Iniciales

Presidente

: Erazo
STAFF

abril de 2013

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DE PUERTO RICO

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REFERIDO A:

COMISIONES PERMANENTES

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- ☐ Seguridad Pública y Judicatura
- ☐ Salud
- ☐ Educación y Asuntos de la Familia
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- ☐ De la Montaña
- ☐ Ética

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- ☐ 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

PUERTO RICO PORTS AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

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

PUERTO RICO PORTS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
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SCHERRER
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Puerto Rico Ports Authority
San Juan, Puerto Rico:

We have audited the accompanying basic of the Puerto Rico Ports Authority (the "Authority"), a component unit of the Commonwealth of Puerto Rico, as of and for the fiscal year ended June 30, 2011, which collectively comprise the Authority 's basic financial statements as listed in the table of contents. 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, examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 the financial statements referred to above present fairly, in all material respects, the financial position of the Puerto Rico Ports Authority, as of June 30, 2011, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

PO Box 363436, San Juan, PR 00936-3436 Tel. (787) 754-3999 Fax (787) 754-3105

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. This supplementary information is responsibility of the Authority's management. 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 and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the 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.

Scherrer Hernández & Co.

San Juan, Puerto Rico

February 18, 2012

Certified Public Accountants
(of Puerto Rico)
License No. 53 expires December 1, 2012
Stamp 2619593 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

Introduction

The following discussion and analysis of the financial performance and activity of the Authority is intended to provide an introduction to the financial statements of the Authority for the fiscal year ended June 30, 2011, with selected comparative information from the fiscal year ended June 30, 2010. This section has been prepared by the management of the Authority and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Overview of Financial Results

The Authority's net assets totaled $280 million in 2011, representing a $57 million decrease over 2010, as restated. The decrease was primarily due to the interest cost on the Authority's indebtedness, as well of the effect of an early termination program that was implemented as part of the governmental public policy, for which the Authority recorded $19 million for the early retirement expense. The retirement incentive plan was implemented pursuant to the provisions of Act #70 of July 2, 2010. Finally, interest expenses totaled $50.6 million in 2011, which is $11.4 million higher than in 2010.

Operating revenues, net totaled $144 million in 2011 and $138 million in 2010. These figures include $61 million of gross maritime revenues and $84 million of gross aviation revenues, reduced by $1.6 million of discounts and incentives in 2011; and $73 million of gross maritime revenues and $67 million of gross aviation revenues reduced by $1.9 million of discounts and incentives for 2010.

Operating expenses (excluding depreciation and amortization) totaled $165 million in 2011, which is $12 million lower than in 2010. The decrease was primarily due to a reduction of $5.3 million in net salary expenses, and a $1.5 million reduction in medical insurance benefits. Other operating expenses, such as professional services also decreased by $1.1 million, reflecting management's strategy to control the Authority's operating expenses.

Non-operating revenues consist of passenger facility charges ("PFC"); a Federal Aviation Administration approved program, fuel flowage fees, penalties and other fees, and interest. Total non-operating revenues decreased by $5.7 million in 2011 as compared to 2010, primarily due to a decrease in federal financial assistance and passenger facility charges of $5.8 million and $2.0 million, respectively.

Other Highlights

- The airport system enplaned approximately 4.7 million passengers during fiscal year 2011, resulting in a net decrease of 167,000 passengers compared with 2010. The principal airport facility is the Luis Muñoz Marín International Airport ("LMMIA"), with 88% of passengers enplaned and 12% at regional airports mainly in Aguadilla and Ponce.

- On the maritime system, the Port of San Juan handled 8.6 million tons of cargo for the fiscal year 2011, resulting in a net increase of 633,000 tons. The cruise ship passengers totaled 1.2 million, a decrease of 21,000 passengers over fiscal year 2010.

- As part of the ongoing aggressive investment plan to increase capacity of the LMMIA airport, the Authority continued the construction of Terminal A and certain improvements to the south runway. Terminal A will add seven gates to the LMMIA, which will improve the handling of passengers in the airport and will have 20,000 square footage of commercial space for restaurants, duty free shops, and coffee shops, among others. The Terminal A is expected to commence operations in the second quarter of 2012.

Overview of the Financial Statements

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

Balance Sheet

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

	2011	Restated 2010	Change	
	(In Thousands)		In Dollars	Percentage
Assets				
Current assets	$ 49,691	$ 49,736	$ (45)	0%
Noncurrent assets:				
Capital assets, net	1,154,959	1,165,536	(10,577)	-1%
Other noncurrent assets	105,753	131,559	(25,806)	-20%
Total assets	1,310,403	1,346,831	(36,428)	-21%
Liabilities				
Current liabilities	359,313	336,938	22,375	7%
Non current liabilities:				
Bonds and notes payable	493,661	507,578	(13,917)	-3%
Othe noncurrent liabilities	178,424	165,722	12,702	8%
Total liabilities	1,031,398	1,010,238	21,160	12%
Net assets:				
Invested in capital assets, net of related debt	388,188	408,318	(20,130)	-5%
Restricted	19,516	9,359	10,157	109%
Unrestricted	(127,698)	(81,084)	(46,614)	57%
Total net assets	280,006	336,593	(56,587)	161%
Total Liabilities and net assets	$ 1,311,404	$ 1,346,831	$ (35,427)	173%

Analysis of Net Assets at June 30, 2011 and 2010

The Authority's financial position at June 30, 2011 includes assets of $1.3 billion and liabilities of $1.0 billion. Net capital assets decreased by $10.6 million from 2010. This amount includes construction in progress and completed projects, net of depreciation.

Net assets totaled approximately $280 million at June 30, 2011, a decrease of approximately $57 million from 2010. Net assets invested in capital assets, net of related debt, which totaled $388 million at June 30, 2011, represents the largest of the three components of the Authority's net assets and comprises investment in capital assets (e.g., land, buildings piers, improvements, roads and parking areas, among others), less the related outstanding indebtedness incurred to acquire those capital assets.

Statements of Revenues, Expenses and Changes in Net Assets

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

	2011	Restated 2010	Change In Dollars	Change Percentage
	(In Thousands)			
Operating revenues:				
Maritime operations	$ 61,565	$ 73,250	$ (11,685)	-16%
Airport operations	84,470	67,060	17,410	26%
Less discount and incentives	(1,560)	(1,981)	421	-21%
Total operating revenues	144,475	138,329	6,146	-11%
Non operating revenues:				
Federal Financial Asistance	9,660	15,553	(5,893)	-38%
Commonwealth of PR appropriations	2,817	242	2,575	1064%
Passenger facility charges	17,553	19,603	(2,050)	-10%
Fuel flowage fees	2,307	2,352	(45)	-2%
Penalties and other fees	1,292	1,628	(336)	-21%
Total non operating revenues	33,629	39,378	(5,748)	993%
Total revenues	178,104	177,707	398	982%
Operating expenses:				
Salaries and employee benefits	69,772	77,253	(7,481)	-10%
General and administrative	27,506	26,520	986	4%
Professional services	11,417	12,537	(1,120)	-9%
Insurance, rent, repairs and maintenance	14,701	12,803	1,898	15%
Depreciation and amortization	41,503	47,958	(6,455)	-13%
Total operating expenses	164,899	177,071	(12,173)	-14%
Non operating expenses:				
Interest expense, net	50,621	39,154	11,467	29%
Total expenses	215,520	216,225	(706)	16%
Decrease in net assets before early termination expense	(37,416)	(38,518)	1,102	-3%
Early termination expense	(19,171)	-	(19,171)	100%
Decrease in net assets	(56,587)	(38,518)	(18,069)	-
Net assets, at beginning of year	336,593	375,111	(38,517)	-10%
Net assets, at end of year	$ 280,006	$ 336,593	$ (56,586)	-17%

Analysis of Fiscal Years 2011 and 2010

Net maritime operating revenues, totaled $61.5 million compared to $73.2 million in 2010, a decrease of $11.7 million. Net airport operating revenues, totaled $84.4 million compared to $67 million in 2010, an increase of $17.4 million, mostly as result of a reduction of $23.6 in the provision for doubtful accounts, partially offset by a reduction of $5.6 million and of $1.6 million in landing and passenger fees, respectively.

Non-operating revenues consist of passenger facility charges ("PFC"), fuel flowage fees, penalties and other fees, and interest. Federal and state financial assistance principally represents grants received from the Federal Aviation Administration, the Federal Transportation Administration and appropriations from the Government of Puerto Rico.

Operating expenses totaled $165 million in 2011, which is $12.1 million less than in 2010.

Capital Expenditures Activities

The Authority's net expenditures for capital construction projects totaled $47.7 million in 2011. Funding sources were as follows: $9.7 million was funded with federal contributions, $17.5 million was funded with PFC's; and the balance of approximately $20.5 million was funded with the Authority's own funds and financing activities.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. Harry Santiago Perez, CPA, CIA (Finance Director) of the Puerto Rico Ports Authority, P.O. Box 362829, San Juan, Puerto Rico 00936-2829.

PUERTO RICO PORTS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
BALANCE SHEETS (IN THOUSANDS)
JUNE 30, 2011

		2011 (In thousands)
Assets		
Current assets:		
Cash and cash equivalents - unresctricted	$	7,807
Cash and cash equivalents - restricted		17,180
Accounts receivable, net of allowance for doubtful accounts of $63,148		17,258
Passenger facility charges receivable - restricted		2,336
Prepaid expenses and other current assets		5,110
Total current assets		49,691
Capital assets - net		1,154,959
Other assets:		
Due from Commonwealth of Puerto Rico		12,700
Due from governmental entities		41,246
Net pension asset		799
Deferred outflow - interest-rate swap		48,861
Deferred debt issuance costs		2,147
Total other assets		105,753
	$	1,310,403

Continues

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

PUERTO RICO PORTS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
BALANCE SHEETS (IN THOUSANDS)
JUNE 30, 2011

	2011 (In thousands)
Liabilities and Net Assets	
Current liabilities:	
Notes payable, current portion	$ 261,572
Accounts payable and accrued expenses	82,345
Retainage and construction costs payable	11,404
Termination benefits accrual, current portion	1,317
Tenants deposits	1,399
Interest payable on bonds	135
Deferred revenues, current portion	141
Total current liabilities	358,313
Non current liabilities:	
Notes payable, long term portion	448,674
Bonds payable, long term portion	44,986
Termination benefits accrual, long term portion	17,338
Derivative Instrument Liability	48,861
Due to Commonwealth of Puerto Rico	27,326
Due to governmental entities	77,570
Deferred revenues, long-term portion	1,881
Other post-employment benefits obligation	5,448
Total non current liabilities	672,084
Total liabilities	1,030,397
Net assets:	
Invested in capital assets, net of related debt	388,188
Restricted	19,516
Unrestricted - deficit	(127,698)
Total net assets	280,006
	$ 1,310,403

Concluded

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

PUERTO RICO PORTS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (IN THOUSANDS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	2011 (In thousands)
Operating revenues:	
Maritime operations	$ 61,565
Airport operations	84,470
Less: discount and incentives	(1,560)
Total operating revenues, net	144,475
Operating expenses:	
Salaries and employee benefits	69,772
General and administrative	27,506
Professional services	11,417
Insurance	7,513
Rent and repairs & maintenance	7,188
Total operating expenses	123,396
Operating income before depreciation and amortization	21,079
Depreciation and amortization	41,503
Operating loss	(20,424)
Non operating revenues (expenses):	
Federal financial assistance	9,660
Commonwealth of Puerto Rico appropiations	2,817
Passenger facility charges	17,553
Fuel flowage fees	2,307
Penalties and other fees	1,292
Swap interest expense	(16,231)
Interest expense	(34,425)
Interest income	35
Total non operating loss, net	(16,992)
Decrease in net assets before early termination expense	(37,416)
Early termination expense	(19,171)
Decrease in net assets	(56,587)
Net assets, at beginning of year	336,593
Net assets, at end of year	$ 280,006

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

PUERTO RICO PORTS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS (IN THOUSANDS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

		2011 (In thousands)
Cash flows provided by operating activities:		
Cash received from charges	$	141,591
Cash payments to suppliers for goods and services		(44,220)
Cash payments to employees for services		(71,177)
Net provided by operating activities		26,194
Cash flows used in capital and related financial activities:		
Acquisition and construction of capital assets		(47,741)
Capital contributions		12,477
Interest paid		(35,897)
Principal paid on bonds		(2,321)
Proceeds from notes payable		35,736
Principal payments on notes payable		(40,042)
Passenger facility charges received for capital expenditures		17,553
Net cash used in capital and related financing activities		(60,235)
Cash flows provided by non-capital and related financing activities:		
Penalties and other fees		1,292
Fuel flowage fees		2,307
Net change in due from government agencies		25,572
Net cash provided by non-capital and related financing activities		29,171
Cash flows provided by investing activities - Interest received		35
Net decrease in cash and cash equivalents	$	(4,835)
Cash and cash equivalents, beginning of year		29,822
Cash and cash equivalents, end of year	$	24,987

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

PUERTO RICO PORTS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS (IN THOUSANDS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	2011 (In thousands)
Reconciliation of cash and cash equivalents:	
Unrestricted	$ 7,807
Restricted funds:	
Construction funds	11,592
Debt service funds	2
Renewal and replacements, maintenance and others	5,586
Total	24,987
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	(20,424)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	41,503
Provision for bad debts	1,804
Early retirement termination expense	19,171
Net change in operating assets and liabilities:	
Decrease in accounts receivable	8,838
Increase in prepaid expenses and other assets	42
Decrease in deferred expenses and charges	(761)
Net pension asset	(187)
Decrease in ccounts payable and accrued expenses, excluding accrued interest	(23,964)
Increase in tenant deposits	26
Decrease in retainage and construction costs payable	(2,296)
Increase in other employee benefits	2,516
Decrease in deferred revenues	(74)
Net cash provided by operating activities	$ 26,194

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

1. REPORTING ENTITY

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

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

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

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America, as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The Authority adopted the provisions of Governmental Accounting Standards Board Statement No. *20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting* (GASB No. 20). In adopting GASB No. 20, the Authority applied all Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued before and after November 30, 1989, unless these pronouncements conflict with, or contradict, GASB pronouncements. The following is a summary of the significant accounting policies:

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

Cash Equivalents - The Authority considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The Authority's cash and cash equivalents as of June 30, 2011are disclosed in Note 4.

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

Prepaid Expenses - Prepaid expenses consist mostly of insurance policies and certain material and office supplies.

Capital Assets - Capital assets are stated at cost or at estimated historical cost. The cost of property and equipment includes costs for infrastructure assets, equipment and other related costs buildings, furniture and equipment. Costs for infrastructure assets include construction costs, design and engineering fees and administrative and general expenses incurred during the construction period.

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

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

Depreciation is computed using the straight-line method during the estimated useful lives of the related assets. The useful lives of assets are determined by the Authority's Engineering Department using past experience, standard industry expectations, and information from external sources such as consultants, manufacturers and contractors. Useful lives are reviewed periodically for each specific type of asset class.

Asset lives used in the calculation of depreciation are generally as follows:

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

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

During the year ended June 30, 2011, the Authority performed an assessment of impairment on capital assets under the provisions of Statement on Governmental Accounting Standard (GASB) No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* which establishes that, generally, an asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Management is then required to determine whether impairment of an asset has occurred. Impaired capital assets that will no longer be used by the Authority should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the Authority should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off.

In addition, GASB Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations*," applicable for periods beginning after December 15, 2007, addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current obligations, and future pollution activities that are required upon retirement of an asset, such as post-closure care. Management has not completed its determination of the impact on the financial statements once the provisions of this statement are implemented. As of June 30, 2011, the Authority maintains an environmental reserve of approximately $900 thousand, which in the opinion of management is adequate to cover the contingency exposure if any. Such reserve is included as part of accounts payable and other accrued liabilities in the accompanying balance sheet. In establishing such reserve, management has evaluated its tenants' responsibility in environmental and pollution exposures.

Claims and Judgments - The estimated amount of the liability for claims and judgments is recorded on the accompanying balance sheet based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Refer to disclosures included in Note 14.

Compensated Absences - Employees earn vacation benefits at a rate of 30 days per year which is the maximum permissible accumulation. Employees accumulate sick leave at the rate of 20 days per year. Maximum permissible accumulation for sick leave is 60 days for managerial and clerical employees of which the excess is paid within the next fiscal year. Union employees are paid for accumulations over 26 days within the next fiscal year. The Authority records as a liability and as an expense the vested accumulated vacation and sick leave as benefits accrued to employees. Compensated absences as of June 30, 2011, amounted to approximately $5.5 million and is included as a component of accounts payable and accrued expenses in the accompanying balance sheet.

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

Postemployment Benefits Other Than Pensions - The Authorityn accounts for postemployment benefits other than pensions ("OPEB") under the provisions of the GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement requires a systematic, accrual–basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. GASB No. 45 allows employers to amortize the portion of the cost attributed to past service over a period not to exceed thirty (30) years.

Other Retirement Benefits - The Authority accounts for pension costs under the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*. This statement establishes standards for the measurement, recognition and display of pension expense and related liabilities in financial statements of state and local governmental employers.

Deferred Debt Issuance Costs - Deferred debt issuance costs are presented as a deferred asset in the accompanying balance sheet. The issuance costs are amortized over the life of the bonds on a method that approximates the effective interest method. Amortization of debt issuance costs for the year ended June 30, 2011, was approximately $212 thousand. Amortization of debt issuance costs is included as a component of interest expense in the accompanying statement of revenues, expenses and changes in net assets.

Derivative Instruments - The Authority follows GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instrument* ("GASB 53"). This Statement enhances the usefulness and comparability of derivative instrument information reported by state and local governments by providing a comprehensive framework for the recognition, measurement, and disclosure of derivative instrument transactions. Derivative instruments such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaps, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. A key provision of GASB 53 is that certain derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value by governments in their government-wide financial statements.

Net Assets - Net assets are classified in the following components:

Invested in Capital Assets, Net of Related Debt - This component of net assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are directly attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of this component of net assets. Rather that portion of the debt is included in the same net asset component as the unspent proceeds.

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

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

Restricted for Capital Assets Maintenance- Net assets restricted for capital assets maintenance consist of restricted assets to be used in the case of extraordinary events such as the repair of damages from hurricanes, among other.

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

Unrestricted - Unrestricted net assets consist of net assets that do not meet the definition restrictions disclosed alone.As of June 30, 2011, the reconciliation of net assets was as follows:

	2011 (in thousands)
Net assets invested in capital assets	$ 1,154,959
Liabilities directly attributable to capital assets:	
Notes payable	(710,246)
Bonds payable	(44,987)
Retainage payable to contractors	(11,404)
Accrued interest	(134)
Net assets invested in capital assets, net of related debt	$ 388,188
Restricted cash and cash equivalents	$ 17,180
Passenger facility charges receivable	2,336
Restricted net assets	$ 19,516

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

Non Operating Revenues - Non-operating revenues consist principally of federal financial assistance, Commonwealth of Puerto Rico appropriations, passenger facility charges, fuel flowage fee, interest and penalties and other fees. Federal financial assistance and

Commonwealth of Puerto Rico appropriations are funds assigned by federal and local government agencies and/or private companies such as the Federal Aviation Administration ("FAA"), Federal Transit Administration ("FTA"), and the Transportation Security Administration ("TSA") to the Authority for the exclusive purpose of the construction of specific projects or infrastructure, repairs and maintenance. Capital grants of the Authority are reported as non-operating revenues.

Future Adoption of Accounting Pronouncements – During the fiscal year ended June 30, 2011, the GASB issued the following Statements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employers Plans*, which is effective for periods beginning after June 15, 2011.
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is effective for periods beginning after December 15, 2011.
- GASB Statement 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 Statement 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 Statement 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 Statement 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.

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

Subsequent Events - In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through February 18, 2011, the date in which the financial statements were available to be issued.

3. FINANCIAL CONDITION AND MANAGEMENT PLANS

As reflected in the accompanying financial statements, the Authority has a decrease in net assets of approximately $56.6 million during the fiscal year ended June 30, 2011, of which $19 million belongs to early retirement expense. As a result of the decrease in net assets, management has implemented strict and dramatic measures to improve the Authority's financial condition. A stop-hiring policy has been put into place and retired employees are not being replaced. Implementation of new software system at both aviation and maritime is underway which management expect will maximize the capture of revenues.

Actions taken by management have achieved a reduction of approximately $11 million (excluding depreciation and amortization) in operating expenses from fiscal year ended June 30, 2010. Further reductions are needed in order to achieve the target reduction.

In addition, management has contemplated and discussed a series of benefit reductions to all employees to be effective on January 1, 2012. This action will bring savings of around $5 to $7 million on the calendar year 2012. Some of the actions relate to the employees medical plan, overtime rate, employee welfare fund, and others.

As disclosed in Note 20, during December of 2011, the authority refinanced the majority of its long term debt, which should result in interest cost savings of approximately $35.7 million over the subsequent 24 months-period.

4. CASH AND CASH EQUIVALENTS

Cash and cash an equivalents at June 30, 2011 is composed of (in thousands):

	2011 (in thousands)
Cash	$ 15,392
Time Deposits	9,595
Total	$ 24,987

Unrestricted and restricted amounts of cash and cah equivalents are detailed as follows:

	2011 (in thousands)
Restricted for Passenger Facility Charges ("PFC") projects	$ 5,763
Restricted federal funds	1,628
Restricted cash for construction	339
Restricted renewal and replacements, maintenance and other funds	9,450
	17,180
Unrestricted cash and cash equivalents	7,807
	$ 24,987

5. DEPOSITS AND INVESTMENTS

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

Pursuant to the Investment Guidelines for the Commonwealth of Puerto Rico adopted by the Government Development Bank ("GDB"), the Authority may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Monies in the sinking fund can only be invested in direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

Custodial Credit Risk - Deposits

For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be recovered by the Authority. However, under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. The bank balance of the Authority's accounts with commercial banks at June 30, 2011, amounted to $26 million.

As of June 30, 2011, the Authority's custodial credit risk was approximately $287 thousand, which is the bank balance of cash deposited at the GDB and Economic Development Bank for Puerto Rico ("EDB"). These deposits are exempt from the collateral requirements established by the Commonwealth.

6. CAPITAL ASSETS

The following schedule summarizes the capital assets held by the Authority as of June 30, 2011 (in thousands):

	June 30, 2010	Increases	Decreases	June 30, 2011
Assets not being depreciated:				
Land and land improvements	$ 277,898	$ 7,699	$ -	$ 285,597
Construction in progress	211,619	27,432	(871)	238,180
Total assets not being depreciated	489,517	35,131	(871)	523,777
Assets being depreciated:				
Building, piers, improvements and structures	673,785	30,672	(10,528)	693,929
Infrastructure	150,446	4,029	(3,431)	151,044
Roads and parking areas	355,382	29,866	(38,295)	346,953
Machinery, furniture and equipment	108,864	4,569	(2,274)	111,159
Automobiles and service vehicles	13,747	116	-	13,863
Infrastructure Master Plans	4,740	-	-	4,740
Total	1,306,964	69,252	(54,528)	1,321,688
Less accumulated depreciation and amortization	(630,945)	(41,503)	(18,058)	(690,506)
Total assets being depreciated	676,019	27,749	(72,586)	631,182
Total capital assets	$ 1,165,536	$ 62,880	$ (73,457)	$ 1,154,959

The Authority capitalized interest amounting to approximately $603 thousand during the fiscal year ended June 30, 2011.

7. DUE FROM/DUE TO GOVERNMENTAL ENTITIES

Due from governmental entities as of June 30, 2011 consists of:

	2011 (in thousands)
Commonwealth of Puerto Rico -	
Office of Management and Budget	$ 12,700
Due from governmental entities:	
Maritime Transportation Authority of PR and Municipality Islands	$ 35,663
Puerto Rico Department Highway and Transportation Authority	5,583
Total	$ 41,246

Office of Management and Budget ("OMB") - Balance due from the OMB relates to $11 million incentives given by the Authority to certain cruise lines, which should be reimbursed by the OMB. The OMB is also responsible for the reimbursement of $1.7 million related to the transfer of the Mayagüez Port Facilities to the municipality. The balance does not bear interest and has no formal repayment terms, since the terms and conditions have not being established.

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

Puerto Rico Highway and Transportation Authority ("PRHTA") - Balance due from PRHTA relates to $5.6 million mainly associated with the rental of a hangar, a warehouse and land for which there are written agreements. These balances do not bear interest and have no formal repayment terms, since the terms and conditions have not being established.

Due to governmental entities as of June 30, 2011, consists of:

	2011 (In thousands)
Commonwealth of Puerto Rico	$ 27,326
Due to other governmental entities:	
PR Electric Power Authority ("PREPA")	55,295
Retirement System of the Employees of the Commonwealth of Puerto Rico	6,577
PR Aqueduct and Sewer Authority	9,954
Puerto Rico Highway and Transportation Agency	1,832
Infrastructure and Finance Authority	1,918
Land Authority of Puerto Rico	1,669
Others	325
Total	$ 77,570

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

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

The non-current due to Commonwealth of PR and due to governmental entities activity for the year ended June 30, 2011, was as follows (in thousands):

	Beginning Balance	Charges	Payments	Ending Balance
Due to Commonwealth of PR	$ 41,532	$ 8,550	$ (22,756)	$ 27,326
Due to governmental entities	65,530	24,094	(12,054)	77,570
	$ 107,062	$ 32,644	$ (34,810)	$ 104,896

8. DEFERRED REVENUES

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

Deferred revenues balance at June 30, 2011, consist of (in thousands):

	2011 (In thousands)
Carrying amount of unamortized portion of construction costs, amortized by equivalent credits to the minimum fixed rental through December 2019	$ 2,022
Less: current portion	(141)
Deferred revenues, long-term	$ 1,881

9. NOTES PAYABLE

Notes payable as of June 30, 2011 consists of (in thousands):

Description	Amount
Promissory note with Wells Fargo, bearing interest at LIBOR rate plus 295 basis points (3.14% at June 30, 2011), through February 1, 2027; principal payments begun in October 2011.	$ 386,705
Borrowings under unsecured line of credit agreements with Banco Bilbao Vizcaya Argentaria, (BBVA) bearing interest at variable rates (4.53% at June 30, 2011), due on June 30, 2012.	73,736
Borrowings under line of credit agreement with Wells Fargo, bearing interest at 70% of LIBOR rate plus 265 basis points (2.78% at June 30, 2011), due on July 1, 2026. Collateralized by PFC revenues.	71,898
Borrowings under line of credit agreement with GDB, bearing interest at 6.00%, due through June 30, 2011.	71,811
Promissory notes with GDB, bearing interest at 90 days LIBOR rate plus 50 basis points (0.80% at June 30, 2011). Due on June 30, 2012. Collateralized by Hangar 21 and PFC revenues.	27,500
Promissory notes with GDB, due in December 31, 2011, bearing interest at prime rate plus 150 basis points, with a minimum rate of 6% due through June 30, 2012. Collateralized by Hangar 21 and PFC revenues.	2,973
Promissory notes with GDB bearing interest at prime rate plus 150 basis points with a minimum rate of 6% due in February 2012.	25,000
Borrowing under line of credit agreement with GDB, bearing interest at 90 days LIBOR rate plus 50 basis points with a minimum rate of 6% due in June 2023. Collateralized by the San Juan Water Front (SJWF) Project.	25,591
Promissory note payable to Carnival Corporation, bearing interest at 7.50%, due through April 2024.	10,774
Promissory note payable to Royal Caribbean Cruises, bearing interest at 7%, due in 36 monthly installments through June 30, 2014. Collateralized by Pier III improvements.	8,722
Insurance premium financed with Imperial Credit Corp. due on December 20, 2011. (4.39 fixed annual rate).	3,148
Promissory note with GDB, bearing interest at 4.75%, due in February 2013.	1,521
Promissory note with GDB, bearing interest at 4.75%, due in August 2010.	720
Promissory note with GDB, bearing interest at 6.00%, due in December 2011.	147
Total notes payable	710,246
Less current portion	(261,572)
Long-term	$ 448,674

Wells Fargo

On February 2007, the Authority entered into a $411 line of credit agreement with Wells Fargo (formerly known as Wachovia Bank) for the refinancing of all its debts. Borrowings under the line of Credit agreement bears interest at labor rate plus 295 basis points (3.14% at June 30, 2011 and are due in February 2027).

Under the terms of the Loan Agreement, the Authority is required to comply with several covenants which in the event of non-compliance provide the lender with the right to declare the outstanding debt as due and payable and to terminate the agreement. At June 30, 2011, the Authority was not in compliance with certain debt covenants. Such events of non-compliance were waived by Wells Fargo.

As disclosed in Note 20, the Authority subsequently repaid the $386.7 million loan from the proceeds of the bond issuance in December 2011.

On August 5, 2009, the Authority signed an Amended and Restated Promissory Note with Wells Fargo to extend the date of repayment of a $71.8 million loan to July 30, 2026. GDB agreed to issue a letter of credit in favor of Wachovia to obtain the extension.

Banco Bilbao Vizcaya Argentaria (BBVA)

On July 21, 2010 the authority entered into amended and restated credit agreement with BBVA for $83.7 million. Borrowings under this agreement bear interest at variable rates (4.53 at June 30, 2011) and are due on July 21, 2010. Under the Amended and Restated Credit Agreement dated July 21, 2010, the Authority commenced monthly payments of principal of $768 thousand, plus interest. As of June 30, 2011, such note has an outstanding balance of $73.7 million. This debt was paid in full out of the proceeds of the bonds issuance disclosed in note 20.

Government Development Bank (GDB)

On September 14, 2007, the Authority entered into a $72.3 million line of credit with GDB for payments to construction suppliers aggregating to $71.8 million and to pay $2.1 million of a legal case settlement with Royal Caribbean. Borrowings under this line of credit bears interest at 6% through 2011 and are due at June 30, 2011, $71.8 million are outstanding.

On September 14, 2007, the Authority entered in a loan agreement with the GDB for $40 million of which $27.5 million were used to finance the purchase of a parcel of 23 acres located in the southern area of Old Naval Base, at the South Section of the ward known as Hangar 21. In addition, $2.973 million were used to pay for qualified projects under the PFC program.

Borrowings under this line of credit bears interest at 90 days Libor rate plus 50 basis points (0.80% at June 30, 2011) and are due on June 30, 2012.

On July 1, 2008, the Authority entered into a $180 million line of credit for the development of the San Juan Water Front (SJWF) project (former Golden Treingle Project) authorized by an executive order signed on February 20, 2008. Borrowings under this line of credit bear interest at 90 day Libor plus 50 basis points with a minimum rate of 6% due through June 20, 2023. This line of creit is collateralized with SJWF project. At June 30, 2011, $25.5 million were outstanding.

On June 30, 2010, the Authority entered into a loan agreement with the GDB amounting to $25 million for the purpose of partially pre-paying the principal amount of the loan with Wells Fargo from $411.7 to $386.7 million. This facility bears interest at 150 basis points over the Libor rate, with a minimum rate of 6.00%, maturing in February 2012.

The Authority also has remaining balances on previously issued indebtedness with GDB, at interest ranging from 4.75% to 6.00 %, and maturing from August 2010 through February 2013. The outstanding balance on such notes as of June 30, 2011 were approximately $1.5 million, $720 thousand and $147 thousand.

As disclosed in Note 20, , the Authority subsequently repaid a total of $100.3 million of its indebtedness with GDB out from proceeds of the bond issuance in December 2011.

Carnival Cruise Lines

On June 7, 2001, the Authority entered into a Master Development Agreement with Carnival Corporation for the performance of certain improvements to the Terminal 4 of the Port of San Juan. Total financed costs amounted to approximately $13.5 million, and will be payable to Carnival by 240 monthly deductions of $108,735 (including principal and interest at 7.50%) from the tariffs payable from Carnival to the Authority, commencing in May 2004, until April 2024.

Royal Caribbean Cruises

During 2003, the Authority entered into an Agreement with Royal Caribbean Cruises for the performance of certain improvements to the Terminal 3 of the Port of San Juan. Total financed costs amounted to approximately $16.3 million. As of June 30, 2011, the underlying note payable had an outstanding balance of approximately $8.7 million, bearing interest at 7% and payable in 12 monthly installments of $70,000, commencing on July 31, 2011; 6 consecutive monthly installments of $200,000 thereafter; and 18 consecutive monthly installments of $385,766 plus interest thereafter until June 30, 2014. The note is collateralized by the Pier 3 improvements.

Imperial Credit Corp.

Proceeds of this loan were used to finance certain insurance policies. The loan has an interest rate of 4.39% and requires monthly payments of $599 thousand. The outstanding balance as of June 30, 2011, was $3.1 million.

Summarized Notes Payables Activity

The summarized notes payable activity for the fiscal year ended June 30, 2011, was as follows (in thousands):

	Beginning Balance	Borrowings	Payments	Ending Balance
Notes payable	$ 714,551	$ 35,736	$ (40,041)	$ 710,246

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

Fiscal Year Ended June 30,	Principal	Interest	SWAP Interest	Total
2012	$ 261,572	$ 15,288	$ 15,841	$ 292,701
2013	21,554	14,175	15,195	50,924
2014	22,451	13,283	14,516	50,250
2015	23,395	12,534	13,801	49,730
2016	24,389	11,751	13,050	49,190
2017 through 2021	138,810	45,712	10,250	194,772
2022 through 2026	169,971	20,161	-	190,132
2027 through 2028	48,104	685	-	48,789
	$ 710,246	$ 133,589	$ 82,653	$ 926,488

Derivatives and Hedging of Notes

On October 17, 2007, the Authority entered into the following interest-rate swap agreement related to its Promissory Note for $411.7 million as well as in a portion of the line of credit with Well Fargo:

Type	Objective	Notional Amount (In Thousands)	Effective Date	Maturity Date	Terms	Fair Value (In Thousands)
Pay fixed interest rate swap	Hedge of changes in cash flows for Notes Payable	$ 411,705	October 1, 2007	October 1, 2017	Pay 4.948%, receive 1 month LIBOR plus .80%	$ (48,861)

	Changes in Fair Value		Fair Value at June 30, 2011		
	Classification	Amount (In Thousands)	Classification	Amount (In Thousands)	Notional (In Thousands)
Cash flow hedge:					
Pay-fixed interest rate swap	Deferred outflow	$ 4,806	Debt	$ (48,861)	$ 411,705

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

Wells Fargo Bank, N.A. will pay interest based on a floating rate calculated at 1 month London Interbank Offering Rate (LIBOR) plus 0.80%. The interest will be paid to the Authority on the 1st day of each month, commencing on November 1, 2007, and ending on the Termination Date. The notional amount of the agreement commences at $411.7 million and amortizes in accordance with an agreed schedule.

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

Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. At June 30, 2011, the Authority is not exposed to credit risk on the interest rate swap because it is in negative fair value or liability position. However, if interest rates change and fair value become positive, the Authority would have exposure to credit risk in the amount of the derivative's positive fair value. The Authority minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is acceptable under the investment policies of GDB.

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

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

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

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

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

The interest rate swap agreement requires the Authority to pledge collateral in the event the fair value of the swap enters into liability position in excess of $50 million, if the Authority does not pledge the collateral, the swap may be terminated by the counterparty. At June 30, 2011, the Authority was not required to pledge in a collateral.

The table that follows represents debt service payments on variable-rate notes payable to Wells Fargo and the net payments on associated hedging derivative instrument as of June 30, 2011. Although interest rates on variable rate debt and the current reference rate of hedging derivative instrument change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rate of the hedging derivative instrument on June 30, 2011, will remain the same.

Variable-Rate Notes Payable

Year Ended June 30,	Principal	Interest	Projected Hedging Cost	Total
2012	$ 17,258	$ 12,621	$ 15,841	$ 45,720
2013	18,069	12,101	15,195	45,365
2014	18,923	11,509	14,516	44,948
2015	19,821	10,887	13,801	44,509
2016	20,765	10,236	13,050	44,051
2017 though 2021	119,792	40,257	10,250	170,299
2022 though 2026	151,907	18,507	-	170,414
2027 though 2029	45,170	679	-	45,849
Total	$411,705	$116,797	$ 82,653	$611,155

As explained in Note 20, the Authority terminated the swap agreement on December 28, 2011.

10. REVENUE BONDS PAYABLE

The Authority issued bonds at various times for the purpose of financing the construction of certain facilities and improvements for the airports and maritime facilities.

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

Proceeds from tax-exempt bonds issued after September 1, 1986, are subject to the 1986 Tax Reform Act. The Authority is required to comply with Internal Revenue Service regulations in order to maintain tax-exempt status on the Authority's bonds. The Authority has no arbitrage liability at June 30, 2011.

Revenue bonds payable as of June 30, 2011 consist of (in thousands):

	Year Ended June 30, 2011 (In Thousands)				
Description	Beginning Balance	Addition	Payments / Amortization	Ending Balance	Current Portion
Term Revenue Bonds (Series E), 6.50% interest. Interest payable on June 15 of each year and principal due at maturity on June 15, 2028	$ 46,326	$ -	$ -	$ 46,326 $	$ 3,011
Less: Unamortized deferred loss on refunding	(3,660)		2,320	(1,340)	
Net bonds payable	$ 42,666		$ 2,320	$ 44,986	

The outstanding bonds payable as of June 30, 2011, require future debt service payments as follow (in thousands):

Fiscal year ended June 30,	Principal	Interest	Total
2012	$ -	$ 3,011	$ 3,011
2013	-	3,011	3,011
2014	-	3,011	3,011
2015	-	3,011	3,011
2016	-	3,011	3,011
2017 through 2021	-	15,055	15,055
2022 through 2026	-	15,055	15,055
2027 through 2028	46,326	6,022	52,349
	$ 46,326	$ 51,187	$ 97,514
Less: unamortized deferred loss on refunding	(1,340)	-	(1,340)
	$ 44,986	$ 51,187	$ 96,174

The Authority allocates interest expense to different activities for which the related debt is incurred. Total interest incurred on bonds payable for the year ended June 30, 2011, amounted to approximately $3.2 million.

The Revenue Refunding Bonds outstanding at June 30, 2011, were issued under a Trust Agreement entered into by the Authority and the Trustee and Co-trustee, dated January 1, 1972, as amended, subject to certain provisions as set forth below:

General Provisions

The Authority's revenues, as defined in the Trust Agreement, are required to be revised as necessary to be sufficient for the payment of current expenses and provide for the higher of either the amounts needed for making the deposits in each fiscal year to the credit of the Sinking Fund and the Maintenance Reserve Fund or an amount not less than 125% of the maximum aggregate principal and interest requirements (as defined) for any fiscal year for all bonds then outstanding. The Authority complied with making the deposits to the Sinking Fund and the Maintenance Reserve Fund as of June 30, 2011.

The Authority may issue additional bonds under the provisions of the Trust Agreement provided that (1) the net revenues, as defined, for any twelve consecutive months within the preceding eighteen months are not less than 125% of the maximum aggregate annual debt service on all outstanding bonds (not including the bonds to be issued) and (2) the estimated average annual net revenues, as defined, for the 5 fiscal years after the estimated completion date of the facilities to be financed by the issuance of such bonds is not less than 184% of the maximum aggregate annual debt service on all outstanding bonds and the bonds to be issued.

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

Security

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

Funds

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

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

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

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

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

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

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

Maintenance Reserve Fund - The Authority is required to deposit monthly with the Co-Trustee to this fund (after the above Sinking Fund deposits are made) the sum of $42,000 until the amount in this fund exceeds $2,500,000 ($5,586,000 on deposit at June 30, 2011), and thereafter, it is to deposit 1/12 of the amount required to restore the balance to such amount should the balance fall below $2,500,000; provided however, that no such deposit shall be required in excess of $42,000 in any one month. Disbursements from this fund shall be made only for the purpose of paying the cost of unusual or extraordinary major repairs and maintenance or repairs or replacements for an emergency caused by an extraordinary occurrence as described in the Trust Agreement, but related to the operations of the Authority's properties.

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

At June 30, 2011, the amount deposited in the Renewal and Replacements Fund was $3.5 million.

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

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

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

Construction Fund - This fund consists of three accounts:

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

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

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

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

11. OTHER POST-EMPLOYMENT BENEFITS OBLIGATION

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

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

Plan Description

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

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

Funding Policy

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

Annual OPEB cost and net OPEB obligation

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

The following table shows the Authority's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the Plan and the change in the Authority's net OPEB obligation to the Plan at June 30, 2011 (in thousands):

	2011 (In Thousands)
Annual required contribution ("ARC")	$ 4,096
Interest on the net OPEB obligation	161
Adjustments to the ARC	(238)
Annual OPEB cost	$ 4,019
Authority's contribution	(1,503)
Increase in net OPEB obligation	2,516
Net OPEB obligation, beginning of fiscal year	2,932
Net OPEB obligation, end of fiscal year	$ 5,448

As of June 30, 2011, the actuarial accrued liability for benefits amounted to $22.6 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was $31.7 million during the year ended June 30, 2011, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 71%.

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

Methods and Assumptions

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

The valuation date was June 30, 2011, and the Projected Unit Credit Cost Method was used. The actuarial assumptions were based on a set of assumptions supplied by the Authority. Turnover rates were based on service and age-related turnover. A discount rate of 6% was used. This rate is the best actuarial estimate of expected long-term experience and is in accordance with guidelines for selection of these rates under GASB 45. The healthcare trend rates are based on the actuarial knowledge of the general healthcare environment and the specific coverage offered by the Authority.

12. TERMINATION BENEFITS

During the fiscal year ended June 30, 2011, the Legislature of the Commonwealth of Puerto Rico approved a one-time retirement incentive plan for all regular employees of Central Government Agencies and certain Public Corporations, known as Act #70 of July 2, 2010. The program included early retirement incentives for certain eligible employees. Under the plan, employees could select one of three options as follows:

Article 4(a) provides economic incentive based on the following parameters:

Years of Services in Public Sector	Incentive Gross Amount
Up to 1 year	1 month of salary
From 1 year and 1 day up to 3 years	3 months of salary
From 3 years and 1 day and up	6 months of salary

Article 4(b) provides, employees meeting certain years of service criteria (between 15 and 29 years) and opting for early retirement, to receive a higher pension benefit rate than they would otherwise be entitled to receive based on their current years of service, but such pension rate is lower than what they would have been entitled to if they had waited to meet the full vesting requirements. Annuity pension payment is based on the following parameters:

Credited Years of Service	Pension Payment (As a % of salary)
15	37.5%
16	40.0%
17	42.5%
18	45.0%
19	47.5%
20 to 29	50.0%

The Authority will be responsible for making the applicable employer contributions to the Employees Retirement System, as well as making the payments to cover the annuity payments to the employees opting for the early retirement window, until both, the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments.

Employees selecting options 4(a) or (b) will be entitled to receive full payment of healthcare plan benefits for a period of up to 12 months or the date that the employee is eligible for a healthcare plan benefit offered by another employer, whichever occurs first.

Article 4(c) provides eligible employees that have 30 years of credited services contributing to the Commonwealth of Puerto Rico Retirement System and request to start receiving their pension benefits, will be entitled to receive the economic incentive disposed on article 4(a) but not entitled to the incentives provided on article 4(b). Employees that have the required retirement age but have not achieved the years of credited services contributing to the Commonwealth of Puerto Rico Retirement System will be entitled to an economic incentive of up to 6 months of salary to cover for the years of service not credited.

At June 30, 2011, the present value of future incentive payments reported as a liability amounted to approximately $18.6 million. During the fiscal year ended June 30, 2011, a total of 49 employees, respectively, opted for the early retirement incentives. Total expense recorded for the year ended June 30, 2011, for future incentive payments amounted to $19.2 million, presented as early termination expenses in the statement of revenues, expenses and changes in net assets. The total aggregate liability of the program as of June 30, 2011 amounted to $18.6 million, of which $1.3 million should be funded during the next fiscal year. The long-term portion of the early termination obligation amounted to $17.3 million. Such amounts are disclosed respectively, as short-term and long-term liability in the accompanying balance sheet.

13. RETIREMENT PLAN

Defined Benefit Pension Plan

The Employee's Retirement System (" Retirement System" or " ERS") of the Commonwealth is a defined benefit pension plan administered by the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 447 on May 15, 1951. The ERS began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The ERS is a pension trust fund of the Commonwealth. The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The ERS consists of different benefit structures pursuant to Act No. 447 of 1951, as amended, including a cost-sharing multi-employer contributory defined benefit program and a cash balance program, similar to a cash balance plan. The Retirement System is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities (Commonwealth Agencies, Municipalities, and Public Corporations, including the Retirement System) are covered by the Retirement System. All regular, appointed, and temporary employees of the Commonwealth at the date of employment become plan members of the Retirement System as a condition to their employment. No benefits are payable if the participant receives a refund of accumulated contributions.

The Retirement System provides retirement, death, and disability benefits pursuant to legislation enacted by the Commonwealth's Legislature of Puerto Rico. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after 10 years of plan participation. Disability benefits are available to members for occupational and non occupational disabilities. However, a member must have at least 10 years of service to receive non occupational disability benefits.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, are entitled to an annual benefit payment monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than $300 per month. Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined; otherwise, they will receive 75% of the average compensation, as defined.

Commonwealth legislation requires employees to contribute 5.775% for the first $6,600 of their annual gross salary and 8.275% for the salary in excess of $6,600, for employees hired on or before April 1, 1990. For employees hired on or after April 1, 1990 the required contribution is 8.275% of gross salary. The Authority's contribution is 9.275% of gross salary. Total payroll subjected to retirement contribution amounted to $31.7 million for the year ended June 30, 2011. Those amounts are the compensation paid by the Corporation to active employees covered by the

System, which is the basis for the contribution. The pension expenses incurred by the Authority for the year ended June 30, 2011, amounted to approximately $2.4 million.

Act number 1 of February 16, 1990 made certain amendments applicable to new participants joining the System effective on April 1, 1990. Changes mainly consisted of an increase of the retirement age to 65 years, the elimination of the Merit Annuity and a reduction of the percentage for disability and death benefits.

The amount of the total pension benefits obligation is based on a standardized measurement established by accounting principles generally accepted in the United States of America that, with some exceptions, must be used by a public employee retirement system. The Standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effects of projected salary increases.

The most recent actuarial valuation is as of June 30, 2011. The significant actuarial assumptions used to determine the standardized measure of the pension benefits obligation are summarized below:

• Investments Rate of Return	7.5% a year
• Payroll growth	3.0% per year
• Mortality	RP 2000 Mortality Rates
• Disability	Adjusted 1987 Commissioners Group Disability Table
• Retirement age	Graded scale of retirement ages
• Proportion of participants with spouses	50% of participants assumed to be married, with wives assumed to be four years younger than husbands.
• Number of employees electing higher contributions	15% of retiring employees assumed to pay retroactive contributions

Defined Contribution Plan

The Legislature of Puerto Rico of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among other things, a defined contribution savings plan program (the Program) to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the defined benefit pension plan, received a refund of their contributions, and were rehired on or after January 1, 2000, become members of the Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the defined benefit pension plan had the option, up to March 31, 2000, to irrevocably transfer their contributions to the defined benefit pension plan plus interest thereon to the Program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the 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 Program.

Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semiannually.

The Authority is required by Act No. 305 to contribute 9.275% of the participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

Upon retirement, the balance in the 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 the participant's account will be paid in a lump sum to the beneficiaries. Participants have the option of a lump-sum payment or purchase of an annuity contract in case of permanent disability. The Authorityis contributions under this plan for the year ended June 30, 2011, amounted to approximately $1.1 million.

The financial statements and required supplementary information for the pension plan are available at the administration office of the Employees' Retirement System of the Government of Puerto Rico, P.O. Box 42003 Minillas, San Juan, Puerto Rico 00940.

Substantially all of the Authority's employees participate in the Retirement System of the Commonwealth of Puerto Rico (the System), a cost sharing multi-employer defined benefit pension plan. The payroll for employees covered by the System for the years ended June 30, 2011 was approximately $31.7 million.

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

The System also provides death and disability benefits established by Commonwealth statute. Commonwealth legislation requires employees to contribute 5.775% for the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. The Authority is required by the same statute to contribute 9.275% of the participant's gross salary. Total employer contributions during the year ended June 30, 2011 under this plan amounted to approximately $2.4 million.

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

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula that takes into account each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) and investment income as defined in the Plan. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The Authority's contributions under this Plan for the year ended June 30, 2011 amounted to approximately $1.1 million.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2009, a copy of which can be obtained from the Retirement System Administration, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

Other Retirement Benefit

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

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

Funding Policy

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

Annual pension cost and net pension obligation/(asset)

The Authority's annual pension expense is calculated based on the ARC. The Authority engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement No. 27 "Accounting for Pensions by State and Local Governmental Employers" (GASB 27) for employers with more than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.
The following table shows the Authority's annual pension cost for the year ended June 30, 2011 and the amount actually contributed at June 30, 2011 (in thousands):

Annual Pension Cost	$	556
Actual Funding Contribution	$	743

As of June 30, 2011, the actuarial accrued liability for benefits amounted to $4.8 million all of which was unfunded.

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

Methods and Assumptions

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

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

The valuation date was June 30, 2011 and the Projected Unit Credit Cost Method was used. The actuarial projections were based on a set of assumptions supplied by the Authority. Turnover rates were based on service and age-related turnover. A discount rate of 5.5% was used. This rate is the best actuarial estimate of expected long-term experience and is in accordance with guidelines for selection of these rates under GASB 27.

14. COMMITMENTS AND CONTINGENCIES

Construction

As of June 30, 2011, the Authority had commitments for approximately $25.4 million, related to construction contracts.

Litigation

The Authority is defendant or co-defendant in various lawsuits as a result of the normal course of operations and also for alleged damages in cases principally related to its concessionaries. As of June 30, 2011, the Authority has reserves amounting to approximately $9.5 million to cover the aggregate exposure assessment. In the opinion of the Authority's Management, based on legal advice, any liability in excess of insurance coverage and/or of the recorded reserves that may arise from final judgements, would not affect significantly the Authority's financial position or result of operations.

Environmental Remediation

On May 23, 2002, the Authority, as well as other oil companies (the members), was contacted by the United States Environmental Protection Agency ("EPA") regarding certain alleged environmental condition at the LMMIA related to the Hydrant Fuel System ("HFS"). The Authority and the other members entered into an Administrative Order Consent ("AOC") with EPA to perform a subsurface investigation and certain other tasks in connection with the HFS, with the exception of the assessment of the HFS which will be undertaken by the Authority. In

March 2003, the Authority and the other members entered into a Joint Defense, Participation and Cost Sharing Agreement to jointly conduct the subsurface investigation established in the AOC, constitute a Steering Committee and share the underlying costs. The Steering Committee established a budget for the sampling stage of the works for which the Authority is responsible for $900,000, which is included as part of the accounts payable and accrued expenses in the accompanying statement of net assets as of June 30, 2011. The budget established by the Steering Committee covers only the sampling stage of the works in which they are currently on. Subsequent remediation and responsibility actions will be renegotiated in the future. The second sampling stage is expected to continue until 2012.

Tenant Lease Agreements

The Authority entered in two lease agreements with a tenant for a tract of land at LMMIA. The lease agreements are for twenty-five (25) years with options to renew for two (2) additional five (5) year terms. One of the agreements was effective in September 1988 and the other in June 1995. Under the terms of the Agreements, the Authority will charge a fixed monthly rent, plus an additional rent based on sales volume. The Authority also agreed to grant rental credits, up to $34.4 million, plus interest at 9.50%, to reimburse the lessee for the permanent improvements to the leased property. The title to such improvements will revert to the Authority at no further cost at the end of the lease term or at a prior date in case of default. The rental credit to be granted is limited to the amount invested by the lessee, which is required to submit evidence of the amount invested, in the leased property. During the year ended June 30, 1997, the Authority recorded property and equipment and deferred revenues for approximately $19 million in connection with these agreements. As of June 30, 2011, these deferred revenues are fully amortized. Also, as of June 30, 2011, the tenant and the Authority are under litigation of certain aspects of the lease agreements.

15. SPECIAL FACILITY REVENUE BONDS

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

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

16. PASSENGER FACILITY CHARGE

Pursuant to the Aviation Safety and Capacity Act of 1990 (the Act), airports may collect a Passenger Facility Charge ("PFC") of up to $4.50 per ticket, out of which $0.11 belong to the airline companies for administrative expenses and $4.39 to the Authority. Under the Act, PFC revenues are restricted to be used for financing eligible airport-related projects that preserve or enhance safety, capacity or security of the air transportation system, subject to the approval of the Secretary of Transportation of the United States. The PFC income for the year ended June 30, 2011, amounted to approximately $17.6 million. As of June 30, 2011, the Authority has unexpended resources amounting to approximately $5.7 million, which are restricted for PFC projects. PFC revenues are recognized as collected and are included in non-operating revenues.

17. RENTAL INCOME

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

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

Year Ending June 30,	Amount (in thousands)
2012	$ 34,832
2013	32,575
2014	29,927
2015	28,244
2016	26,610
Total	$ 152,188

The Authority also has several leases that require the lessees to remit a percentage of their revenues or fuel consumption as their rental charges. Rental income under these leases is not included in future minimum rental amounts above.

18. FEDERAL ASSISTANCE PROGRAMS

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

Federal financial assistance and Commonwealth of Puerto Rico appropriations for the year ended June 30, 2011, consist of grants and donations as follow (in thousands):

Federal financial assistance:	**2011**
Federal grants received from:	
Federal Aviation Administration	$ 8,718
Federal Transit Administration	12,853
Department of Commerce	941
Total grants	22,512
Less: pass - through grant program payments	(12,852)
	$ 9,660
Commonwealth of Puerto Rico appropriations	$ 2,817

19. OPERATING REVENUES

Operating revenues for the fiscal year ended June 30, 2011, consist of (in thousands):

	2011 (In thousands)
Maritime operations:	
Warfare, dockage and port services	$ 32,333
Tourist ship fees	15,564
Equipment and property rental	15,663
Demurrage, utilities and other	1,755
Provision for doubtful accounts	(3,750)
	61,565
Airport operations:	
Landing fees	26,484
Passenger fees	12,580
Space rentals	44,175
Utilities, gas sales and other	1,706
Less: provision for doubtful accounts	(475)
	84,470
Total revenues	146,035
Less: discounts and incentives	(1,560)
Total net operating revenues	$ 144,475

20. SUBSEQUENT EVENTS

AMR Bankruptcy:

On November 28, 2011, AMR Corp. ("AMR"), the parent company of American Airlines, filed for bankruptcy under Chapter 11 of the US Bankruptcy Law. The Authority derived 21% of its rental revenues and 22% of its landing and other fees from AMR during the fiscal year 2011. The

Authority's collection of revenues in the next fiscal year may be affected if AMR's bankruptcy proceedings cause delays or suspension of payments, or if AMR's operations are modified as part of the underlying corporate reorganization.

Puerto Rico Public-Private Partnership Project:

The Puerto Rico Public-Private Partnerships Authority (the "PPP") was created by the Public-Partnership Act for the purpose of implementing the Commonwealth's public policy of favoring strategic alliances with the private sector. Among the priority projects is the establishment of a public-private partnership for the *Luis Muñoz Marín Airport* (the "LMMIA Project").

Pursuant to the objectives of the LMMIA Project, during December 2011, the Authority entered into certain expropriations proceedings through the Puerto Rico First Instance Court (the "Court"), to acquire certain properties and concessions owned by third parties within the LMMIA complex. In connection with such proceedings, on December 27, 2011, the Authority obtained a $30 million non-revolving credit facility with the GDB, out of which $25.4 million were consigned with the Court to start the expropriation process. The advance matures on December 31, 2012, and should be repaid out from the proceeds of the PPP concession, or the underlying rental income to become available immediately after ownership transfer to the Authority.

The consigned amount was based on the Authority's determination of the properties' fair value. The counterparties have the right to contest the amount deposited, pursuant to the presentation of acceptable evidence indicating a higher fair value. As of the date of issuance of the financial statements, it is uncertain if the final settlement will be for the consigned amount, or for a higher consideration.

Refinance Transaction and Swap Termination:

On December 28, 2011, the Authority entered into a refinancing transaction in the amount of $678,451,920, by issuing bonds through the Puerto Rico Infrastructure Finance Authority ("PRIFA") as conduit. The issuance was structured as follows:

Series	Amount (in thousands)
PRIFA Series 2011 A	$ 340,000
PRIFA Series 2011 B	202,066
PRIFA Series 2011 C	136,385
	$ 678,451

Proceeds from the bond issuance were used for the following purposes:

Uses of Funds		Amount (in thousands)
Cancellation of Wells Fargo Loan	$	364,387
Payment of certain obligations with GDB		100,331
Cancellation of BBVA loan		70,205
SWAP termination		61,837
Due to PREPA		60,000
Due to PRASA		10,200
Other uses		9,203
Debt issuance cost		2,288
	$	678,451

As result of the transaction, the derivative instrument disclosed in Note 9 was cancelled and no longer outstanding.