*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

15054

RECIBIDO SECRETARIA
SENADO DE P.R.

2011 DEC -8 AM 10: 37

# Financial Statements

**PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY**
(A Component Unit of the
Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information as of and
for the Year Ended June 30, 2011, and
Independent Auditors' Report

**PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY**
**(A Component Unit of the Commonwealth of Puerto Rico)**

## TABLE OF CONTENTS


| | Page |
|---|---|
| INDEPENDENT AUDITORS' REPORT | 1-2 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 3-6 |
| BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2011: | |
| Statement of Net Deficit | 7 |
| Statement of Revenues, Expenses, and Change in Net Deficit | 8 |
| Statement of Cash Flows | 9-10 |
| Notes to Basic Financial Statements | 11-17 |

Aquino, De Córdova, Alfaro & Co., LLP
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS
Richard N. Alfaro, CPA (1951-1998)

*Jorge Aquino Barreto, CPA, CVA*
*Jerry De Córdova, CPA, JD*
*Miguel Angel Ortiz, CPA*
*Eduardo González Green, CPA, CFE*

**INDEPENDENT AUDITORS' REPORT**

To the Members of the Board of Directors of
Puerto Rico Public Private Partnerships Authority

We have audited the accompanying statement of net deficit of Puerto Rico Public Private Partnerships 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 change in net deficit, and 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. 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.

As discussed in notes 1 and 4 to the financial statements, the Authority is an affiliate of Government Development Bank for Puerto Rico (the "Bank"). The Authority has material transactions with the Bank to finance its operations.

P.O. Box 70262, San Juan, Puerto Rico 00936-8262 • Cecilia's Place Suite C-1, #7 Rosa Street
Isla Verde, P.R. 00979 • Phone (787) 253-9595 • Fax (787) 253-9511

CORRESPONDENT of Praxity
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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 inquires, 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.

November 11, 2011

Aquino, De Córdova, Alfaro & Co., LLP

by

LIC 3171

Stamp No. 2628084
affixed to original

This section presents a narrative overview and analysis of the financial performance of the Puerto Rico Public Private Partnerships 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, 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

- Total assets and total liabilities of the Authority at June 30, 2011 amounted to $3,605,022 and $14,880,975, respectively, for a net deficit of $11,275,953.

- The Authority's revenues from the Local Stimulus Fund (*Plan de Estimulo Criollo* or *PEC* by its Spanish acronym) pursuant to Executive Order No. 5 of 2010 amounted to $10,750,516 for the year ended June 30, 2011.

- The Authority's general and administrative expenses amounted to $8,239,275 for the year ended June 30, 2011.

- The Authority's operations were financed with a $20 million revolving line of credit facility with the Government Development Bank for Puerto Rico, as established by the Public Private Partnerships Act of June 8, 2009, which created the Authority. Management expects to finance the Authority's operations with fees charged upon the establishment of public-private partnerships ("Partnerships").

## 2. OVERVIEW OF THE FINANCIAL STATEMENTS

This report includes this management's discussion and analysis section, the independent auditors' report and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail information pertinent to the financial statements.

## 3. REQUIRED FINANCIAL STATEMENTS

The financial statements of the Authority report information using accounting methods similar to those used by private sector entities. 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 obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing its liquidity and financial flexibility.

Revenues and expenses are accounted for in the statement of revenues, expenses, and change in net deficit. This statement measures the results of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered its costs from the revenue it generates.

## 3. REQUIRED FINANCIAL STATEMENTS - CONTINUED

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 operating, 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 Authority's condensed financial information as of and for the year ended June 30, 2011 is as follows:

| | June 30, | | Change | |
|---|---|---|---|---|
| | 2011 | 2010 | Amount | Percent |
| Assets | $ 3,605,022 | $ 309,385 | $ 3,295,637 | 1065.2% |
| Liabilities | 14,880,975 | 3,023,673 | 11,857,302 | 392.1% |
| Net deficit | $ (11,275,953) | $ (2,714,288) | $ (8,561,665) | 315.4% |
| Revenues | $ 10,750,516 | $ - | $ 10,750,516 | 100.0% |
| Expenses: | | | | |
| Operating expenses | 19,312,843 | 2,618,663 | 16,694,180 | 637.5% |
| Nonoperating (income) expenses, net | (662) | 95,625 | (96,287) | -100.7% |
| Total expenses | $ 19,312,181 | $ 2,714,288 | $ 16,597,893 | 611.5% |
| Change in net deficit | $ (8,561,665) | $ (2,714,288) | $ (5,847,377) | 215.4% |

The Authority's most significant expenses correspond to professional services and payroll and payroll related expenses amounting to $7,639,711 and $536,592, respectively. The Authority's principal activities for the year ended June 30, 2011 were primarily related to the development of Partnership projects, completion of studies of desirability and convenience for proposed Partnerships, the identification and qualification of potential proponents and the evaluation of proposals. The increase in assets is related to a cash deposit drawn from the line of credit at year end to cover operating expenses. The increase in the liabilities result from the disbursements made from the line of credit during the year. Operating revenues during the year ended June 30, 2011 amounted $10,750,516 from the PEC.

## 5. PUBLIC PRIVATE PARTNERSHIPS

On June 1, 2010, the Authority launched the first Partnership project directed at improving the infrastructure conditions of a selected number of public schools. Under the name *Schools for the XXI Century*, the Authority, in collaboration with the Puerto Rico Department of Education, the Puerto Rico Infrastructure Financing Authority ("PRIFA"), and the Puerto Rico Public Buildings Authority, developed a Partnership project under which qualified private contractors are to be responsible for the design, construction and conservation of at least one school per municipality. In November of 2010, the first two Partnership contracts under the *Schools for the XXI Century* were granted to modernize the Basilio Milán School in the Municipality of Toa Baja and the Rafael Cordero School in the Municipality of Cataño.

As of June 30, 2011, *Schools for the XXI Century* had made significant progress in the modernization of the selected schools. Data from *Schools for the XXI Century* reveals that by year end, thirty-nine (39) Partnership contracts were awarded for sixty-eight (68) schools. By such date, approximately fifty-seven (57) schools were under construction. This amount of schools represented a total of approximately $464 million of committed or awarded investment. Data for October 2011, reveals additional significant progress by *Schools for the XXI Century*. Data for October 2011 shows that forty-five (45) Partnership contracts had been awarded for seventy-one (71) schools. By such date, sixty-eight (68) schools were under construction. The forty-five (45) Partnership contracts awarded by early October 2011 represented a total investment amount of approximately $515 million.

On November 19, 2010, the Authority issued a request for proposal and a draft concession agreement for a 40-year administrative concession for the operation, management, maintenance, rehabilitation, tolling and expansion of toll roads PR-22 and PR-5 (the "Toll Roads Project"). On May 31, 2011, the Puerto Rico Highway and Transportation Authority ("PRHTA") and the Authority received two proposals for the Toll Roads Project. On June 22, 2011, the preferred proponent was announced, *Autopistas Metropolitanas de Puerto Rico, LLC* ("*Metropistas*"), and on June 27, 2011, the Authority coordinated the execution of the concession agreement between PRHTA and *Metropistas*. This Partnership project represents an estimated total investment of over $1.4 billion. The financial close was successfully completed on September 22, 2011. On the date of the financial close the PRHTA received a fund transfer of $1,136.16 million. Moreover, *Metropistas* will be responsible for investing between $56 to $75 million during the first three years and recurring investment to comply with the Operating Standards included in the concession agreement. On October 13, 2011, the Authority received a reimbursement of $15.8 million corresponding to all the costs incurred during the procurement process of the Toll Roads Project, including a professional fee charged by the Authority.

## 5. PUBLIC PRIVATE PARTNERSHIPS - CONTINUED

In early June 2010, the Authority released a desirability and convenience study to establish a Partnership project for the Luis Muñoz Marín International Airport (the "Airport"). By July 2011, the Puerto Rico Ports Authority (the "PRPA"), with the collaboration of the Authority, had reached the required preliminary approval by the airlines for the establishment of the Partnership project in the Airport as mandated by the Federal Aviation Administration (the "FAA"). On July 5, 2011, the Authority issued a Request for Qualifications for a concession to finance, operate, maintain, and improve the Airport (the "Airport Project"). On August 2011, the PRPA and the Authority received statements of qualifications from twelve (12) interested consortia. On September 23, 2011, the Authority announced the shortlisting of six (6) consortia to proceed with the request for proposals ("RFP") for the Airport Project. The Authority expects to complete the procurement process for the Airport Project early in the second half of the fiscal year 2012.

## 6. REQUESTS FOR INFORMATION

This financial report is designed to provide those interested with a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Puerto Rico Public Private Partnerships Authority, at Government Development Bank for Puerto Rico, P.O. Box 42001, San Juan, Puerto Rico, 00940-2001.

**PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY**
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENT OF NET DEFICIT**
**JUNE 30, 2011**

| | | |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ | 1,192,574 |
| Due from Commonwealth of Puerto Rico | | 2,404,392 |
| Accrued interest receivable | | 58 |
| Prepaid expenses | | 6,417 |
| Total current assets | | 3,603,441 |
| Capital assets, net | | 1,581 |
| Total assets | | 3,605,022 |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued liabilites | | 5,176,182 |
| Due to Government Development Bank for Puerto Rico | | 444 |
| Note payable to Government Development Bank for Puerto Rico | | 9,704,349 |
| Total current liabilities | | 14,880,975 |
| **NET DEFICIT** | | |
| Invested in capital assets | | 1,581 |
| Unrestricted | | (11,277,534) |
| | $ | (11,275,953) |

See notes to basic financial statements.

**PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY**
**(A Component Unit of the Commonwealth of Puerto Rico)**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET DEFICIT**
**FOR THE YEAR ENDED JUNE 30, 2011**

| | |
|---|---|
| **REVENUES:** | |
| Program revenues | $ 10,750,516 |
| **OPERATING EXPENSES:** | |
| Program expenses | (10,750,516) |
| General and administrative | (8,239,275) |
| Interest expense | (323,052) |
| Total operating expenses | (19,312,843) |
| **OPERATING LOSS** | (8,562,327) |
| **NONOPERATING REVENUES** | |
| Interest income | 662 |
| **CHANGE IN NET DEFICIT** | (8,561,665) |
| **NET DEFICIT** - Beginning of year | (2,714,288) |
| **NET DEFICIT** - End of year | $ (11,275,953) |

See notes to basic financial statements.

**PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY**
**(A component unit of the Commonwealth of Puerto Rico)**

**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED JUNE 30, 2011**

| | |
|---|---|
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Program revenues received | $ 8,346,124 |
| Cash paid to suppliers for goods and services | (14,319,529) |
| Cash paid to employees for services | (412,650) |
| Net cash used in operating activities | (6,386,055) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | |
| Interest received | 615 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| Proceeds from note payable | 7,270,400 |
| **NET INCREASE IN CASH** | 884,960 |
| Cash at beginning of the year | 307,614 |
| Cash at end of year | $ 1,192,574 |

See notes to basic financial statements.

**PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY**
**(A component unit of the Commonwealth of Puerto Rico)**

**STATEMENT OF CASH FLOWS - CONTINUED**
**FOR THE YEAR ENDED JUNE 30, 2011**

| | |
|---|---|
| **RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES** | |
| Operating loss | $ (8,562,327) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Interest expense | 323,052 |
| Depreciation and amortization | 179 |
| Increase in due from Commonwealth of Puerto Rico | (2,404,392) |
| Increase in other assets | (6,417) |
| Decrease in due to Government Development Bank | (3,976) |
| Increase in accounts payable and accrued liabilities | 4,267,826 |
| **NET CASH USED IN OPERATING ACTIVITIES** | $ (6,386,055) |
| Noncash investing and noncapital financing activities: | |
| Capitalized interest on loans and other | $ (287,101) |

See notes to basic financial statements.

## 1. REPORTING ENTITY

Puerto Rico Public Private Partnerships 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"), another component unit of the Commonwealth. The Authority was created by virtue of Act No. 29 of June 8, 2009 (the "Act 29").

The Authority is the Commonwealth's governmental entity authorized and responsible for implementing public policy on Public Private Partnerships (the "Partnerships") established by Act 29 and to determine the functions, services or facilities for which such Partnerships will be established.

## 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 ("U.S. GAAP"), 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 has elected to apply all Financial Accounting Standards Board's pronouncements issued after November 30, 1989, to the extent they did not conflict with GASB pronouncements.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

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

*Measurement Focus and Basis of Accounting* — The 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

*Operating Revenues and Expenses* — Operating revenues and expenses are distinguished from nonoperating items. The Authority's operating revenues will be primarily derived from fees earned from services provided as part of the process to establish partnerships, including fees to other governmental entities, as defined in Act 29, for specialized services and prospective proposers for their involvement in any process of qualification, award or both. Operating expenses are those related to the administration of the Authority. All revenues and expenses not meeting these criteria are reported as nonoperating revenues and expenses.

*Custodial Credit Risk related to deposits* — Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk. As of June 30, 2011, all of the Authority's bank balance, aggregating to $1,192,574, was exposed to custodial credit risk since all such deposits, which are maintained at the Bank, are uninsured and uncollateralized.

*Capital Assets* — Capital assets, which consist of equipment, are stated at cost less accumulated depreciation. Capital assets are defined by the Authority as assets that have a cost of $500 or more at the date of acquisition and have an expected useful life of one or more years. Depreciation is charged to operations and included in general and administrative expenses, and is computed on the straight-line basis over the estimated useful lives of the depreciable assets (one to five years). Costs of maintenance and repairs which do not improve or extend the lives of the respective assets are charged to expense as incurred.

*Compensated Absences* — The employees of the Authority are granted 30 days of vacation and 18 days of sick leave annually. Vacation and sick leave may be accumulated up to a maximum of 72 and 90 days, respectively. In the event of employee resignation, an employee is reimbursed for accumulated vacation and sick leave days up to the maximum allowed.

*Recently Issued Accounting Pronouncement* – The GASB has issued the following accounting pronouncements that are effective for periods beginning after June 15, 2011.

- **GASB Statement No. 57**, OPEB Measurements by Agent Employers and Agent Multiple-Employers Plans, which is effective for periods beginning after June 15, 2011.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- **GASB Statement No. 60**, Accounting and Financial Reporting for Service Concession Arrangements, which is effective for periods beginning after December 15, 2011.

- **GASB Statements No. 61**, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34, which is effective for periods beginning after June 15, 2012.

- **GASB Statements No. 62**, Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which is effective for periods beginning after December 15, 2011.

- **GASB Statements No. 63**, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which is effective for periods beginning after December 15, 2011.

- **GASB Statements No. 64**, Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53, which is effective for periods beginning after June 15, 2011.

## 3. NOTE PAYABLE

On November 18, 2009, the Authority entered into a $20 million revolving line of credit facility with the Bank to provide financing for the Authority's operations. The credit facility is due on November 30, 2011, and bears interest at 150 basis points over the prime rate or 6%, whichever is higher. The source of repayment of this line of credit will be the fees to be charged by the Authority for services provided as part of the process to establish the Partnerships. As of June 30, 2011, the principal balance outstanding under the line of credit amounted to $9,704,349. Interest expenses for the year ended June 30, 2011, amounted to $323,052.

## 4. TRANSACTIONS WITH GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

During the year ended June 30, 2011, the Bank provided certain management and administrative services to the Authority at no cost. Furthermore, the Bank made payments on behalf of the Authority to cover certain Authority's operating expenses. At June 30, 2011, the balance due to the Bank amounted to $444.

## 5. CONTRIBUTION FROM THE COMMONWEALTH

During the year ended June 30, 2010, the Commonwealth, through the Local Economic Stimulus Program, assigned $20.5 million to the Authority to provide funding for certain pre-development costs for projects to be conducted as Partnerships as described in Note 6. Contributions from the Commonwealth amounted to $10,750,516 during the year ended June 30, 2011 and are presented as program revenues in the accompanying statement of revenues, expenses and change in net deficit. There is also a related account receivable of $2,404,392 which is presented as due from Commonwealth of Puerto Rico in the accompanying statement of net deficit.

## 6. INTER-GOVERNMENTAL AGREEMENTS

The Authority has established inter-governmental agreements (the "Agreements") in order to properly and orderly disburse funds assigned by the Commonwealth to specific projects. Below is a summary of each Agreement that provides the basis and legal context for disbursing the assigned funds. The Authority has reserved its right to amend any of the Agreements in consultation with the corresponding governmental entities in order to take into consideration changes in the specific projects or re-directing the funds to other projects.

*Schools for the XXI Century Program*

On April 9, 2010, the Authority signed an agreement with the Puerto Rico Public Buildings Authority (PBA), in which the Authority agrees to transfer funds to cover the pre-development costs for general repairs, including technical advisory and evaluation, design, surveying, soil and site analysis, environmental impact statement, development of construction draft, search of structural information of public facilities, and permit documentation, among others, related to the Schools for the XXI Century Program (the "Program"). The Program consists of the modernization of approximately ninety-five (95) public schools and the construction of five (5) new public schools in Puerto Rico. The Program will positively affect schools covering all academic levels and will benefit approximately 50,000 students.

On June 21, 2010, the Authority signed an agreement with Puerto Rico Infrastructure Financing Authority (PRIFA), in which PRIFA agrees to provide the Authority administrative and technical assistance to fulfill its responsibilities in the evaluation of prospective bidders and proposals for the establishment of Partnership contracts and other functions in relation to the Program.

## 6. INTER-GOVERNMENTAL AGREEMENTS - CONTINUED

On October 29, 2010, the Authority entered into a memorandum of understanding with PBA, PRIFA, the Puerto Rico Department of Education (DE), the Puerto Rico Department of Transportation and Public Works, and the Bank in which PRIFA agrees to provide administrative and technical assistance in the overall management of the Program.

On June 7, 2011, the Authority entered into an Agreement with the DE, in which the Authority agrees to cover certain expenses of the DE associated with the movement of furniture, materials and equipment out of selected schools to be modernized under the Program. Specifically, the support for moving furniture and equipment included contracting with trucking companies and moving companies. This support is a critical part of the entire logistical arrangements necessary to successfully complete the Program.

Subsequent to year end, on July 17, 2011, the Authority, PRIFA and the DE entered into an agreement in which the Authority agreed to provide financial support for certain improvements in schools that served as receptive schools for students moving or coming from those schools that are to be modernized under the Program. While the Authority agreed to cover certain costs associated with improving "receptive" schools, PRIFA agreed to conduct and manage the work related to such improvements.

*Public Schools Structural Repairs Program*

On May 28, 2010, the Authority signed an agreement with the Office for the Improvements of Public Schools ("OMEP", for its Spanish acronym), in which the Authority agrees to transfer the funds to cover the pre-development costs of the structural repairs for certain facilities of public schools managed by OMEP. The pre-development costs for general repairs include technical advisory and evaluation, design, surveying, soil and site analysis, environmental impact statement, development of construction draft, search of structural information of public facilities, and permit documentation, among others. At year end, repairs were being undertaken in two schools: 1) Pablo Colón Berdecia School in the Municipality of Barranquitas and 2) Alejandrina Ríos School in the Municipality of Luquillo. Under the support of the Authority significant improvements are being undertaken in both schools.

## 6. INTER-GOVERNMENTAL AGREEMENTS - CONTINUED

*Toll Roads Partnerships Program*

On April 28, 2010, the Authority signed an agreement with the Puerto Rico Highway and Transportation Authority (PRHTA), in which the Authority agrees to transfer the funds to cover the pre-development costs of environmental mitigation, technical advisory, design, surveying, soil and site analysis, and environmental impact statement, among others, for the PR-66 highway. Under the same agreement, the Authority expects to provide financial support for the initial pre-development efforts related to the extension of highway PR-22. The extension of the existing PR-22 to the west between the Municipalities of Hatillo and Aguadilla is a large scale project that requires significant pre-development work. The Authority foresees that the extension of the PR-22 will eventually be delivered as a public-private partnership project.

*Airport Project*

On May 27, 2010, the Authority signed an agreement with the Puerto Rico Statistics Institute, the Puerto Rico Planning Board, and the Puerto Rico Tourism Company in order to provide financial support for the Travelers' Survey. The Travelers' Survey is a survey conducted in all the airports of Puerto Rico, which had been discontinued due to the lack of the necessary funds. This inter-agency agreement allows for the combination of funds from all the signatory agencies in order to launch a renewed Travelers' Survey. The Authority requested that the Survey included specific questions regarding customer service and quality of infrastructure of the Luis Muñoz Marin International Airport.

## 7. RETIREMENT SYSTEM

*Defined Contribution Plan* – The Legislature of the Commonwealth of Puerto Rico enacted Act No. 305 on September 24, 1999 to establish, among other things, a defined contribution savings plan program (the "Savings Plan Program") to be administered by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the "Retirement System"). All regular employees hired for the first time on or after January 1, 2000, become members of the Savings Plan Program as a condition to their employment.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Savings Plan Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to individual accounts established under the Savings Plan Program. Participants have three options to invest their contributions to the Savings Plan Program. Investment income is credited to the participant's account semiannually.

## 7. RETIREMENT SYSTEM - CONTINUED

The Authority is required by Act No. 305 to contribute 9.275% of each participant's gross salary. The Retirement System will use these contributions to increase its asset level.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in each participant's account will be paid in a lump sum to the participant's beneficiaries. Participants have the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

Total employee contributions for the defined contribution plan during the year ended June 30, 2011 amounted to approximately $31,000. The Authority's contributions during the year ended June 30, 2011 amounted to approximately $34,000. These amounts represented 100% of the required contribution for the corresponding year.

Additional information on the Retirement System is provided in its stand alone financial statements for the year ended June 30, 2011, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan, PR 00940-2004.

## 8. SUBSEQUENT EVENTS

The financial close of the 40-year administrative concession for the operation, management, maintenance, rehabilitation, tolling and expansion of Toll Roads PR-22 and PR-5 (the "Toll Roads Project') was successfully completed on September 22, 2011.

On October 13, 2011, the Authority received a reimbursement of $15.8 million corresponding to all the costs incurred during the procurement process of the Toll Roads Project, including a professional fee charged by the Authority.

For the year ended June 30, 2011, subsequent events were evaluated through November 11, 2011, the date the financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the financial statements. Management has determined that other than those already disclosed above, there are no material events or transactions that would affect the Authority's financial statements through such date.