposits		760
Total current assets		11,963,214
NONCURRENT ASSETS:		
Note receivable		26,485,480
Other assets		20,871,716
	$	59,320,410

LIABILITIES AND NET DEFICIT

CURRENT LIABILITIES:		
Accrued interest payable	$	4,006,073
Accrued expenses and other liabilities		93,151
Total current liabilities		4,099,224
NONCURRENT LIABILITIES:		
Note payable		59,313,959
Total liabilities		63,413,183
UNRESTRICTED NET DEFICIT		(4,092,773)
	$	59,320,410

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

PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL AND ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET DEFICIT
FOR THE YEAR ENDED JUNE 30, 2011

OPERATING REVENUES:	
Placement fees	$ 430,024
OPERATING EXPENSES:	
Service fees	215,012
General and administrative	144,976
Other	9,380
Total operating expenses	369,368
INCOME FROM OPERATIONS	60,656
NON-OPERATING REVENUES/(EXPENSES):	
Interest income from:	
Note receivable	1,605,259
Deposits	9,138
Interest expense	(3,602,324)
CHANGES IN NET DEFICIT	$ (1,927,271)
NET DEFICIT, beginning of year	(2,165,502)
NET DEFICIT, end of year	$ (4,092,773)

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

PUERTO RICO INDUSTRIAL, TOURIST, EDUCATIONAL, MEDICAL AND ENVIRONMENTAL CONTROL FACILITIES FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:		
Placement fees received	$	430,024
Operating expenses paid		(366,963)
Net cash provided by operating activities		63,061
CASH FLOWS USED IN NON-CAPITAL FINANCING ACTIVITIES:		
Interest paid of note payable		(1,603,253)
Advances of note receivable		(214,063)
Net cash used in non-capital financing activities		(1,817,316)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:		
Interest income received		1,612,373
Advances of note payable		214,063
Net cash provided by investing activities		1,826,436
NET INCREASE IN CASH		72,181
CASH, beginning of year		9,022,185
CASH, end of year	$	9,094,366
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	$	60,656
Adjustment to reconcile income from operations to net cash provided by operating activities:		
Changes in assets and liablitities:		
Increase in accrued expenses and other liabilities		2,405
Net cash provided by operating activities	$	63,061

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

1. REPORTING ENTITY

The Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (the "Authority") is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth") and an affiliate of the Government Development Bank for Puerto Rico (the "Bank"), created by Act No. 121 (the "Act") of the Legislature of the Commonwealth on June 27, 1977, as amended.

The Authority was created to issue revenue bonds and to lend the proceeds thereof to finance the acquisition, construction, and equipping of industrial, tourist, educational, medical, and environmental control facilities. The Authority charges a placement fee based on the face value of the bonds issued. The Authority is exempt from taxation in Puerto Rico.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Measurement Focus and Basis of Accounting - The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. The Authority's placement fee income is recognized upon the issuance of the bonds.

Financial Statements Presentation - The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") applicable to a governmental enterprise fund, which are similar to those applied to a private entity. The Governmental Accounting Standards Board is the organization in charge of providing such accounting standards for governmental entities. The accounting principles require the Authority to apply certain accounting standards similar to those applied in the private sector.

Income Tax - The Authority is exempt from taxation in Puerto Rico.

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

Operating Revenues and Expenses - Operating revenues and expenses are distinguished from non-operating items. The only operating revenue of the Authority is the placement fees charged to borrowers. Operating expenses include administrative expenses and other costs associated with the issuance of bonds, such as servicing fees charged to the Authority by the Bank, another component unit of the Commonwealth.

Revenue Bonds and Related Loans - Revenue bonds issued by the Authority are considered conduit debt and, therefore, neither these bonds nor the related loans granted by the Authority are presented in the accompanying basic financial statements.

Recently Issued Accounting Guidance:

Fund Balance Reporting and Government Fund Type Definitions (GASB No. 54) - In February 2009, the GASB issued authoritative guidance to enhance the usefulness of fund balance information by providing clearer fund balance classification that can be more consistently applied and by clarifying the existing governmental fund type definitions. This guidance establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balances for each governmental funds are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable - amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) 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.

- Committed - amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority.

- Assigned fund balance - amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.

- Unassigned fund balance - amounts that are available for any purpose.

This guidance was effective for interim or annual financial periods beginning after June 15, 2010. Management updated the disclosures of these financial statements to conform to this guidance, effective for the year ended June 30, 2011.

Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards (GASB No. 56) - In March 2009, the GASB issued authoritative guidance to incorporate certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statement on Auditing Standards. This guidance addresses three issues: related party transactions, going concern considerations, and subsequent events.

Effective July 1, 2010, the Authority adopted this guidance which did not have a material impact on the Authority's net assets or results of operations. Authoritative guidance on subsequent events establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This guidance was effective upon it issuance.

The Authority evaluated subsequent events through November 4, 2011, the date the financial statements were available to be issued.

The Financial Reporting Entity: Omnibus an Amendment of the GASB No. 14 and 34 (GASB No. 61) - In November 2010, the GASB issued authoritative guidance to modify certain requirements for inclusion of component units in the financial reporting entity. Organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship would need to be present between the primary government and that organization to be included in the reporting entity as a component unit. For component units that currently are blended based on the "substantively the same governing body" criterion requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management of the primary government have operational responsibility for the activities of the component unit. In addition, new criteria was included to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government.

This guidance is effective for interim or annual financial periods beginning after June 15, 2012. Management is evaluating the impact of this guidance in the Authority's financial statements.

Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (GASB No. 62) - In December 2010, the GASB issued authoritative guidance to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standard Board (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.

This guidance is effective for interim or annual financial periods beginning after December 15, 2011. Management is evaluating the impact of this guidance in the Authority's financial statements.

Other Recent Pronouncements - During the fiscal year ended June 30, 2011, the GASB issued various statements that were not relevant to the Authority's operations.

3. CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Currently, the Authority does not have a custodial credit risk policy. At June 30, 2011, the Authority maintained interest-bearing demand deposits with the Bank, which is not covered by federal depository insurance, of approximately $9.1 million uninsured and uncollateralized.

4. TRANSACTIONS WITH GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

The Bank provides certain services to the Authority and charges fifty percent (50%) of the placement fees billed by the Authority to borrowers. At June 30, 2011, the Authority paid to the Bank approximately $215,000 as service fees.

5. TRANSACTION WITH OTHER COMPONENTS UNITS OF THE COMMONWEALTH

On August 17, 2009, the Authority entered into an agreement with the Bank, Puerto Rico Electric Power Authority ("PREPA"), and Puerto Rico Aqueduct and Sewer Authority ("PRASA") for the acquisition of certain assets originally intended to be used by PREPA for its Southern Gas Pipeline Project (the "Project"). The Project was being built by Skanska Energy Services LLC and Skanska Puerto Rico Pipeline LLC ("Skanska") under an agreement with PREPA. The parties agreed that it was in the best interest of the Government of Puerto Rico that the Skanska agreement be terminated and that the Project assets be utilized for the construction of an aqueduct by PRASA. PREPA paid $59 million to Skanska in exchange for the transfer of the Project assets to PREPA and the termination of the agreement. The Authority acquired most of these assets from PREPA for $32.8 million and made a $26.3 million subordinated loan to PREPA to finance PREPA's acquisition of these assets from Skanska.

The Authority borrowed $59.1 million from the Bank to finance this purchase and the related loan. Both the loan from the Bank to the Authority and the loan from the Authority to PREPA provide for an interest rate of 6% and were due on August 17, 2011. The Authority also entered into an asset purchase agreement with PRASA that provides that not later August 17, 2011 PRASA would purchase most of the Project's assets from the Authority for approximately $23.5 million in cash and the assumption of PREPA's subordinated note. During the year ended June 30, 2010, the Authority recorded a loss on this transaction of $9.3 million in the accompanying statement of revenues, expenses and changes in net deficit. At June 30, 2011, the PREPA's subordinated note balance is approximately $26.5 million, and the balance in the Authority's loan balance increased to approximately $59.3 million.

6. PLACEMENT FEES

The Authority generally charges a placement fee of one percent (1%) of the face value of bond issued or as deemed appropriate for the specific issue, except for bonds issued to finance educational, medical, or environmental control facilities or other projects otherwise eligible to be placed in the U.S. tax-exempt bond market, for which the placement fee charged is one half percentage (0.50%). During the year ended June 30, 2011, the Authority charged approximately $430,000 as placement fees for bonds issued to finance Galería Tower at San Patricio Plaza Project and Trump International Golf Club Puerto Rico Project.

7. REVENUE BONDS

The revenue bonds are special and limited obligations of the Authority and, except to the extent payable from bond proceeds and investments thereof, will be payable solely from and secured by a pledge and assignment of the amounts payable under the loan agreements between the Authority and the borrowers. Furthermore, payment of principal and interest on the revenue bonds is unconditionally guaranteed by the borrowers, their parent companies, or letters of credit generally issued by major U.S. banks or U.S. branches of international banks.

The revenue bonds are considered conduit debt and do not constitute a debt or a pledge of the good faith and credit of the Authority or the Commonwealth or any political subdivision thereof.

In connection with the issuance of revenue bonds, the Authority enters into trust agreements, whereby the Authority assigns and pledges to the trustees, for the benefit of the holders of the revenue bonds, (1) all amounts receivable by the Authority in repayment of the amounts due under the loan agreements; (2) any rights, title, and interest of the Authority in the proceeds derived from the issuance of the revenue bonds and of any securities in which moneys in any fund or account created by the trust agreements or loan agreements are invested and the proceeds derived therefrom; and (3) the Authority's rights, title, and interest in and to the loan agreements, subject to the Authority's retention of certain rights, including the right to collect moneys payable to the Authority, which are not received with respect to repayment of the loans.

At June 30, 2011, the Authority has issued revenue bonds in an aggregate amount of approximately $6,080 million of which approximately $1,344 million are outstanding. Outstanding revenue bonds as of June 30, 2011, are as follows:

Revenue Bonds	Original Amount	Outstanding Amount
Industrial	$ 903,965,346	$ 785,521,452
Educational	388,620,000	313,850,000
Medical	201,585,000	138,505,000
Tourist	110,725,000	105,415,000
	$ 1,604,895,346	$ 1,343,291,452

8. SUBSEQUENT EVENTS

On August 16, 2011, PRASA executed a purchase agreement to acquire most of the Project's assets from the Authority for approximately $20.9 million and assume PREPA's subordinated loan with the Authority with an outstanding balance of approximately $30 million plus approximately $1 million to be used for related costs. The subordinated loan bears interest at 150 basis points over U.S. Prime Rate, with a floor of 6%, due on August 16, 2012.

The Authority also entered into a bill of sale with PREPA of approximately $12.5 million to cover the remaining balance owed to the Bank attributable to this transaction. Among the assets reacquired by PREPA are: (1) 75% of the Project's design of approximately $3.1 million, (2) right-of-way of approximately $6.2 million, (3) inventory used by PREPA amounting approximately $2.6 million, and (4) financing costs associated with this transaction of approximately $489,000. The subordinated loan bears interest at 150 basis points over U.S. Prime Rate, with a floor of 6%, due on September 29, 2011. Subsequently, the Authority made a principal payment of approximately $20.9 million to the Bank.