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#946

**PUERTO RICO MARITIME
SHIPPING AUTHORITY**
(A Component Unit of the
Commonwealth of Puerto Rico)

BASIC FINANCIAL STATEMENTS

June 30, 2012



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

To the Board of Directors of
Puerto Rico Maritime Shipping Authority
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities and each major fund of Puerto Rico Maritime Shipping Authority (the "Authority"), a component unit of the Commonwealth of Puerto Rico (the "Commonwealth"), as of and for the year then ended June 30, 2012, which collectively comprise the Authority's basic financial statements. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Puerto Rico Maritime Shipping Authority as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the operations of the Authority are limited to processing the legal requirements remaining after the sale of its former operating net assets, principally in connection with the payment of its long-term debt. Also, as discussed in Note 5, the Authority receives financial assistance from the Commonwealth and certain of its component units in order to pay its outstanding bond obligations.



To the Boards of Directors
Puerto Rico Maritime Shipping Authority
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The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

BDO Puerto Rico, P.S.C.

San Juan, Puerto Rico

December 19, 2012

Certified Public Accountants
(of Puerto Rico)

License No. 53 expires December 1, 2015
Stamp 2664841 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report



**PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

This section represents the management's discussion and analysis of the Puerto Rico Maritime Shipping Authority (the "Authority") financial performance for the fiscal year ended June 30, 2012, and is presented as a narrative overview and analysis in conjunction with the basic financial statements.

On June 16, 1993, the Governor of Puerto Rico issued the Executive Order OE-1993-25, formally recommending efforts be initiated conducive to the sale of the Authority's operations due to its going concern. Pursuant to the authority conferred by this Executive Order, on March 3, 1995, the Authority sold certain assets to a private party. The operations of the Authority after the sale have been limited to processing the remaining legal requirements regarding its former operations, principally in connection with the payment of its long-term debt.

The current objective of the Authority is to service the repayment of principal and interest on its debt, which is payable from Commonwealth appropriations or contributions from other component units of the Commonwealth.

1. Financial Highlights

- The Authority's net deficit increased approximately \$1.2 million.
- The Authority is currently inactive.
- During 2012, the Authority made interest payments on its debt in the amount of \$5.8 million. There were no scheduled principal payments for fiscal year 2012.
- During 2012 the Authority refinanced \$114 million of outstanding bonds through Public Finance Corporation (PFC), which issued PFC 2012 Bond Series A.

2. Financial Statements Overview

The financial statements include the management's discussion and analysis narrative, the independent auditors' report, and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail some of the information in the financial statements.

3. Required Financial Statements

The statement of net deficit provides information about the nature and amounts of resources (assets) and the Authority's obligations (liabilities).



PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

- Revenues and expenses are accounted for in the statement of activities. This statement measures the results of the Authority's operations over the past year.
- Governmental funds financial statements present the financial position and results of operations of governmental fund types using a current financial resources measurement focus. The statement of revenue, expenditures, and changes in fund balance can be used to determine, for example, whether and how the Authority met its debt service requirements for the year.

4. Financial Analysis

The statement of net deficit and the statement of activities report information about the Authority's activities in a way that will help determine whether the Authority as a whole is a better or worse financially as a result of this year activities. Both statements present the net deficit of the Authority and the changes in them. Over time, increases or decreases in the Authority's net deficit are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other nonfinancial factors such as changes in economic conditions and new or changed government legislation.

Condensed statements of net deficit are presented below (dollar amounts in thousands):

	<u>June 30,</u>		<u>Change</u>	
	<u>2012</u>	<u>2011</u>	<u>Amount</u>	<u>Percent</u>
ASSETS:				
Current assets	\$ 1,721	\$ 3,066	\$ (1,345)	-78.2%
Noncurrent assets	15,318	-	15,318	100.0%
Total Assets	<u>17,039</u>	<u>3,066</u>	<u>13,973</u>	
LIABILITIES:				
Current liabilities	97	630	(533)	-84.6%
Noncurrent liabilities	119,244	103,440	15,804	15.3%
Total liabilities	<u>119,341</u>	<u>104,070</u>	<u>15,271</u>	
Restricted net deficit	<u>\$ (102,302)</u>	<u>\$ (101,004)</u>	<u>\$ (1,298)</u>	1.3%

Increase in non-current assets and noncurrent liabilities results for the refunding of Authority 2003 and 2004 bonds made by PFC in which the Authority received \$131 million from which \$116 million were deposited in escrow account for the payment of Authority's outstanding bonds and \$13.5 million for advances to be made to bond trustee to cover future debt service requirements of the refunded bonds.



PUERTO RICO MARITIME SHIPPING AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Condensed program revenues, expenses, and change in net deficit are presented below (dollar amounts in thousands):

	June 30,		Change	
	2012	2011	Amount	Percent
GOVERNMENTAL ACTIVITIES				
PROGRAM REVENUES:				
Contribution from Commonwealth of Puerto Rico	\$ 5,859	\$ 5,859	\$ -	0.0%
EXPENSES:				
Interest on bonds payable	7,089	6,174	915	14.8%
Other expenses	39	78	(39)	-50.0%
Management and administrative fees	30	30	-	0.0%
	<u>7,158</u>	<u>6,282</u>	<u>876</u>	13.9%
Loss from governmental activities	<u>(1,299)</u>	<u>(423)</u>	<u>(876)</u>	207.1%
GENERAL REVENUES				
Interest income	1	2	(1)	-50.0%
Other income	-	392	(392)	100.0%
Change in net deficit	<u>(1,298)</u>	<u>(29)</u>	<u>(1,269)</u>	4375.9%
NET DEFICIT, beginning of year	<u>(101,004)</u>	<u>(100,975)</u>	<u>(29)</u>	0.0%
NET DEFICIT, end of year	<u>\$ (102,302)</u>	<u>\$ (101,004)</u>	<u>\$ (1,298)</u>	1.3%

Comparative statements of net deficit show the change in financial position of the Authority, the statement of activities provides guidance as to the nature and source of these changes. Net deficit increase approximately \$1.2 million as a result of the net effect of the interest on the long-term debt and the contribution from the Commonwealth of Puerto Rico.

5. Governmental Fund Financial Statements Analysis

The only significant difference between the governmental funds financial statements and the government-wide statements, insofar as it relates to the Authority's limited operations, is the treatment of items related to the outstanding bonds, such as principal, issue costs, accretion of discount and loss on bond refunding.

6. Debt Administration

During the 2012 the Authority refunded \$114 million of outstanding bonds through 2012 PFC Bond Series A. As part of this transaction the Authority deposited in an escrow account amount sufficient to pay the entire balance of 2003 and 2004 bonds series. In addition the Authority received \$13.5 for advances to be made to trustees to cover future debt service requirements of the refunded bonds.



**PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

The current objective of the Authority is to service the repayment of principal and interest on its debt, which is payable from Commonwealth of Puerto Rico appropriations or contributions from component units of the Commonwealth of Puerto Rico.

7. Request for Information

This financial report is designed to provide all interested with a general overview of the Authority's finances. If you have questions about this report or need additional information, contact the Puerto Rico Maritime Shipping Authority, PO Box 42001, San Juan, Puerto Rico, 00940-2001.



PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET DEFICIT
JUNE 30, 2012

	<u>2012</u>
ASSETS	
CURRENT ASSETS:	
Cash	\$ 1,684,404
Restricted cash	37,137
Accrued interest receivable	141
Total current assets	<u>1,721,682</u>
NONCURRENT ASSETS:	
Due from Commonwealth	13,596,080
Deferred bond issue costs	1,722,421
TOTAL ASSETS	<u>\$ 17,040,183</u>
LIABILITIES AND NET DEFICIT	
CURRENT LIABILITIES:	
Accrued interest payable	\$ -
Accrued expenses and other liabilities	97,103
Total current liabilities	<u>97,103</u>
NONCURRENT LIABILITIES:	
Bonds payable, net	<u>119,244,462</u>
Total liabilities	<u>119,341,565</u>
RESTRICTED NET DEFICIT	<u>(102,301,382)</u>
TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 17,040,183</u>



PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

FUNCTIONS/PROGRAMS	<u>Expenses</u>	<u>Program</u>	<u>Net Expenses</u>
		<u>Revenues</u>	
		<u>Operating</u>	<u>in Net</u>
		<u>Grants and</u>	<u>Deficit</u>
		<u>Contributions</u>	
GOVERNMENTAL ACTIVITIES:			
Interest on bonds payable	\$ 7,088,980	\$ 5,858,733	\$ (1,230,247)
Other expenses	39,202	-	(39,202)
Management and administrative fees	30,000	-	(30,000)
Total governmental activities	<u>\$ 7,158,182</u>	<u>\$ 5,858,733</u>	<u>(1,299,449)</u>
GENERAL REVENUES:			
Interest income			1,737
Other income			-
CHANGE IN RESTRICTED NET DEFICIT			<u>(1,297,712)</u>
NET DEFICIT, beginning of year			<u>(101,003,670)</u>
NET DEFICIT, end of year			<u>\$ (102,301,382)</u>



PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF JUNE 30, 2012

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash	\$ 1,684,404	\$ -	\$ 1,684,404
Restricted cash	-	37,137	37,137
Due from Commonwealth		13,596,080	13,596,080
Accrued interest receivable	141	-	141
	<u>\$ 1,684,545</u>	<u>\$ 13,633,217</u>	<u>\$ 15,317,762</u>
LIABILITIES AND FUND BALANCES -			
Accrued expenses and other liabilities	\$ 39,202	\$ 37,137	\$ 76,339
RESTRICTED FUND BALANCE			
Restricted	-	13,596,080	13,596,080
Unassigned	1,645,343	-	1,645,343
Total fund Balance	<u>1,645,343</u>	<u>13,596,080</u>	<u>15,241,423</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,684,545</u>	<u>\$ 13,633,217</u>	<u>\$ 15,317,762</u>



**PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET DEFICIT
AS OF JUNE 30, 2012**

**AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE
STATEMENT OF NET DEFICIT ARE DIFFERENT BECAUSE:**

FUND BALANCE OF GOVERNMENTAL FUNDS	\$	15,241,423
Long term accrued expenses are not due and payable in the current period, and therefore, are not included in the governmental funds		(20,764)
Deferred bond issued costs are reported as current expenditure in the fund. However, deferred bond issue costs are amortized over the life of the bonds and included in the statement of net deficit.		1,722,421
Bonds payable are not due and payable in the current period, and therefore, are not included in the governmental funds		<u>(119,244,462)</u>
RESTRICTED NET DEFICIT OF GOVERNMENTAL ACTIVITIES	\$	<u>(102,301,382)</u>



PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>General</u> <u>Fund</u>	<u>Debt Service</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
REVENUES:			
Interest income	\$ 1,737	\$ -	\$ 1,737
Contribution from Commonwealth of Puerto Rico			
General Fund	-	5,858,732	5,858,732
TOTAL REVENUES	<u>1,737</u>	<u>5,858,733</u>	<u>5,860,469</u>
EXPENDITURES:			
Other expenses	39,202	-	39,202
Management and administrative fees	30,000	-	30,000
Interest on bonds payable	-	5,810,291	5,810,291
TOTAL EXPENDITURES	<u>69,202</u>	<u>5,810,291</u>	<u>5,879,493</u>
EXCESS (DEFICIENCY OF REVENUES UNDER EXPENDITURES)	<u>(67,465)</u>	<u>48,442</u>	<u>(19,024)</u>
OTHER FINANCING SOURCES AND (USES)			
Proceeds from long term debt	-	131,694,000	131,694,000
Payment to escrow agent	-	(116,375,499)	(116,375,499)
Debt issue cost	-	(1,722,421)	(1,722,421)
	<u>-</u>	<u>13,596,080</u>	<u>13,596,080</u>
CHANGES FUND BALANCES	(67,465)	13,644,522	13,577,057
FUND BALANCE, beginning of year	<u>1,712,808</u>	<u>(48,442)</u>	<u>1,664,366</u>
FUND BALANCE, end of year	<u>\$ 1,645,343</u>	<u>\$ 13,596,080</u>	<u>\$ 15,241,423</u>



**PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

**AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE
STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:**

NET CHANGE IN FUND BALANCE OF GOVERNMENTAL FUNDS \$ 13,577,057

The issuance of long term debt provides current financial resources to governmental funds, while repayment of the principal consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of issuance cost, premium discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortize in the statement of activities. This amount is the net effect of these difference in the treatment of long term debt and related items.

Proceed of long term debt	(131,694,000)	
Payment to escrow agent	116,375,499	
Debt issue cost	<u>1,722,421</u>	
	(13,596,080)	(13,596,080)

The amortization of deferred bond issue costs and loss on defeasance, and the accretion of bond discount do not require the use of current financial resources, therefore are not reported as expenditures in governmental funds.

(1,278,689)

CHANGE IN RESTRICTED NET DEFICIT OF
GOVERNMENTAL ACTIVITIES

\$ (1,297,712)



PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

1. REPORTING ENTITY

The Puerto Rico Maritime Shipping Authority (the "Authority") is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth"), created by Act No. 62 of the Legislature of the Commonwealth on June 10, 1974 (the "Act") and an affiliate of the Government Development Bank for Puerto Rico (the "Bank"), another component unit of the Commonwealth.

On June 16, 1993, the Governor of Puerto Rico issued the Executive Order OE-1993-25, formally recommending efforts be initiated conducive to the sale of the Authority's operations due to its going concern. Pursuant to the authority conferred by this Executive Order, on March 3, 1995, the Authority sold certain assets to a private party. The operations of the Authority after the sale have been limited to processing the remaining legal requirements regarding its former operations, principally in connection with the payment of its long-term debt.

The current objective of the Authority is to service the repayment of principal and interest on its debt, which is payable from Commonwealth appropriations or contributions from other component units of the Commonwealth.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide and Fund Financial Statements:

Government-Wide Financial Statements - The statement of net deficit and the statement of activities report information on all activities of the Authority. Only governmental activities are presented in the Authority's financial statements. Governmental activities are financed through intergovernmental revenue and other financing sources. Following is a description of the Authority's government-wide financial statements.



PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

- The statement of net deficit presents the Authority's assets and liabilities, with the difference reported as net deficit.
- The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include: (1) earnings on investments restricted for a specific program and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues are reported as general revenues.

Governmental Fund's Financial Statements – Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, fund balance, revenue and expenditures, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The financial activities of the Authority reported in the accompanying basic financial statements were classified into governmental funds. All funds of the Authority are major funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation:

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

Governmental Fund's Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Authority considers revenues to be available if they are collected within 60 days after the end of the current fiscal year. Expenditures are recorded when the related liability is incurred. An exception to this general rule includes principal and interest on general long-term debt, which is recognized when due.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to



PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fund Accounting - The financial activities of the Authority are recorded in individual funds, each of which is deemed to be a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the Authority that are reported in the accompanying basic financial statements have been classified into the following major governmental funds:

- **General Fund** - The general fund is the general operating fund of the Authority that is used to account for all financial resources, except those required to be accounted for in another fund.
- **Debt Service Fund** - The debt service fund accounts for the accumulation of resources for payment of interest and principal on long-term obligations.

Budgetary Accounting - The Authority is not required by the Act to submit a budget for approval by the Legislature of the Commonwealth, consequently, no formal budgetary accounting procedures are followed.

Cash Equivalents - Cash equivalents are defined as highly liquid investments with original maturities at the date of purchase of three months or less.

Restricted Assets - Certain resources are set aside for the repayment of bonds payable. These assets are classified as restricted assets on the accompanying statement of net deficit (governmental activities) and balance sheet (governmental funds).

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

Deferred Bond Issue Costs - Deferred bond issue costs are amortized on a straight-line basis over the life of the debt in the government wide financial statements. Bond issue costs are recorded as expenditures when paid in the governmental fund financial statements and therefore are not accounted for in subsequent periods.

Refunding - Refunding involves the issuance of new debt which proceeds are used to repay immediately (current refunding), or at a future time (advance refunding), previously issued debt. The difference between the reacquisition price and the net carrying amount



PUERTO RICO MARITIME SHIPPING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount is reported on the statement of net assets as an addition to or deduction from the new debt.

Recently Issued Accounting Guidance:

The GASB has issued the following accounting pronouncements that have effective date after June 30, 2012:

In November 2010, the GASB issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this statement, a SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011.

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. This statement modifies existing requirements for the assessment of the potential component units in determining what should be included in the financial reporting entity and financial reporting entity display and disclosure requirements. It applies to financial reporting by primary governments and other stand-alone governments, and to the separately issued financial statements of governmental component units. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2012.

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



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

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

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

On June 2012 the GASB issued Statement No. 67 *Financial Reporting for Pension Plans*, an amendment of GASB Statement No. 25. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013.

In June 2012 the GASB issued Statement 68 *Accounting and Financial Reporting for Pensions* an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments



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

The impact of these statements on the Authority's basic financial statements has not yet been determined.

3. CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Currently, the Authority does not have a custodial credit policy. At June 30, 2012, the Authority's cash balance includes approximately \$1.6 million interest-bearing demand deposits with the Bank, which is not covered by federal depository insurance. Such demand deposits are uninsured and uncollateralized.

The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance (\$250,000 at June 30, 2012). At June 30, 2012, all securities pledged by depository institutions as collateral are held by a trustee of the Treasury Department of the Commonwealth. At June 30, 2012, the Authority maintained approximately \$37,000 as restricted cash in a trustee escrow account with a financial institution, which is insured and collateralized, for purposes of servicing the outstanding debt.

4. TRANSACTIONS WITH GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

The Bank provides certain services to the Authority and charges a management and administrative fee under a management contract. During the year ended June 30, 2012, the Authority paid \$30,000 to the Bank.



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5. BONDS PAYABLE

On September 27, 1994, the Legislature of the Commonwealth approved Act No. 113 (the "Act 113"), which authorized the Authority to refinance its outstanding debt and required deposits to reserve accounts, for an amount not to exceed \$310 million.

The Act 113 also provides that the Commonwealth of Puerto Rico will honor the payment of principal and interest on the refinanced debt, and that the Director of the Office of Management and Budget will include annually in the budget of the Government of Puerto Rico to be submitted to the Legislature an amount sufficient to cover principal and interest on the restructured debt and related expenses.

During the 2003 year the Public Finance Corporation ("PFC") issued 2003 Series B refunding bonds amounting to \$272 million to refund the Authority's 1995 Series A bonds and 1995 Series C bonds (Act 113 refunded bonds). PFC deposited the net proceed of the Series B refunding bonds with other available funds, with the Act 113 Trustee, as escrow agent under terms of an escrow deposit agreement "Act 113 Escrow Fund". The net proceeds together with such funds were invested in government obligations and obligations of the federal home loan mortgage corporation, the principal of an interest on which when due together with any funds deposited with the Act 113 Trustee remaining uninvested, will provide monies sufficient to pay interest coming due on Act 113 refunded bonds through the dates of redemption or at maturity and to pay principal of an premium.

During the 2004 year the PFC issued 2004 Series B bonds amounting to \$146.8 million for the purpose of refunding or partially refunding of certain series of PFC bonds including \$14 million 2003 B series. As part of this transaction the Authority recognized a refunding loss.

During the 2012 fiscal year, the Authority received an assignment from the Government of Puerto Rico's general fund amounting to approximately \$5.9 million to honor the payment of principal and interest of the 2003 B and 2004 B bond series.

During the month of June 2012, the PFC issued PFC 2012 Series A amounting to \$410.6 million to refund the Authority's 2003 Series B and 2004 Series B bonds, certain Commonwealth appropriation bonds issued in 2004 and other appropriation bonds issued under Act No. 164 of December 17, 2001. The Authority refunded and defease \$114 million of outstanding bond as part of this transaction and as a result are not presented as part of the Statement of Net Deficit.



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The Authority recognizes a mirror effect of these current refunding by the PFC in its own bonds in proportion to the portion of the Authority's bonds payable included in the PFC refunding. As a result of the PFC refunding, the Authority recognized in the Statement of Revenues, Expenditures and Changes in Fund Balance proceeds on long term debt amounting to \$131.6 million, a payment to escrow amounting to \$116.3 million and prepaid expenses for the bond issuance costs amounting to \$1.7 million. In addition, as part of these transactions, the Authority recorded in the Statement of Net Deficit a deferred loss on refunding amounting to \$2.5 million and a due from Commonwealth amounting to \$13.5 million for advances made to the bond trustee to cover future debt service requirements of the refunded bonds.

On August 2012, the Authority paid outstanding balance amounting to \$114 million of 2003 and 2004 Series B bonds.

New refunded bonds outstanding bear interest 3.10% 5.35% and are payable on a monthly basis starting in August 1, 2012.

The aggregate debt service requirements of the refunded bonds in excess of the advances already made to the bond trustee will be funded with annual appropriations from the Commonwealth.

Changes in bonds payable for the year ended June 30, 2012, are summarized as follows (in thousands):

Description	Balance at June 30,		Deductions	Other Increase (Decrease)	Balance at June 30,		Due within One Year
	2011	Additions			2012		
Bonds payable:							
2003 Series B Bonds	\$ 104,195	\$ -	\$ (104,195)	\$ -	\$ -	\$ -	\$ -
2004 Series B Bonds	10,075	-	(10,075)	-	-	-	-
2012 Series B Bonds	-	131,694	-	-	131,694	-	-
Less:							
Unaccreted discount	(170)	-	12	(158)	-	-	-
Unamortized deferred loss on refunding bonds	(10,660)	(2,522)	732		(12,450)	-	-
	<u>\$ 103,440</u>	<u>\$ 129,172</u>	<u>\$ (113,526)</u>	<u>\$ (158)</u>	<u>\$ 119,244</u>	<u>\$ -</u>	<u>\$ -</u>



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At June 30, 2012, the outstanding bonds debt service requirements are as follow (expressed in thousand):

<u>Year ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ -	\$ 6,324	\$ 6,324
2014	-	6,837	6,837
2015	-	6,837	6,837
2016	-	6,837	6,837
2017	-	6,837	6,837
2018-2022	-	34,185	34,185
2023-2027	83,384	23,775	107,159
2028-2031	48,310	10,766	59,076
	131,694	<u>\$ 102,398</u>	<u>\$ 234,092</u>
Less:			
Unamortized deferred loss on refunding bonds	<u>(12,450)</u>		
	<u>\$ 119,244</u>		

6. SUBSEQUENT ENVENTS

Subsequent events were evaluated through December 19, 2012, the date the financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the 2012 financial statements.