Puerto Rico Infrastructure Financing Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements, Required Supplementary Information and Additional Supplementary Information as of and for the Year Ended June 30, 2009, and Independent Auditors' Report

PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

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Deloitte.

Deloitte & Touche LLP
Torre Chardón
350 Chardón Ave. Suite 700
San Juan, PR 00918-2140
USA

Tel: +1 787 759 7171
Fax: +1 787 756 6340
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors of
Puerto Rico Infrastructure Financing Authority:

We have audited the accompanying financial statements of the governmental activities and each major fund of Puerto Rico Infrastructure Financing Authority (the "Authority"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2009, 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 opinions on these financial statements based on our audit.

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

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 the Authority as of June 30, 2009, 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.

The management's discussion and analysis on pages 3 to 12 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 required supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Authority's respective financial statements that collectively comprise the Authority's basic financial statements. The additional supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional supplementary information is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

June 28, 2010

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This section presents a narrative overview and analysis of the financial performance of the Puerto Rico Infrastructure Financing Authority (the "Authority") and is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position, and identify individual issues or concerns. The information presented here should be read in conjunction with the basic financial statements, including notes thereto.

1) FINANCIAL HIGHLIGHTS

- Total assets and total liabilities of the Authority at June 30, 2009 amounted to $3,350 million and $3,469 million, respectively, for a deficit of $119 million.

- By virtue of Act No. 3 of January 14, 2009 ("Act No. 3"), Act No. 44 of June 21, 1988 was amended to permit the Authority to sell all or a portion of the outstanding Corpus Account investments held in the 2000 Trust Agreement and use the net proceeds of said redemption to provide for the early extinguishment of the Series 2000 A and B Bonds described on Note 8 to the financial statements, maintain a permanent investment of $300 million within the Corpus Account, make payments to the U.S. Internal Revenue Services (IRS), pay for transaction expenses, and contribute any remaining amounts to the Commonwealth of Puerto Rico (the "Commonwealth") and Government Development Bank for Puerto Rico (GDB), among other purposes. This transaction resulted in a realized gain of $708 million, which has been included as part of earnings on investments and net increase in fair value of investments in the accompanying statement of activities and statement of revenues, expenditures, and changes in fund balances-governmental funds, respectively.

- The Authority has recorded an impairment loss of $73 million on infrastructure projects that have not been transferred to Puerto Rico Aqueduct and Sewer Authority. The impairment loss has been recorded as part of the aqueduct and sewers function in the accompanying statement of activities.

- Subsequent to the issuance of the Authority's basic financial statements for the year ended June 30, 2008, the Authority's management determined that the Authority's basic financial statements were misstated as a result of several factors, which are described on Note 18 to the financial statements. Accordingly, the net assets as of June 30, 2008 in the statement of activities, as originally reported, have been restated to reflect a decrease of approximately $108 million, which represents the correction of the prior period errors.

2) OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is required supplementary information to the basic financial statements and is intended to serve as introduction to the basic financial statements of the Authority. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and, (3) notes to the basic financial statements.

Government-wide Financial Statements — The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. The statement of net assets provides information on the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The statement of activities presents information on how the Authority's net assets changed during the reporting period. Changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund Financial Statements — A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All the Authority's funds are governmental funds. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of financial decisions related to the Authority's governmental activities. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Basic Financial Statements — The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements and the fund financial statements.

3) GOVERNMENT-WIDE FINANCIAL ANALYSIS

Condensed financial information on assets, liabilities, and net assets (deficit) as of June 30, 2009 and 2008 (restated) is as follows:

	2009	2008 (as restated)	CHANGE
Cash and cash equivalents, investments and investment contracts, and other assets	$ 2,063,072,425	$ 2,170,347,281	$ (107,274,856)
Capital assets	1,286,756,479	1,213,196,340	73,560,139
Total assets	3,349,828,904	3,383,543,621	(33,714,717)
Other liabilities	396,960,830	169,900,909	227,059,921
Bonds and loans payable	3,071,705,209	3,085,917,070	(14,211,861)
Total liabilities	3,468,666,039	3,255,817,979	212,848,060
Net assets (deficit)	$ (118,837,135)	$ 127,725,642	$ (246,562,777)

Cash and cash equivalents, investments and investment contracts, and other assets decreased by \$107 million or 5% mainly as a result of the net effect of \$555 million of earnings on investments, contributions received from the Commonwealth of \$90 million, capital outlays of \$190 million for the development of infrastructure facilities, contributions paid amounting to \$302 million, principal and interest payments on long-term debt of \$183, and \$79 million of arbitrage payment to the IRS in connection with the sale of investments held in the Corpus Account.

Capital assets increased by \$74 million. This is related to the net effect of additions related to projects under construction in the amount of \$190 million, retirements of \$43 million, and an impairment loss of \$73 million.

Total liabilities of the Authority increased by \$213 million or 7%, mainly as a result of \$161 million aggregate contributions payable to the Commonwealth and GDB and an increase in accounts payable and accrued expenses of \$55 million, mostly as a result of increases in the progress of construction of sports facilities and others related to the celebration of XXI Central American & Caribbean Games.

The following schedule compare revenues and expenses of the Authority for the years ended June 30, 2009 and 2008 (restated):

	2009	2008 (as restated)	Increase (Decrease)
Revenues:			
Program revenues—operating grants and contributions, and earnings on investments	$ 649,176,629	$ 299,869,058	$ 349,307,571
General revenues:			
Grants and contributions not restricted to specific programs	-	7,000,000	(7,000,000)
Investment earnings	97,988	20,935,320	(20,837,332)
Other miscellaneous revenues	-	358,137	(358,137)
Total revenues	649,274,617	328,162,515	321,112,102
Expenses:			
Functions/Program:			
General government	545,235,984	6,819,083	538,416,901
Aqueduct and sewers	76,474,385	-	76,474,385
Economic development program	4,670,289	-	4,670,289
Recreation and sports	30,153,562	6,808,928	23,344,634
Education	28,930,346	5,373,417	23,556,929
Edifications	16,394,288	52,150,177	(35,755,889)
Arts and entertainment	2,651,845	245,749	2,406,096
Transportation	22,004,198	13,414,996	8,589,202
Public safety	7,746,546	-	7,746,546
ARRA Programs	5,099,968	-	5,099,968
Interest on long-term debt	156,475,983	161,332,429	(4,856,446)
Total expenses	895,837,394	246,144,779	649,692,615
Change in net assets (deficit)	$ (246,562,777)	$ 82,017,736	$ (328,580,513)

Revenues

Total revenues increased by $321 million during the year ended June 30, 2009 when it is compared with the year ended June 30, 2008, mainly due to the net increase in fair value of investments of $475 million during the year ended June 30, 2009, in comparison with the net increase of $137 million during the year ended June 30, 2008, and a decrease of $21 million in investment earnings.

Expenses

Net increase in expenses of $650 million mainly represents an impairment loss of $73 million and the Authority's contributions to the Commonwealth and to GDB in the aggregate amount of $463 million and the payment of arbitrage to the IRS amounting to $79 million in connection with the sale of investments held in the Corpus Account.

4) GOVERNMENTAL FUNDS RESULTS

General fund

The General Fund expenditures increased by $458 million, which is mostly related to the Authority's Capital Contribution of $463 million in 2009 in connection with the sale of investments held in the Corpus Account.

Capital projects fund

The Capital Projects Fund expenditures increased by $40 million, mostly as a result of increases in the progress of construction of sport facilities and others related to the celebration of XXI Central American & Caribbean Games.

Debt service fund

The Debt Service Fund expenditures decreased by $29 million, which is mostly related to prior year repayment of a loan payable to GDB in the amount of $34 million for the acquisition of certain health facilities known as MEPSI Center located in the Municipality of Bayamón, Puerto Rico.

Permanent fund

The Permanent Fund earnings on investment increased by $475 million, mainly due to the net effect of a decrease in fair market value of the investments of $233 million and a realized gain of $708 million from the sale of investments held in the Corpus Account.

5) CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Non-depreciable capital assets represent construction work in progress. Depreciable assets include furniture and equipment, vehicles, and leasehold improvements. The following is a schedule of the Authority's capital assets as of June 30, 2009 and June 30, 2008 (restated):

	2009	2008 (as restated)	Increase (Decrease)
Land	$ 15,675,433	$ 15,675,433	$ -
Construction in progress	1,270,910,634	1,197,390,070	73,520,564
Furniture and equipment	761,605	665,007	96,598
Vehicles	67,476	67,476	-
Leasehold improvements	677,295	627,671	49,624
Total capital assets	1,288,092,443	1,214,425,657	73,666,786
Less accumulated depreciation and amortization	1,335,964	1,229,317	106,647
Capital assets — net	$ 1,286,756,479	$ 1,213,196,340	$ 73,560,139

The Authority was created, among other things, to provide financial, administrative and other assistance to municipalities, political subdivisions, public corporations and instrumentalities of the Commonwealth to enable them to fulfill their public purpose of providing, preserving, operating, maintaining, repairing, replacing and improving portions of the infrastructure. Major additions related to projects under construction for the year ended June 30, 2009 are as follows:

Description	Amount
XXI Central American & Caribbean Games:	
Olympic Stadium	$ 22,800,981
Isidoro García Stadium	28,040,841
Natatorium	15,248,839
"Parque Litoral"	14,502,484
Regional Projects	31,387,795
Mayagüez Trauma Center	8,071,119
Improvements to PR 102	8,566,327
Subtotal	128,618,386
University and Pediatric Hospital	21,022,217
Supreme Court	4,637,723
Symphonic Orchestra Room	15,898,290
Quebradillas Coliseum	6,559,225
Humacao Fine Arts Center	6,398,306
Aqueduct and Sewers	1,464,971
Other projects	5,267,830
Total	$ 189,866,948

Debt Outstanding

As of June 30, 2009, the Authority had \$3,072 million in debt outstanding. Total debt includes notes payable, bonds payable, contingencies and accrued compensated absences which decreased by \$14 million in comparison to June 30, 2008. The following is a schedule (in thousands) of outstanding bonds and notes as of June 30, 2009 and June 30, 2008 (restated):

Description	2009	2008	Increase (Decrease)
Bonds payable:			
Special Tax Revenue Bonds	$ 2,604,460	$ 2,627,955	$ (23,495)
Special Obligation Bonds	1,019,430	1,029,985	(10,555)
Mental Health Infrastructure Revenue Bonds	43,030	43,330	(300)
Subtotal	3,666,920	3,701,270	(34,350)
Net premium	138,455	142,991	(4,536)
Unaccreted discount on capital appreciation bonds	(702,123)	(715,177)	13,054
Unamortized deferred loss on refunding loans	(69,003)	(72,635)	3,632
Total bonds payable	3,034,249	3,056,449	(22,200)
Loans payable	37,456	29,468	7,988
Contingencies	525	300	225
Compensated absences	150	268	(118)
Total long-term debt	$ 3,072,380	$ 3,086,485	$ (14,105)

The ratings of the Authority's outstanding bonds payable are as follows:

	Moody's	Standard & Poors
Special Tax Revenue Bonds:		
Series 1998A	Baa	BBB+
Series 2005A	Baa2	BBB+
Series 2005B	Baa2	BBB+
Series 2005C	Baa2	BBB+
Series 2006	Baa3	BBB+
Special Obligation Bonds— Series 2000 A and B	Aaa	AAA
Mental Health Infrastructure Revenue Bonds—Series 2007 A and B	Not Rated	Not Rated

6) ECONOMIC FACTORS

The Special Tax Revenue Bonds are payable solely from and secured by a pledge of federal excise taxes and other moneys deposited to the credit of a sinking fund established pursuant to a trust agreement. Payment of principal and interest is insured by separate municipal bond insurance policies issued by an unrelated insurance company.

Rum is the only article currently produced in Puerto Rico subject to federal excise taxes, the proceeds of which are required to be returned to the Commonwealth. Under current federal law, any excise tax collected on rum imported into the United States is transferred to or "covered-over" to the Treasuries of Puerto Rico and the United States Virgin Islands ("USVI").

The Puerto Rico operations of rum distillers are affected by various economic and regulatory factors that could influence their decision to maintain or expand these operations, which in turn could have a significant impact on the level of federal excise taxes transferred to Puerto Rico.

Recently, the USVI has dedicated a substantial share of current and future covered-over revenues to help finance public and private infrastructure that would directly benefit the rum industry. In June 2008, the USVI entered into a 30 year contractual agreement with London-based rum maker, Diageo Company ("Diageo"), owner of the Captain Morgan® brand, to begin operations in the USVI. Captain Morgan® is produced in Puerto Rico under a 10 year supply agreement entered into with a Puerto Rican rum distiller ending in 2012. Diageo is set to receive subsidies incentives, including the financing of the acquisition, design, construction, development and equipping of a rum production and maturation warehouse facility and any improvements thereto, worth up to half of the cover-over revenue that the USVI receives.

In response to the USVI actions, on April 27, 2009, Resident Commissioner of Puerto Rico in the US Congress introduced H.R. 2122 to limit, among other things, the territories from offering more than 10% of their covered-over revenues as an industrial subsidy. The Government of Puerto Rico strongly opposes the USVI subsidies and continues its efforts to promote legislation at the United States federal level to limit the direct or indirect assistance provided to companies producing rum in Puerto Rico or USVI through the use of cover-over revenues. The Government of Puerto Rico believes that the USVI's use of the cover-over revenues to provide excessive subsidies to a private activity amounts to an unfair trading practice that will distort the market.

If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient, the Act requires that the Authority request and the Director of the Office of Management and Budget of the Commonwealth include in the budget of the Commonwealth for the corresponding fiscal year, an appropriation necessary to cover such deficiency. The Commonwealth's Legislature, however, is not obligated to make the necessary appropriation to cover such deficiency.

7) REQUESTS FOR INFORMATION

This report is designed to provide all interested with a general overview of the Authority's financial statements. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Puerto Rico Infrastructure Financing Authority, Capital Center (Tower 2), 235 Ave. Arterial Hostos, Suite 1601, San Juan, PR 00918-1433.

PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET ASSETS (DEFICIT)
AS OF JUNE 30, 2009

	Governmental Activities
ASSETS:	
Cash and cash equivalents	$ 538,018
Accounts receivable	1,612,694
Prepaid expenses and other assets	1,809,954
Bond issuance costs	57,375,254
Restricted assets:	
Temporarily restricted assets:	
Cash and cash equivalents	1,592,409,304
Accrued interest receivable	53,693
Investments and investment contracts	44,142,834
Accounts receivable	26,073,845
Net investment in direct financing lease	39,056,829
Permanently restricted assets — cash and cash equivalents	300,000,000
Capital assets — net:	
Nondepreciable:	
Land	15,675,433
Construction in progress	1,270,910,634
Depreciable — net	170,412
Total assets	3,349,828,904
LIABILITIES AND NET ASSETS (DEFICIT):	
Liabilities:	
Accounts payable and accrued expenses:	
Due in one year	1,647,248
Due in more than one year	525,000
Deferred revenues	76,503
Accrued interest payable	40,981,678
Bonds and loans payable:	
Due in one year	11,930,183
Due in more than one year	2,964,950,799
Liabilities payable from restricted assets:	
Accounts payable and accrued expenses	337,619,321
Accrued interest payable	16,111,080
Bonds payable:	
Due in one year	25,185,000
Due in more than one year	69,639,227
Total liabilities	3,468,666,039
NET ASSETS (DEFICIT):	
Invested in capital assets — net of related debt	(1,116,666,817)
Restricted for:	
Debt service	1,107,698,329
Trust — nonexpendable	300,000,000
Other purpose	539,949
Unrestricted	(410,408,596)
TOTAL NET DEFICIT	$ (118,837,135)

See notes to basic financial statements.

PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenues: Operating Grants and Contributions	Program Revenues: Earnings on Investment	Net (Expenses) Revenues and Changes in Net Assets — Governmental Activities
GOVERNMENTAL ACTIVITIES:				
General government	$ 545,235,984	$ 92,771,989	$ 555,108,271	$ 102,644,276
Aqueduct and sewers	76,474,385			(76,474,385)
Economic development program	4,670,289			(4,670,289)
Recreation and sports	30,153,562			(30,153,562)
Education	28,930,346			(28,930,346)
Edifications	16,394,288			(16,394,288)
Arts and entertainment	2,651,845			(2,651,845)
Transportation	22,004,198			(22,004,198)
Public safety	7,746,546			(7,746,546)
ARRA Programs	5,099,968	1,296,369		(3,803,599)
Interest on long-term debt	156,475,983			(156,475,983)
Total governmental activities	$ 895,837,394	$ 94,068,358	$ 555,108,271	(246,660,765)
GENERAL REVENUES — Unrestricted investment earnings				97,988
CHANGE IN NET ASSETS (DEFICIT)				(246,562,777)
NET ASSETS — Beginning of year, as previously presented				235,860,811
PRIOR-PERIOD ADJUSTMENTS FOR CORRECTION OF ERRORS (Note 18)				(108,135,169)
NET ASSETS — Beginning of year, as restated				127,725,642
NET DEFICIT — End of year				$ (118,837,135)

See notes to basic financial statements.

PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET — GOVERNMENTAL FUNDS
AS OF JUNE 30, 2009

ASSETS	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Permanent Fund	Total Governmental Funds
CASH AND CASH EQUIVALENTS	$ 538,018	$ -	$ -	$ -	$ -	$ 538,018
ACCOUNTS RECEIVABLE	1,612,694					1,612,694
DUE FROM OTHER FUNDS	324,285					324,285
OTHER ASSETS	22,945					22,945
RESTRICTED ASSETS:						
Cash and cash equivalents	13,035,309		242,393,277	72,200,813	1,564,779,905	1,892,409,304
Investments and investment contracts			41,004,334	3,138,500		44,142,834
Accrued interest receivable			38,156	15,537		53,693
Due from other funds	160,557,948		384,118			160,942,066
Accounts receivable		1,296,369	24,777,476			26,073,845
TOTAL	$ 176,091,199	$ 1,296,369	$ 308,597,361	$ 75,354,850	$ 1,564,779,905	$ 2,126,119,684

(Continued)

PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET — GOVERNMENTAL FUNDS
AS OF JUNE 30, 2009

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Permanent Fund	Total Governmental Funds
LIABILITIES AND FUND BALANCES (DEFICIT)						
LIABILITIES:						
Accounts payable and accrued expenses	$ 1,497,124	$ -	$ -	$ -	$ -	$ 1,497,124
Due to other funds	384,118	324,285				708,403
Liabilities payable from restricted assets:						
Accounts payable and accrued expenses	173,053,308	4,775,683	159,790,330			337,619,321
Due to other funds					160,557,948	160,557,948
Total liabilities	174,934,550	5,099,968	159,790,330	-	160,557,948	500,382,796
FUND BALANCES (DEFICIT):						
Reserved for:						
Capital projects			148,807,031			148,807,031
Debt service				75,354,850	1,104,221,957	1,179,576,807
Trust — nonexpendable					300,000,000	300,000,000
Other purpose	539,949					539,949
Unreserved and undesignated	616,700	(3,803,599)				(3,186,899)
Total fund balances (deficit)	1,156,649	(3,803,599)	148,807,031	75,354,850	1,404,221,957	1,625,736,888
TOTAL	$ 176,091,199	$ 1,296,369	$ 308,597,361	$ 75,354,850	$ 1,564,779,905	$ 2,126,119,684

See notes to basic financial statements.

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PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
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RECONCILIATION OF BALANCE SHEET — GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS (DEFICIT) AS OF JUNE 30, 2009

TOTAL FUND BALANCE OF GOVERNMENTAL FUNDS	$ 1,625,736,888
Amounts reported for governmental activities in the statement of net assets (deficit) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,286,756,479
Prepaid expenses and bond issuance costs are not available to pay current period expenditures and, therefore, are not deferred in the funds.	59,162,263
Other long-term assets are not available to pay current period expenditures and, therefore, are not deferred in the funds.	39,056,829
Liabilities, including bonds payable, loans payable, accrued interest payable, and contingencies are not due and payable currently and, therefore, are not reported in the funds.	(3,129,549,594)
TOTAL NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES	$ (118,837,135)

See notes to basic financial statements.

PUERTO RICO INFRASTRUCTURE FINANCING 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, 2009

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Permanent Fund	Total Governmental Funds
REVENUES:						
Interest and investment income:						
Interest-bearing demand deposits	$ 97,988	$ -	$ 350,488	$ -	$ -	$ 448,476
Investments and investment contracts			35,397,747	780,131	40,468,419	76,646,297
Net increase in fair value of investments					475,073,451	475,073,451
Contributions from Commonwealth of Puerto Rico	90,000,000			2,645,092		92,645,092
Direct financing lease revenues				1,337,593		1,337,593
Intergovernmental revenues — ARRA Programs		1,296,369				1,296,369
Other			126,897			126,897
Total revenues	90,097,988	1,296,369	35,875,132	4,762,816	515,541,870	647,574,175
EXPENDITURES:						
Current:						
General government	468,245,352				78,863,463	547,108,815
Aqueduct and sewers			3,259,108			3,259,108
Economic development program			4,670,289			4,670,289
Recreation and sports			4,596,047			4,596,047
Education			21,860,423			21,860,423
Edifications			16,106,810			16,106,810
Arts and entertainment			271,336			271,336
Transportation			11,967,707			11,967,707
Public safety			7,746,546			7,746,546
ARRA Programs		5,099,968				5,099,968
Debt service:						
Payment of maturing bonds				34,350,000		34,350,000
Repayment of notes payable to Government Development Bank for Puerto Rico				4,814,484		4,814,484
Interest				146,639,435		146,639,435
Capital outlays:						
General government			146,222			146,222
Aqueduct and sewers			1,464,971			1,464,971
Recreation and sports			111,649,256			111,649,256
Education			2,572,988			2,572,988
Edifications			35,689,822			35,689,822
Arts and entertainment			25,898,090			25,898,090
Transportation			12,591,821			12,591,821
Total expenditures	468,245,352	5,099,968	260,491,436	185,803,919	78,863,463	998,504,138

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PUERTO RICO INFRASTRUCTURE FINANCING 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, 2009

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Permanent Fund	Total Governmental Funds
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$(378,147,364)	$(3,803,599)	$(224,616,304)	$(181,041,103)	$ 436,678,407	$ (350,929,963)
OTHER FINANCING SOURCES (USES):						
Proceeds from loans payable to Government Development Bank for Puerto Rico			12,802,582			12,802,582
Transfers in	463,403,307		705,852	173,344,771		637,453,930
Transfers out	(86,705,852)		(39,286,881)		(511,461,197)	(637,453,930)
Total other financing sources (uses)	376,697,455	-	(25,778,447)	173,344,771	(511,461,197)	12,802,582
NET CHANGES IN FUND BALANCES	(1,449,909)	(3,803,599)	(250,394,751)	(7,696,332)	(74,782,790)	(338,127,381)
FUND BALANCES — Beginning of year, as previously reported	7,976,033		369,974,756	83,051,182	1,479,004,747	1,940,006,718
PRIOR-PERIOD ADJUSTMENTS FOR CORRECTION OF ERRORS (Note 18)	(5,369,475)		29,227,026			23,857,551
FUND BALANCES — Beginning of year, as restated	2,606,558	-	399,201,782	83,051,182	1,479,004,747	1,963,864,269
FUND BALANCES — End of year	$ 1,156,649	$(3,803,599)	$ 148,807,031	$ 75,354,850	$1,404,221,957	$1,625,736,888

See notes to basic financial statements.

(Concluded)

PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:	
Net changes in fund balances — total governmental funds	$(338,127,381)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period	189,906,523
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt 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 costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items	27,264,782
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds	1,700,442
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(127,307,143)
CHANGE IN NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES	$(246,562,777)

See notes to basic financial statements.

1. REPORTING ENTITY

Puerto Rico Infrastructure Financing Authority (the "Authority") is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth") created by Act No. 44 of the Legislature of the Commonwealth on June 21, 1988, as amended ("Act No. 44") and an affiliate of the Government Development Bank for Puerto Rico (the "Bank"). The Authority was organized to provide financial, administrative, and other types of assistance to public corporations, municipalities, and other governmental instrumentalities or political subdivisions of the Commonwealth that develop and operate infrastructure facilities. The Authority is exempt from taxation in Puerto Rico pursuant to the Act No. 44.

The accompanying financial statements present the combined financial position and results of operations of the entity as a whole and by major funds that are governed by the Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates.

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

Government-Wide and Fund Financial Statements:

Government-Wide Financial Statements — The statement of net assets (deficit) and the statement of activities report information on all nonfiduciary activities of the Authority. The Authority has only governmental activities. The effect of interfund balances has been removed from the statement of net assets (deficit). Governmental activities are financed through intergovernmental revenues and other nonexchange revenues.

Following is a description of the Authority's government-wide financial statements:

The statement of net assets (deficit) presents the Authority's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in capital assets, which consists of capital assets, including furniture, equipment, and leasehold improvements, net of accumulated depreciation and amortization, and land and construction in progress. Those assets are reduced by the outstanding balances of related debt, when such debt is attributed to the acquisition, construction, or improvement of such assets.

- Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but may be removed or modified.

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 with a specific function. Program revenues include: (1) earnings (losses) on investments and changes in the fair value of investments 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 revenue are instead reported as general revenue.

Governmental Funds' Financial Statements — Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All funds of the Authority are major funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

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

Governmental Funds' Financial Statements — The governmental funds' financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both 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. For this purpose, the Authority considers revenues to be available if they are collected within 60 days after the end of the current fiscal year end. Other revenues are considered to be measurable and available only when cash is received by the Authority. Expenditures generally are recorded when a liability is incurred.

Modifications to the accrual basis of accounting include:

- Interest on general long-term obligations is recognized when paid
- Debt service expenditures and claims and judgments are recorded only when payment is due

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.

Special Revenue Fund — The Special Revenue Fund accounts for resources used or contributed to meet the specific purpose for which these funds were granted.

Capital Projects Fund — The Capital Projects Fund accounts for resources used or contributed for the acquisition or construction of capital assets and capital improvements.

Debt Service Fund — The Debt Service Fund accounts for the accumulation of resources for payment of interest and principal on long-term obligations.

Permanent Fund — The Permanent Fund is used to account for assets held by the Authority in which the trust principal (corpus) may not be expended but must be kept intact, that is, the capital must be maintained.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then, unrestricted resources as they are needed.

Budgetary Accounting — The Authority is not required by Act No. 44, as amended, 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 90 days or less.

Investments and Investment Contracts — Investments are carried at fair value, except for money market investments and nonparticipating investment contracts. Fair value is determined based on quoted market prices, whenever available. For securities without quoted price, fair value represents quoted market prices for comparable instruments. Realized gains and losses from the sale of investments and unrealized changes in fair value are recorded as investment income.

Prepaid Expenses — Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

Restricted Assets — Certain resources are set aside for the repayment of bonds payable, as described in Note 8. The Authority also has resources set aside for construction of capital projects and other purposes, such as future contributions to the revolving loan funds (see Note 11). All of these assets are classified as restricted assets on the accompanying statement of net assets (deficit) and balance sheet.

Capital Assets — Capital assets include land, construction in progress, furniture and equipment, vehicles, and leasehold improvements. Capital assets are reported in the government-wide financial statements. The threshold for capitalizing furniture and equipment, vehicles, and leasehold improvements is $750. Major capital outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets are recorded at cost or estimated historical cost. Contributed assets are recorded at estimated fair market value at the time received. Depreciation is calculated using the straight-line method over the estimated useful lives of the related depreciable assets.

The ranges of the useful lives are as follows:

Description	Years
Furniture and equipment	3–5
Vehicles	3–5
Leasehold improvements	Lesser of 5 years or lease term

The costs of normal maintenance and repairs that do not add value to the asset or materially extend assets' lives are not capitalized.

The Authority has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The objective of this statement is to establish accounting and financial reporting standards for impairments of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. Under this statement, governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of capital assets has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations, or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of capital assets, and construction stoppage among others.

Compensated Absences — The Authority maintains a policy that permits employees to accumulate earned but unused vacation and sick pay benefits that will be paid to employees upon separation from the Authority service if certain criteria are met. These benefits, plus their related tax and retirement costs, are classified as compensated absences. The Authority's policy permits employees to either bank unused sick pay benefits or receive a cash buyout on an annual basis. Both the current and long-term portion of compensated absences are accrued and reported in the government-wide financial statements.

A liability for these amounts is reported in the governmental funds only if these are currently due and payable, for example as a result of employee resignations and retirements.

Deferred Bond Issuance Costs and Bond Discounts — Discounts and bond issuance costs related to long-term debt are amortized over the life of the debt principally by the effective-interest method. Notes payable, Special Tax Revenue Bonds, Special Obligation Bonds, and Mental Health Infrastructure Revenue Bonds in the government-wide financial statements are shown net of unamortized premium or discount. Bond issuance costs are deferred in the government-wide financial statements.

Discount and issuance costs related to general long-term debt in the governmental fund financial statements are recorded as expenditures when paid and, therefore, are not accounted for in subsequent periods. The net proceeds from bond issuances are presented as other financing sources in the governmental fund financial statements.

Interfund Transactions — The Authority has operating transfers which are legally required transfers. These are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursement fund. Interfund receivables and payables have been eliminated from the statement of net assets (deficit).

Reservations of Fund Balance — Reservations of fund balance represent portions of fund balances that are reserved for specific purposes, not appropriable, or not available for expenditures. The Authority has the following reservations of fund balance:

Capital Projects Fund — Represent net assets available to finance future capital outlays.

Debt Service Fund — Represents net assets available to finance future debt service payments.

Trust — Nonexpendable — Represents net assets held in trust in which the principal (corpus) may not be expended. Investment earnings from the net assets held in trust up to October 1, 2040, are considered nonexpendable and will be permanently reinvested in the corpus.

Other Purposes — Represent cash reserved for future contributions to the Capital Projects Fund.

Refunding — Refunding involves the issuance of new debt whose 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 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 balance sheet as an addition to or deduction from the new debt.

Risk Management — The Authority is responsible for assuring that the Authority's property is properly insured. Annually, the Authority compiles the information of all property owned and its respective market value and purchases the property and casualty insurance policies. Insurance coverage for fiscal year 2009 remained similar to those of prior years. For the last three years, insurance settlements have not exceeded the amount of coverage.

Deferred Revenue — Deferred revenue at the governmental fund level arises when potential revenue does not meet the measurable or the available criteria for revenue recognition in the current period. Available is defined as due at June 30 and collected within 60 days thereafter to pay obligations due at June 30. In subsequent periods, when the revenue recognition criteria is met, or when the Authority has a legal claim to the resources, the liability for the deferred revenue is removed from the balance sheet and the revenue is recognized. Deferred revenue at the government-wide level arises only when the Authority receives resources before it has a legal claim to them.

Recent Accounting Developments — In March 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which was effective upon issuance. GASB Statement No. 55 codifies all generally accepted accounting principles for state and local governments so that they derive from a single source. The adoption of this statement had no material effect on the Authority's financial statements.

In March 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Contained in the AICPA Statements on Auditing Standards*, which was effective on issuance. The objective of GASB Statement No. 56 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. GASB Statement No. 56 addresses three issues not included in the authoritative literature that establishes accounting principles—related party transactions, going concern considerations, and subsequent events. The adoption of this statement had no material effect on the Authority's financial statements.

The GASB has issued the following accounting pronouncements that have effective date after June 30, 2009:

a. GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for financial statements for periods beginning after June 15, 2009.

b. GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for financial statements for periods beginning after June 15, 2009.

c. GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for financial statements for periods beginning after June 15, 2010.

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

e. GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which is effective for financial statements for periods beginning after June 15, 2009.

f. GASB Statement No. 59, *Financial Instruments Omnibus*, which is effective for financial statements for periods beginning after June 15, 2010.

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

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS AND INVESTMENT CONTRACTS

In accordance with investment guidelines promulgated by the Bank for agencies and public corporations of the Commonwealth under the provisions of Act No. 113 of August 3, 1995, and Executive Order 1995-50A (the "Investment Guidelines"), the Authority is authorized to purchase or enter into the following investment instruments:

- U.S. Government and agencies obligations
- Certificates of deposit
- Bankers acceptances

- Commercial paper
- Participations in the Puerto Rico Government Investment Trust Fund
- Obligations of the Commonwealth of Puerto Rico, its agencies, municipalities, public corporations, and instrumentalities
- Obligations of state and local governments of the United States of America
- Mortgage and asset-backed securities
- Corporate debt, including investment contracts

The Investment Guidelines also establish limitations and other guidelines.

As of June 30, 2009, the Authority held cash, cash equivalents, and investments and investment contracts as follows:

Unrestricted assets — cash	$ 538,018
Restricted assets:	
Cash	42,882,633
Cash equivalents	1,849,526,671
Investments and investment contracts	44,142,834
Total	$1,937,090,156

Investments and investment contracts, including investments and investment contracts classified as cash equivalents, are shown below by contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Due Within One Year	Due After Ten Years	Total
U.S. Treasury — State and local government securities	$1,564,768,397	$ -	$1,564,768,397
Time deposits:			
Government Development Bank for Puerto Rico	10,000,000		10,000,000
Banco Popular de Puerto Rico	559,445		559,445
Money market funds:			
U.S. Bank Trust National Association	202,259,290		202,259,290
Federated Prime Obligations	71,939,539		71,939,539
Nonparticipating investment contracts:			
DEPFA Bank PLC	40,376,634		40,376,634
Caylon		3,766,200	3,766,200
Total	$1,889,903,305	$3,766,200	$1,893,669,505

The credit quality ratings for investments and investment contracts at June 30, 2009, are as follows:

Counterparty	Credit Risk Rating Standard & Poors	Moody's
U.S. Bank Trust National Association	AA-	Aa1
Government Development Bank for Puerto Rico	BBB	Baa3
Federated Prime Obligations	AAAm	Aaa
DEPFA Bank PLC	BBB	A3
Calyon	AA-	Aa3
Banco Popular de Puerto Rico	BB+	Baa2

The credit quality rating for time deposits and nonparticipating investment contracts are based on the credit quality ratings of the counterparties with whom those contracts are entered into.

In the case of deposits, the Authority does not have a deposit policy for custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposit may not be returned to it.

As of June 30, 2009, the depository bank balance of $49,410,061 was exposed to custodial credit risk since such deposits, all of which are maintained at the Bank, are uninsured and uncollateralized.

4. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2009, are as follows:

Description	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Due from federal government	$ -	$1,296,369	$ -	$ 1,296,369
Due from other governmental entities	1,612,694		24,777,476	26,390,170
Total	$1,612,694	$1,296,369	$24,777,476	$27,686,539

The reconciliation to the government-wide statement of net assets (deficit) as of June 30, 2009, is as follows:

Unrestricted assets — accounts receivable	$ 1,612,694
Restricted assets — accounts receivable	26,073,845
Total	$27,686,539

5. DIRECT FINANCING LEASE

On April 6, 2006, the Authority entered into a direct financing lease transaction resulting from the acquisition of certain medical facilities. Concurrent with the transaction, the Authority assumed a loan payable to the Bank as described in Note 8 for $34,225,725 and entered into a lease agreement with Mental Health and Anti-Addiction Services Administration (MHAASA).

In October 2007, the Authority issued the Mental Health Infrastructure Revenue Bonds, Series A and B in the aggregate amount of $43,330,000 as described in Note 8 to pay in full the note hereunder, plus accrued interest of $3,305,780. The Authority entered into a trust agreement with Banco Popular de Puerto Rico (the "Trustee"), providing a lease agreement that was assigned to the Trustee requiring that payments by MHAASA under the lease be made directly to the Bank to cover the principal and interest required on the bonds.

The lease terms stated that the payments will be for 30 years after the commencement of the bond's term and the amount will be equal to the annual principal and interest requirement of the bonds hereunder. The security interest securing the payments, consisting on MHAASA's yearly budget appropriations from the Commonwealth of Puerto Rico and the payments by the sublessors of MHAASA shall be assigned to the Trustee. MHAASA has the option to purchase the leased premises for $1 at the end of the lease term.

The total rentals receivable under the lease contract, net of unearned income, were recognized as net investment in direct financing lease and the unearned income on the lease is recognized monthly at a constant periodic rate of return on the unrecovered investment.

The composition of the net investment in direct financing lease at June 30, 2009, is as follows:

Description	Amount
Net minimum lease payments receivable instrumentalities	$ 93,493,095
Less unearned lease income	(54,436,266)
	$ 39,056,829

At June 30, 2009, the minimum future lease payments due under the direct financing lease are as follows:

Years Ending June 30	Amount
2010	$ 4,795,757
2011	3,084,475
2012	3,062,075
2013	6,565,388
2014	3,100,300
Thereafter	72,885,100
	$93,493,095

6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009, was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases and Other Reclassifications	Ending Balance
Capital assets:				
Nondepreciable:				
Land	$ 15,675,433	$ -	$ -	$ 15,675,433
Construction in progress	1,197,390,070	189,866,948	(116,346,384)	1,270,910,634
Depreciable:				
Furniture and equipment	665,007	96,598		761,605
Vehicles	67,476			67,476
Leasehold improvements	627,671	49,624		677,295
Total capital assets	1,214,425,657	190,013,170	(116,346,384)	1,288,092,443
Less accumulated depreciation and amortization:				
Furniture and equipment	(549,684)	(88,604)		(638,288)
Vehicles	(51,962)	(8,363)		(60,325)
Leasehold improvements	(627,671)	(9,680)		(637,351)
Total accumulated depreciation and amortization	(1,229,317)	(106,647)	-	(1,335,964)
Capital assets — net	$ 1,213,196,340	$ 189,906,523	$ (116,346,384)	$ 1,286,756,479

The Authority has issued certain bonds and notes to finance the construction of certain capital projects for the benefit of Puerto Rico Aqueduct and Sewer Authority (PRASA), municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth (see Notes 8 and 9). The capital projects include the construction of infrastructure and buildings to be used in the operations of, and managed by, PRASA, municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth in their respective operations.

On April 6, 2006, the Authority and PRASA entered into an assistance agreement whereby the infrastructure projects currently undertaken by the Authority for PRASA's benefit will be transferred to PRASA not later than 90 days after the execution of the agreement. The Authority and PRASA must comply with certain conditions precedent to transfer, which requires among other: (1) written assignment to PRASA of such contracts in connection with such projects, which contract PRASA determines are necessary; (2) completion of the technical and financial report; (3) completion of a legal report, including an assessment of actual or potential claims for such project; and (4) completion of the land acquisition process and transfer of land to PRASA in connection with such projects. The Authority will continue to fund the completion of the projects still in development up to the maximum available for such purposes. As of June 30, 2009, the transfer of projects to PRASA amounting to approximately $947,546,000, including land of approximately $8,276,000, has not been executed since various conditions precedent to transfer are in the process of being completed (see Note 19).

During the year ended June 30, 2009, the Authority incurred construction costs for the benefit of other instrumentalities amounting to approximately $189.9 million. Such construction costs have been included as part of current expenditures in the accompanying statement of revenues, expenditures, and change in fund balance — governmental funds as follows:

Function/Programs	Amount
Recreation and sports	$ 111,649,256
Edifications	35,689,822
Arts and entertainment	25,898,090
Transportation	12,591,821
Education	2,572,988
Aqueduct and sewers	1,464,971
Total	$ 189,866,948

During the year ended June 30, 2009, the Authority has recorded an impairment loss of $73,395,055 on infrastructure projects that have not been transferred to PRASA. The impairment loss has been recorded as part of the aqueduct and sewers function in the accompanying statement of activities.

During the year ended June 30, 2009, the Authority transferred completed construction projects amounting to $42,951,329 to municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth. During the year ended June 30, 2009, depreciation expense of $106,647 was charged to the general government function in the accompanying statement of activities.

7. INTERFUND TRANSFERS

The summary of the interfund balances as of June 30, 2009, is as follows:

Receivable By	Payable By	Purpose	Amount
General Fund	Permanent Fund	Provide funding for contribution to the Commonwealth and the Bank	$ 160,557,948
General Fund	Special Revenue Fund	Reimbursement of expenditures	324,285
Capital Projects Fund	General Fund	Reimbursement of expenditures	384,118
Total			$ 161,266,351

Interfund transfers for the year ended June 30, 2009, consist of the following:

Transfer Out	Transfer In	Purpose	Amount
Permanent Fund	General Fund	Provide funding for contribution to the Commonwealth and the Bank	$ 463,403,307
Permanent Fund	Debt Service Fund	Debt service payments	48,057,890
General Fund	Debt Service Fund	Debt service payments	86,000,000
General Fund	Capital Projects Fund	Contribution	705,852
Capital Projects Fund	Debt Service Fund	Debt service payments	39,286,881
Total			$ 637,453,930

8. BONDS PAYABLE

Special Tax Revenue Bonds — On April 2, 1998, the Authority issued $134,660,000 Special Tax Revenue Refunding Bonds, Series 1998 A (the "Series 1998 A Bonds"). The Series 1998 A Bonds bear interest, payable semiannually on January 1 and July 1 at rates, which range between 4.3% and 5.5% and mature at various dates through July 1, 2010. The Series 1998 A Bonds, maturing on July 1, 2009 and 2010, may be redeemed at the option of the Authority prior to maturity at 100.5% from July 1, 2009 to June 30, 2010.

On June 16, 2005, the Authority issued $309,102,577 Special Tax Revenue Bonds, Series 2005 A (the "Series 2005 A Bonds"), $324,625,000 Special Tax Revenue Bonds, Series 2005 B (the "Series 2005 B Bonds"), and $699,235,339 Special Tax Revenue Refunding Bonds, Series 2005 C (the "Series 2005 C Bonds"). The Series 2005 A Bonds mature at various dates from July 1, 2029 through 2037, inclusive, and 2042 through 2045, inclusive, and the Series 2005 C Bonds maturing on July 1, 2028, were issued as Capital Appreciation Bonds.

The Series 2005 A and B Bonds were issued for the purpose of providing approximately $292 million in financial assistance to PRASA and other Commonwealth instrumentalities and municipalities in connection with certain capital projects. This includes the repayment of approximately $26 million for certain advances made to the Authority by the Bank for the purpose of providing funds to pay certain capital improvements by the Authority or other Commonwealth instrumentalities. The Series 2005 A and B Bonds were also issued to provide approximately $317 million in working capital assistance to the Commonwealth and to cover interest and costs of issuance of the Series 2005 A and B Bonds. The bond proceeds earmarked for PRASA and non-PRASA projects were deposited in the Authority's Capital Projects Fund.

The Series 2005 C Bonds were issued for the purpose of refunding all of the Authority's Special Tax Revenue Bonds, Series 1997 A Bonds, including capitalized interest and costs of issuance of Series 2005 C Bonds. This refunding permitted the Authority to realize present value savings on its debt service requirements on certain bonds outstanding under the trust agreement. The Authority deposited the net proceeds of the Series 2005 C Bonds, together with certain other available moneys, with the Trustee, as escrow agent, in special redemption fund under the terms of an Escrow Deposit Agreement.

Such net proceeds, together with such other available moneys, were invested in government obligations, the principal of and interest on which when due, together with any moneys deposited with the Trustee remaining uninvested, will provide moneys sufficient to pay the principal of and redemption premium and interest on the refunded bonds on the date of redemption and the interest to accrue on such bonds through the date of redemption.

The Series 2005 A, B, and C Bonds bear interest, payable semiannually on January 1 and July 1 at rates, which range between 4% and 5.5% and mature at various dates through July 1, 2045. Accrued interest on the Capital Appreciation Bonds will be paid at maturity as part of the bonds accreted value. The Series 2005 B Bonds maturing July 1, 2037 and 2041 may be redeemed by the Authority prior to maturity, upon not less than 30 days' prior notice, either in whole or in part, and if in part, as directed by the Authority. The Series 2005 A and C are not subject to redemption prior to maturity.

On September 28, 2006, the Authority issued $469,770,000 Special Tax Revenue Bonds, Series 2006, for the purpose of developing the infrastructure necessary for the XXI Central American and Caribbean Games (the "Games"). The proceeds of this issuance provides for (1) the acquisition, improvements and construction of sports and other facilities necessary for the Games; (2) the construction of certain capital projects of the Commonwealth instrumentalities and municipalities; and (3) the payment of capitalized interest and cost of issuance of the Series 2006 Bonds. The Series 2006 Bonds proceeds were deposited into a Special Construction Fund administered by the Authority on behalf of the applicable benefited entities. The Series 2006 Bonds bear interest at various rates ranging from 4.25% to 5.00% maturing on various dates from July 1, 2010 to July 1, 2046. Interest is payable semi annually on January 1 and July 1 of each year commencing January 1, 2007. Bonds are secured by a pledge of federal excise taxes and other moneys deposited to the credit of the sinking fund.

The Special Tax Revenue Bonds are payable solely from and secured by a pledge of federal excise taxes and other moneys deposited to the credit of a sinking fund established pursuant to a trust agreement. Payment of principal and interest is insured by separate municipal bond insurance policies issued by an unrelated insurance company.

Act No. 44, as amended, requires that in each fiscal year after fiscal year 2006, through fiscal year 2009, and each fiscal year thereafter through fiscal year 2057, the first $90,000,000 and $117,000,000, respectively, of certain federal excise taxes received by the Commonwealth be transferred to the Authority. Such taxes consist of the federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the U.S. treasury and returned to the Commonwealth.

Rum is the only article currently produced in Puerto Rico subject to federal excise taxes, the proceeds of which are required to be returned to the Commonwealth. The trust agreement requires the Authority to deposit in the sinking fund the federal excise taxes and other moneys deposited as are required to meet the debt service requirements with respect to the Bonds.

The federal excise taxes securing the Bonds are subject to a number of factors, including the continued imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient, the Act No. 44 requires that the Authority request and the Director of the Office of Management and Budget of the Commonwealth include in the budget of the Commonwealth for the corresponding fiscal year, an appropriation necessary to cover such deficiency. The Commonwealth's Legislature, however, is not obligated to make the necessary appropriation to cover such deficiency.

The Authority was required under the trust agreement to establish a reserve account in the sinking fund to deposit and maintain therein an amount equal to the reserve requirements, as defined. Alternatively, the Authority may deposit to the credit of such reserve account an insurance policy or a letter of credit in lieu of any required deposit or in substitution of moneys on deposit in the reserve account.

Additional bonds, secured on parity with the Bonds, may be issued for any purpose authorized by the Act, subject to compliance with certain financial tests in the trust agreement.

As of June 30, 2009, debt service requirements (in thousands) for special tax revenue bonds were as follows:

Years Ending June 30	Principal	Interest	Total
2010	$ 24,785	$ 83,412	$ 108,197
2011	30,220	82,001	112,221
2012	31,775	80,396	112,171
2013	33,430	78,684	112,114
2014	35,195	76,872	112,067
2015–2019	206,070	353,449	559,519
2020–2024	267,200	290,553	557,753
2025–2029	339,590	208,583	548,173
2030–2034	388,540	165,897	554,437
2035–2039	352,230	154,444	506,674
2040–2044	465,845	101,787	567,632
2045–2048	429,580	45,539	475,119
	2,604,460	$1,721,617	$4,326,077
Add — Premium	150,119		
Less:			
Unaccreted discount on capital appreciation bonds	(702,123)		
Unamortized deferred loss on refunding bonds	(69,003)		
Total	$1,983,453		

Over the years, the Authority has defeased certain other bonds by placing bond proceeds in irrevocable trusts to provide for all future debt service payments of such defeased bonds. Accordingly, the trust account assets and the liabilities for defeased bonds are not included in the Authority's financial statements. Total bonds defeased as of June 30, 2009, amount to $699,235,389.

Special Obligation Bonds — On September 28, 2000, the Authority issued $1,037,750,000 Special Obligation Bonds, Series 2000 A and $54,800,000 Special Obligation Bonds, Series 2000 B (collectively, the "Series 2000 Bonds") for the purpose of repaying certain notes issued by the Authority to the bank and financing certain aqueduct and sewer infrastructure development projects. The Series 2000 Bonds are limited obligations of the Authority, payable solely from and secured by, a pledge of all interest received by the Authority from U.S. treasury securities and other eligible obligations deposited in a special account of the Permanent Fund held by a trustee under an irrevocable and permanent trust.

The Series 2000 A Bonds bear fixed interest rates ranging from 4.1% to 5.5% payable semiannually on each April 1 and October 1. The Series 2000 B Bonds bear a variable interest rate during each index rate period, as defined, at a rate equal to the sum of (i) the average of the Bond Market Association Municipal Swap Index for each day during such period and (ii) 0.65% (the "Index Rate"). The Index Rate on the 2000 Series B Bonds may not be less than 1% nor more than 7.5% per annum.

By virtue of the Act. No. 3 of January 14, 2009 ("Act No. 3") approved by the Legislature of Puerto Rico, Act No. 44 of June 21, 1988, was amended to permit the Authority to redeem all of the investments deposited in the special account of the Permanent Fund and use the net proceeds of said redemption to provide sufficient funds for the repayment of all principal of and interest on the Series 2000 Bonds, among other purposes.

On January 29, 2009, the Authority redeemed all of the investments in accordance with Act No. 3 and has set aside $1,104,221,957 of the proceeds of said redemption for the defeasance of the Series 2000 Bonds (see Note 12).

As of June 30, 2009, debt service requirements under new agreements (in thousands) for the Series 2000 Bonds are as follows:

Years Ending June 30	Principal	Interest	Total
2010	$ 11,190	$ 50,855	$ 62,045
2011	1,008,240	33,837	1,042,077
	1,019,430	$ 84,692	$ 1,104,122
Less — Discount	(11,213)		
Total	$ 1,008,217		

Mental Health Infrastructure Revenue Bonds — On October 24, 2007, the Authority issued $39,800,000 Revenue Bonds, Series 2007 A, and $3,530,000 Series 2007 B (collectively, the "Series 2007 Bonds"). The Series 2007 A Bonds were issued for the purpose of providing funds, together with other available funds, to repay in full the loan due to the Bank amounting to $34,225,725 related to the acquisition of certain mental health facilities known as MEPSI Center located in the Municipality of Bayamón. The Series 2007 B Bonds were issued for the purpose of providing funds to pay interest accrued on a loan due to the Bank amounting to $3,305,780.

The 2007 Series Bonds were issued under a trust agreement dated October 1, 2007, between the Authority and the Bank, which provides for the assignment of a lease with option to purchase, dated October 24, 2007, as described in Note 5. The Series 2007 Bonds are payable semiannually and bear interest at fixed rates of 5.6% through 2014, 6.25% through 2024, and 6.5% through 2037. The Series 2007 B Bonds mature on October 1, 2012, and bear interest at the rate of 5.25% payable annually on each October 1 at the short-term interest rate index and a spread (not to exceed 50 basis points). The Series 2007 Bonds are subject to redemptions rights at 100% of the principal, plus accrued interest prior to their maturities.

As of June 30, 2009, debt service requirements (in thousands) for Mental Health Infrastructure Revenue Bonds were as follows:

Years Ending June 30	Principal	Interest	Total
2010	$ 400	$ 2,707	$ 3,107
2011	400	2,685	3,085
2012	400	2,662	3,062
2013	4,030	2,535	6,565
2014	700	2,400	3,100
2015–2019	3,900	11,346	15,246
2020–2024	5,300	9,923	15,223
2025–2029	7,300	7,925	15,225
2030–2034	10,000	5,161	15,161
2035–2038	10,600	1,430	12,030
	43,030	$48,774	$91,804
Less — Discount	(451)		
Total	$42,579		

9. LOANS PAYABLE

On January 16, 2002 (the "refinancing date"), the Authority entered into a loan agreement (the "Note") with Puerto Rico Public Finance Corporation (PFC), a component unit of the Bank. The Note was originally a loan granted by the Bank (the "Old Note"), but which, pursuant to Act No. 164 of December 17, 2001, PFC acquired and restructured through the issuance of PFC Commonwealth Appropriation Bonds (the "PFC Bonds"). The PFC Bonds were issued under trust indenture agreements whereby PFC pledged the Old Note, along with other notes under the Act No. 164, to certain trustees and created a first lien on the pledged revenue (consisting of annual Commonwealth appropriations earmarked to repay the Note).

The amount outstanding of the Note at June 30, 2009, was $4,956,449 and matures in June 2031. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on PFC Bonds. Applicable percentage is the percentage representing the proportion of the amount paid by PFC on the Note to the aggregate amount paid by PFC on all the notes acquired by PFC under Act No. 164. As a result of this refunding, the Authority increased its aggregate debt service payments by approximately $13.1 million over the next 30 years and obtained an economic loss (the difference between the present values of the debt service payments of the refunded and refunding debt) of approximately $303,000. The amount outstanding of the Old Note at the refinancing date, January 16, 2002, was $10,028,270.

On February 18, 2005, the Authority entered into a loan agreement with the Bank related to a nonrevolving line of credit in an amount not to exceed $40,000,000 for the construction of an auditorium for Centro de Bellas Artes Luis A. Ferré. This loan agreement matures on June 30, 2011, and bears interest at 150 points over exempt commercial paper. As of June 30, 2009, the principal balance outstanding under this loan agreement amounted to $32,499,422.

As of June 30, 2009, debt service requirements (in thousands) for loan agreements are as follows:

Years Ending June 30	Principal	Interest	Total
2010	$ -	$ 265	$ 265
2011	32,499	265	32,764
2012		269	269
2013		208	208
2014	99	214	313
2015–2019	541	984	1,525
2020–2024	463	805	1,268
2025–2029	1,632	633	2,265
2030–2033	2,222	86	2,308
	$37,456	$3,729	$41,185

10. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity (in thousands) in the governmental activities for the year ended June 30, 2009, was as follows:

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Special Tax Revenue Bonds:					
Series 1998 A Bonds	$ 73,845	$ -	$(23,495)	$ 50,350	$24,785
Series 2005 A, B and C Bonds	2,084,340			2,084,340	
Series 2006 Bonds	469,770			469,770	
Special Obligation Bonds — Series 2000 A and B Bonds	1,029,985		(10,555)	1,019,430	11,190
Mental Health Infrastructure Revenue Bonds — Series 2007 A and B Bonds	43,330		(300)	43,030	400
Subtotal	3,701,270	-	(34,350)	3,666,920	36,375
Net premium	142,991		(4,536)	138,455	
Unaccreted discount on capital appreciation bonds	(715,177)		13,054	(702,123)	
Unamortized deferred loss on refunding loans	(72,635)		3,632	(69,003)	
Total bonds payable	3,056,449	-	(22,200)	3,034,249	36,375
Loans payable	29,468	12,803	(4,815)	37,456	740
Contingencies	300	225		525	
Compensated absences	268		(118)	150	150
	$3,086,485	$13,028	$(27,133)	$3,072,380	$37,265

Long-term liabilities are presented in the government-wide statement of net assets (deficit) as of June 30, 2009, as follows (in thousands):

Accounts payable and accrued expenses:	
Due in one year	$ 150
Due in more than one year	525
Bonds and loans payable:	
Due in one year	11,930
Due in more than one year	2,964,951
Liabilities payable from restricted assets — bonds payable:	
Due in one year	25,185
Due in more than one year	69,639
Total	$3,072,380

11. REVOLVING LOAN FUNDS

Act No. 44, as amended, provided for the establishment of the Puerto Rico Water Pollution Control Revolving Fund (the "Revolving Fund"), which is administered by the Puerto Rico Environment Quality Board (EQB) and by the Authority in accordance with Title VI of the Water Pollution Control Act (the "Clean Water Act") of 1972. The EQB, as the designated instrumentality of the Commonwealth, is empowered to enter into capitalization grant agreements with the U.S. Environmental Protection Agency (EPA), to accept capitalization grant awards made under Title VI of the Clean Water Act and, in conjunction with the Authority, to manage the Revolving Fund in accordance with the requirements of the Clean Water Act, the act which created the Authority, as amended, and the Memorandum of Understanding entered into by and among EQB, PRASA, the Bank, and the Authority.

On July 7, 1997, the Legislature of the Commonwealth enacted legislation, which, among other things, establishes the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (the "Drinking Water Fund") with the purpose of receiving financial assistance under the Clean Water Act and provides for the participation of the Authority in the administration of said fund.

The net assets, revenues, and expenses of these loan funds are not included in the accompanying basic financial statements since the Authority acts only as administrator of the Revolving Fund and Drinking Water Fund. As of June 30, 2009, the Authority holds cash in a custodian capacity amounting $12,495,360, which is presented as part of temporarily restricted cash and cash equivalents in the accompanying statement of net assets (deficit). As of June 30, 2009, the Authority has also recorded a liability for the same amount, which is included as part of liabilities payable from restricted assets — accounts payable and accrued liabilities in the accompanying statement of net assets (deficit).

12. PERMANENT FUND

Act No. 92 of June 24, 1998, of the Legislature of the Commonwealth ("Act No. 92") provides, among other things, for the creation of the Permanent Fund of the Authority. The Permanent Fund consists of a Corpus Account funded with a portion of the proceeds from the sale of assets of Puerto Rico Telephone Authority (PRTA) and additional accounts created or to be created by the Authority. Act No. 92 provides that the principal of the Corpus Account may not be reduced for any reason and that income received from investments in the Corpus Account and amounts received may be deposited in any of the additional accounts.

On March 2, 1999, the Authority received $1.2 billion in connection with the sale of certain assets of PRTA, which were deposited in the Corpus Account. Amounts deposited in the additional accounts are to be used first to pay the principal, premium, and interest of any bonds outstanding or to be issued by the Authority and then for the expansion, development, and modernization of infrastructure related to the aqueduct and sewer systems of Puerto Rico.

The amounts deposited in the Permanent Fund shall be invested up to $1 billion in (1) direct obligations of the U.S. government; (2) obligations, the payment of principal and interest of which are unconditionally guaranteed by the U.S. government; (3) certificates of deposit of any bank, national bank association, or trust company organized and existing under the laws of the Commonwealth, the United States of America, or any of its states, on which the excess over the federal deposit insurance is secured by investments of the types described in (1) and (2) above; or (4) tax-exempt obligations of any state, instrumentality, agency, or political subdivision of Puerto Rico or the United States, the payment of principal and interest of which is secured by investments of the types described in (1) and (2) above.

Amounts in excess of $1 billion shall be invested in any of the instruments mentioned above or in any other instruments, including publicly traded common and preferred stock, not prohibited by investment guidelines adopted by the Bank. As of June 30, 2009, all investments of the Permanent Fund consist of obligations of states and local governments of the United States of America.

By virtue of Act No. 3 of January 14, 2009 ("Act No. 3") approved by the Legislature of Puerto Rico, Act No. 44 of June 21, 1988, was amended to permit the Authority to sell all or a portion of the outstanding Corpus Account investments held in the 2000 Trust Agreement and use the net proceeds of said redemption to provide for the early extinguishment of the Series 2000 A and B Bonds described on Note 8(b), maintain a permanent investment of $300 million within the Corpus Account, payments to the U.S. Internal Revenue Services (IRS), payment of transaction expenses, and contribute any remaining amounts to the Commonwealth and the Bank, among other purposes.

On January 29, 2009, the Authority entered into an escrow restructuring for the Series 2000 A and B Bonds in accordance with the provisions of Act No. 3 and sold the investments held in the Corpus Account. This transaction resulted in a realized gain of approximately $708 million, which has been included as part of investment earnings and net increase in fair value of investments in the accompanying statement of activities and statement of revenues, expenditures, and changes in fund balance-governmental funds, respectively.

The Authority used the proceeds from the sale of the investments, which amounted to approximately $1,952 million, to pay capital contributions to the Commonwealth and the Bank of approximately $202 million and $100 million, respectively, pay arbitrage to the IRS amounting to approximately $79 million, repay certain loans, including accrued interest, to the Bank amounting to approximately $6 million. The remaining proceeds of approximately $1,565 million have been invested in short-term U.S. Treasury securities as of June 30, 2009, which are included as part of cash and cash equivalents in the accompanying statement of net assets (deficit). The Authority has restricted approximately $1,104 million for the early extinguishment of the Series 2000 A and B Bonds and $300 million within the Corpus Account as a permanent investment. The Authority made additional capital contributions to the Commonwealth and the Bank amounting to approximately $161 million on July 1, 2009.

13. RELATED-PARTY TRANSACTIONS

During the year ended June 30, 2009, the Commonwealth assigned to the Authority $90,000,000 that are used for debt service payments of the bonds and operating expenses, as described in Note 8.

During the year ended June 30, 2009, the Authority contributed approximately $308 million and $154 million to the Commonwealth and the Bank, respectively. As of June 30, 2009, the Authority had not paid contributions to the Commonwealth and the Bank amounting to approximately $107 million and $54 million, respectively, which have been included as part of accounts payable and accrued liabilities in the accompanying statement of net assets (deficit).

Interest income on interest-bearing demand deposits with the Bank amounted to approximately $541,346 or the year ended June 30, 2009. Also, the Bank provides payroll services to the Authority at fixed rate amount.

14. COMMITMENTS — OPERATING LEASES

The Authority leases office space for its headquarters (Capital Center Building, San Juan) and for a regional office in Mayaguez (Puerto Rico Employees Association building) under noncancelable operating leases. The San Juan office lease expired during the year ended June 30, 2009. On July 1, 2009, the Authority signed a new lease agreement for five years ending on January 31, 2014. Rent expense for the year ended June 30, 2009, amounted to approximately $453,000.

At June 30, 2009, the minimum annual future rentals under non-cancelable leases, including the new lease, are as follows:

Years Ending 30-Jun	Amount
2010	$ 477,438
2011	381,426
2012	362,109
2013	339,866
2014	198,255
Total	$ 1,759,094

15. COMMITMENTS — CONSTRUCTION

The Authority has active construction projects as of June 30, 2009, under various bond issuances. At June 30, 2009, the Authority's commitments with contractors are as follows:

Description	Commitment	Spent-to-Date	Remaining Commitment
Series 2000 A and B Bonds	$268,444,729	$257,740,078	$ 10,704,651
Special Tax Revenue Bonds, Series 2005	224,090,415	120,933,863	103,156,552
Special Tax Revenue Bonds, Series 2006	231,801,538	58,449,382	173,352,156
Total	$724,336,682	$437,123,323	$287,213,359

16. CONTINGENCIES

At June 30, 2009, the Authority is a defendant in various legal proceedings arising from its normal operations. Management, based on the advice of its legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on the Authority's financial statements. However, management is of the opinion that they will reach settlements in certain cases. A liability to cover claims and other contingencies amounting to $525,000 has been reflected as part of accounts payable and accrued expenses in the accompanying statement of net assets (deficit).

17. ARRA PROGRAMS

The Authority is a subgrantee of the Office of the Governor of the Commonwealth of Puerto Rico (the "Governor's Office") under the State Fiscal Stabilization Fund Program, which was authorized under Title XIV of Division A of the American Recovery and Reinvestment Act of 2009 (the "ARRA Act"). The Authority has been awarded with a $16.8 million grant for the ARRA Act implementation costs and a $70 million grant for school renovations (hereinafter, the "ARRA Programs").

Under the ARRA Programs, the Authority is responsible for oversight of the administration of all resources awarded to the Commonwealth under the ARRA Act. The Authority will also act as coordinator to all efforts and tasks needed or required to ascertain ARRA Act funds are properly managed. Additionally, the Authority will be responsible for contracting, managing, and providing oversight to the school renovations or improvements projects.

On June 1, 2009, the Authority entered into a nonrevolving line of credit facility (the "Line of Credit") with the Bank to provide interim financing for the implementation costs incurred under the ARRA programs during its first 120 days. The Line of Credit will be repaid from the cost reimbursements received from the federal government under the ARRA Programs. The Line of Credit matures on June 30, 2010, and bears interest at 150 points over the rate of exempt commercial paper. As of June 30, 2009, the Authority had not made any borrowings under the Line of Credit.

18. RESTATEMENT

Subsequent to the issuance of the Authority's basic financial statements for the year ended June 30, 2008, the Authority's management determined that the Authority's 2008 basic financial statements were misstated.

The Authority's 2008 fund financial statements were misstated as a result of the following:

- The inclusion of Port of the Americas Authority as a blended component unit in the Authority's basic financial statements.
- Accounts receivable that were not recorded.
- Duplicated accounts payable.
- The liability for funds held in trust for the Revolving Fund and the Drinking Water Fund was not recorded.

Accordingly, the fund balance as of June 30, 2008, in the statement of revenues, expenditures, and changes in fund balances, as originally reported, has been restated to reflect an increase of approximately $23,857,000, which represents the correction of the errors described above. A summary of the effects of the restatement in the fiscal year 2008 fund financial statements is as follows (in thousands):

	Fund Balance
Beginning balance — as previously reported	$ 1,940,007
Inclusion of Port of the Americas Authority	6,614
Accounts receivable that were not recorded	14,087
Duplicated accounts payable	11,400
Liability for funds held in trust	(8,244)
Beginning balance — as restated	$ 1,963,864

The Authority's 2008 government-wide financial statements were misstated as a result of the following:

- The inclusion of Port of the Americas Authority as a blended component unit in the Authority's basic financial statements.
- Accretion of interest on capital appreciation bonds was not recorded.
- The contribution received from the Commonwealth for the payment of a loan was not recorded.
- The transfer of capital assets to other governmental entities was not recorded.
- The liability for funds held in trust for the Revolving Fund and the Drinking Water Fund was not recorded.

Accordingly, the net assets as of June 30, 2008, in the statement of activities, as originally reported, have been restated to reflect a decrease of approximately $108,135,000, which represents the correction of the errors described above. A summary of the effects of the restatement in the fiscal year 2008 government-wide financial statements is as follows (in thousands):

	Net Assets
Beginning balance — as previously reported	$ 235,861
Inclusion of Port of the Americas Authority	681
Accretion of interest on capital appreciation bonds	(36,200)
Contribution received	5,510
Transfer of capital assets	(69,882)
Liability for funds held in trust	(8,244)
Beginning balance — as restated	$ 127,726

19. SUBSEQUENT EVENTS

On July 1, 2009, the Authority invested $300 million in a time deposit agreement with the Bank. The time deposit represents the Authority's permanent investment as established in Act No. 3. The time deposit matures on October 1, 2040, and interest income will be capitalized quarterly until maturity.

On June 28, 2010, the Authority and PRASA entered into an amended assistance agreement (the "Agreement") to transfer to PRASA all infrastructure projects built by the Authority on behalf of PRASA (the "Infrastructure Projects"), excluding land owned by the Authority. The Agreement acknowledges the Authority's compliance with the conditions precedent to transfer on all Infrastructure Projects and PRASA's assumption of all operation, maintenance, and safety responsibilities of all Infrastructure Projects. In connection with the Agreement, on June 28, 2010, approximately $939 million of the Authority's capital assets are transferred to PRASA.

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PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

SUPPLEMENTAL SCHEDULE OF SPECIAL OBLIGATION BONDS — SERIES 2000 A AND B
FOR THE YEAR ENDED JUNE 30, 2009

1. Deposits to the credit of, and withdrawals from, each fund or account created under the provisions of the trust indenture:

Account name Account number	Trust Agreement (125912-099)	Special Corpus (125912-011)	Bond Service Account (125912-002)	Rebate Fund Account (125912-008)
Balance as of June 30, 2008	$ 1,200,000,000	$ 21,236,838	$ 10,716,569	$ 12,923,931
Deposits:				
Operating transfers in	-	-	61,251,375	-
Sale of investments	6,860,134,523	-	6,302,723	13,194,881
Realized gain on sale of investments	698,557,787	9,623,810	-	-
Interest and dividends earned	56,689,397	964,201	107,691	171,986
Overpayment on Series 2000 B Bonds	-	-	16,447	-
Transfer from Special Corpus	31,243,774	-	-	-
Total deposits	7,646,625,481	10,588,011	67,678,236	13,366,867
Disbursements:				
Operating transfers out	68,166,281	581,075	6,213,231	13,095,917
Purchase of investment	6,852,713,167	-	6,302,723	13,194,881
Principal payment of loan due to the Bank	4,017,133	-	797,351	-
Interest payment of loan due to the Bank	2,086,398	-	498,649	-
Principal payments to bondholders	-	-	10,555,000	-
Interest payments to bondholders	-	-	54,027,851	-
Transfers to deposit accounts	805,015,882			
Transfers to other trust accounts	-	31,243,774	-	-
Total disbursements	7,731,998,861	31,824,849	78,394,805	26,290,798
Balance as of June 30, 2009	$ 1,114,626,620	$ -	$ -	$ -

2. Description of the bonds issued, paid, purchased, or redeemed during 2009 and the outstanding principal amount of the bonds:

a.) Issued	$ -
b.) Paid (principal):	
Series 2000 A	$ 10,010,000
Series 2000 B	$ 545,000
c.) Purchased or redeemed	$ -
d.) Outstanding principal amount as of June 30, 2009:	
Series 2000 A	$ 968,185,000
Series 2000 B	$ 51,245,000