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, 2011, and Independent Auditors' Report

PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
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SCHERRER
HERNANDEZ & CO.
Member of Polaris International

INDEPENDENT AUDITORS' REPORT

To 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 the Puerto Rico Infrastructure Financing Authority (the "Authority"), a component unit of the Commonwealth of Puerto Rico, as of and for the fiscal year ended June 30, 2011, which collectively comprise the Authority 's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Authority, as of June 30, 201, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This supplementary information is responsibility of the Authority's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Authority. 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 required information is the responsibility of the Authority's management. Such information has been subject to the auditing procedures applied in our basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Scherrer Hernández & Co.

San Juan, Puerto Rico

March 8, 2012

Certified Public Accountants
(of Puerto Rico)
License No. 53 expires December 1, 2012
Stamp 2619620 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

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 the notes thereto.

1. FINANCIAL HIGHLIGHTS

- Total assets and total liabilities of the Authority at June 30, 2011 amounted to approximately $589 million and $2,152 million, respectively, for a net deficit of approximately $1,563 million.

- On October 1, 2010, the Authority early redeemed approximately $996.9 million of the Special Obligation Bonds, Series 2000. The funds remaining after the redemption amounted to $1.7 million and were contributed to the Commonwealth of Puerto Rico (the "Commonwealth") and the Government Development Bank for Puerto Rico (the "GDB") in accordance with the provisions set forth by Act No. 3 of January 14, 2009.

- In October 2010, the Authority entered into a memorandum of understanding with Puerto Rico Public-Private Partnerships Authority, Puerto Rico Public Building Authority, Puerto Rico Department of Education, Puerto Rico Department of Transportation and Public Works, and the Bank for the administration of the Schools for the 21st Century Program (the "21st Century Program"). The 21st Century Program comprises the modernization of approximately ninety-one (91) public schools and the construction ten (10) new public schools in Puerto Rico. At June 30, 2011, total investment under the Program amounted to approximately $71.8 million.

- On June 23, 2011, pursuant to provisions set for the by Act No. 96 of June 16, 2011 (the "Act 96"), the Authority early terminated a time deposit agreement entered into with the GDB and made the capital contribution of approximately $162.5 million to the Employees' Retirement System of the Government of the Commonwealth (the "Retirement System"). Also, the Authority invested the remaining funds from the early redemption, which amounted to approximately $165 million, in a Sales Tax Revenue Bonds, Junior Subordinate, Series 2011 A (the "Sales Tax Revenue Bonds") as set forth by Act No. 96. The Sales Tax Revenue Bonds are obligations issued by the Puerto Rico Sales Tax Financing Corporation ("COFINA" by its Spanish acronym).

- Expenditures for programs managed by the Authority under the American Recovery and Reinvestment Act of 2009 ("ARRA Programs") totaled approximately $42 million during the year ended June 30, 2011.

- Expenditures for infrastructure projects developed under the Economic Development Program totaled approximately $20 million during the year ended June 30, 2011.

- During the year ended June 30, 2011, the Authority transferred completed construction projects amounting to approximately $321 million to municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth, from which approximately \$247.6 million related to sports facilities developed for the celebration of the XXI Central American & Caribbean Games. In connection with the transfer of such sports facilities, approximately \$230.3 million were made to the Puerto Rico Recreation and Sports Department ("PRRSD").

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 an 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 deficit as of June 30, 2011 and 2010 is as follows:

	2011	2010	Change
Cash and cash equivalents, investments and investment contracts, and other assets	$ 482,967,287	$ 1,711,319,630	$ (1,228,352,343)
Capital assets	105,740,637	416,342,915	(310,602,278)
Total assets	$ 588,707,924	$ 2,127,662,545	$ (1,538,954,621)
Other liabilities	$ 164,857,682	$ 191,175,858	$ (26,318,176)
Bonds and loans payable	1,986,773,342	3,006,151,453	(1,019,378,111)
Total liabilities	2,151,631,024	3,197,327,311	(1,045,696,287)
Net deficit	$ (1,562,923,100)	$ (1,069,664,766)	$ (493,258,334)

Cash and cash equivalents, investments and investment contracts, and other assets decreased by approximately $1,228 million or 72%, mostly as a result of the early redemption of the Special Obligation Bonds, Series 2000, contributions made to the Retirement System and capital outlays.

Capital assets decreased by approximately $311 million or 74%. The decrease was mainly due to the transfer of approximately $321 million to municipalities of Puerto Rico and other agencies and instrumentalities of the Commonwealth, and impairment loss on land premises of approximately $2.4 million. This decrease in capital assets was partially offset by capital outlays made during 2011 of approximately $12.9 million.

Total liabilities of the Authority decreased by approximately $1,046 million or 33%, mainly as a result of the an aggregate repayment of matured and early extinguished bonds and loans of approximately $1,029 million, and a decrease in accounts payable and accrued liabilities of approximately $26 million. The decrease was partially offset by the proceeds of lines of credits of approximately $10 million.

The following schedule compares revenues and expenses of the Authority for the years ended June 30, 2011 and 2010:

	2011	2010	Increase (Decrease)
Revenues -			
Program revenues—operating grants and contributions, and earnings on investments	$ 202,320,428	$ 343,737,791	$ (141,417,363)
General revenues -			
Investment earnings	7,021	3,065	3,956
Total revenues	202,327,449	343,740,856	(141,413,407)
Expenses:			
Functions/Program:			
General government	14,815,082	15,245,539	(430,457)
Education, aqueduct and sewers, and transportation	5,379,109	975,680,206	(970,301,097)
Economic development program	19,578,298	67,725,237	(48,146,939)
Recreation and sports	249,361,149	12,399,829	236,961,320
Edifications	25,329,875	6,680,797	18,649,078
Arts and entertainment	45,990,184	1,641,024	44,349,160
Public safety	2,491,239	636,394	1,854,845
ARRA Programs	41,752,603	66,636,964	(24,884,361)
Interest on long-term debt	128,388,788	147,922,497	(19,533,709)
Total expenses	533,086,327	1,294,568,487	(761,482,160)
SPECIAL ITEM - Contribution to the Employees Retirement System of the Government of the Commonwealth of Puerto Rico	(162,499,456)	-	(162,499,456)
Change in net deficit	$ (493,258,334)	$ (950,827,631)	$ 457,569,297

Revenues

Total revenues decreased by approximately $141 million during the year ended June 30, 2011 when compared with the year ended June 30, 2010. The decrease was mainly due to the decrease in contributions from the Commonwealth of $110 million, which were used for the development of infrastructure projects and repayments of debt, a decrease of $28 million in ARRA Programs and a decrease of $7 million in investment income.

Expenses

Total expenses decreased by approximately $761 million during 2011. This decrease resulted mainly from the net effect of approximately $970 million decrease in edification, aqueduct and sewer, and transportation activity expenses, which was mainly due to prior year transfer of capital assets to the Puerto Rico Aqueduct and Sewer Authority, and approximately $281 million increase in recreation and sports and arts and entertainment activity expenses during the current year, due to the transfer of completed projects developed for the celebration of the XXI Central American and Caribbean Games and the Symphonic Hall of the Puerto Rico Fine Arts Center, respectively. In addition, there was a decrease of approximately $48 million and $25 million in the Economic Development Program and ARRA funds spending, respectively, due to the significant completion of the programs during prior year.

4. GOVERNMENTAL FUNDS RESULTS

General Fund

General Fund expenditures increased by $161 million, which is mostly related to the Authority's contribution of $162.5 million to the Retirement System during the year ended June 30, 2011 pursuant to provisions set forth by Act 96.

Special Revenue Fund

Special Revenue Fund revenues and expenditures decreased by approximately $11 million and $26 million, respectively, when compared with prior year, due to the prior year substantial progress of ARRA programs directly managed by the Authority as subgrantee.

Capital Projects Fund

Capital Projects Fund revenues decreased by approximately $103 million, when compared with prior year, mostly as a result of prior year substantial completion of infrastructure projects developed under Economic Development Program, which decreased revenues by $53 million and prior year nonrecurring contribution from the Commonwealth and municipalities of approximately $46 million, to repay an outstanding line of credit, including accrued interest, due to the GDB, related to the Symphonic Orchestra Hall Project and to provide additional funding for the development of sports facilities for the celebration of the XXI Central American and Caribbean Games.

During the year ended June 30, 2011, total expenditures of the Capital Projects Fund amounted to $183.8 million.

Debt Service Fund

Principal payment on maturing bonds amounted to approximately $1,039 million during the year ended June 30, 2011. This amount was mainly due to the early redemption of the Special Obligations Bonds, Series 2000. Interest expense decreased by approximately $19 million when compared to the prior year due to a reduction of the Authority's outstanding debt.

Permanent Fund

The Permanent Fund earnings on investments decreased by approximately $6.6 million, when compared with prior year, mainly due to the use of proceeds from investments and investments contracts for the early redemption of the Special Obligations Bond, Series 2000, as well as to provide funding for the Authority's contribution of $162.5 million to the Retirement System pursuant to provisions set forth by Act 96. Also, Act 96 permits the Authority to invest approximately $165 million in a Sales Tax Revenue Bonds issued by COFINA as permanent investment within the corpus account.

Investment earnings amounted to approximately $14.2 million during the year ended June 30, 2011.

5. CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Non-depreciable capital assets represent construction work in progress, including land in which infrastructure projects are or will be developed. 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, 2011 and 2010:

	2011	2010	Increase (Decrease)
Land	$ 12,568,228	$ 16,681,768	$ (4,113,540)
Construction in progress	93,047,141	399,447,708	(306,400,567)
Furniture and equipment	878,061	843,931	34,130
Vehicles	88,259	88,259	-
Leasehold improvements	-	677,295	(677,295)
Total capital assets	106,581,689	417,738,961	(311,157,272)
Less accumulated depreciation and amortization	841,052	1,393,046	(551,994)
Capital assets — net	$ 105,740,637	$ 416,345,915	$ (310,605,278)

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. The decrease in capital assets was mainly due to the transfer of completed construction projects amounting to approximately $321 million, from which approximately $247.6 million relates to sports facilities developed for the celebration of the XXI Central American & Caribbean Games.

Major additions related to projects under construction for the year ended June 30, 2011 amounted to approximately $13 million.

Debt Outstanding

As of June 30, 2011, the Authority had approximately $1,992 million in long-term liabilities. Total long-term liabilities include bonds and loans payable, liability for legal matters, and accrued compensated absences, which decreased by approximately $1,019 million, in comparison to June 30, 2010. The following is a schedule (in thousands) of outstanding bonds and other long-term liabilities as of June 30, 2011 and 2010:

Description	2011	2010	Increase (Decrease)
Bonds payable:			
Special Tax Revenue Bonds	$ 2,549,455	$ 2,579,675	$ (30,220)
Special Obligation Bonds	-	1,008,240	(1,008,240)
Mental Health Infrastructure Revenue Bonds	42,230	42,630	(400)
Subtotal	2,591,685	3,630,545	(1,038,860)
Net premium	115,691	121,339	(5,648)
Unaccreted discount on capital appreciation bonds	(674,140)	(688,453)	14,313
Unamortized deferred loss on refunding loans	(61,740)	(65,371)	3,631
Total bonds payable	1,971,496	2,998,060	(1,026,564)
Loans payable	15,277	8,092	7,185
Liability for legal matters	4,859	4,859	-
Compensated absences	239	214	25
Total long-term liabilities	$ 1,991,871	$ 3,011,225	$ (1,019,354)

6. ECONOMIC FACTORS

The Special Tax Revenue Bonds are payable solely from and secured by a pledge of federal excise taxes (or "cover-over revenues") 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 operations of rum distillers in Puerto Rico 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.

The USVI has dedicated a substantial share of current and future cover-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 ten (10) year supply agreement entered into with Destilería Serrallés Inc. ("Serrallés"), a Puerto Rican rum distiller, ending in 2011. 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 U.S. Congress introduced House of Representative ("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.

As a result of USVI-Diageo Agreement, the level of the Commonwealth's cover-over revenues is expected to fall, although the exact amount is not presently known. However, various factors should reduce the amount that will not be received, explained as follows:

- By virtue of Act No. 178 of December 1, 2010 (the "Act No. 178"), total investment that the Commonwealth is allowed to make in Puerto Rican rums promotional activities increased from 10 percent to 25 percent of Commonwealth's cover-over revenues. Furthermore, it also gives to the Governor of the Commonwealth the discretion to increase such percentage up to 46 percent after December 31, 2011. Act No. 178 extends the uses of cover- over revenues to the development of incentives and promotional strategies and the investment in agricultural, industrial and commercial infrastructure that will enhance the potential growth of the rum industry.

- The Commonwealth has entered into a $95 million grant agreement with Bacardí Ltd. ("Bacardí"), a Puerto Rican rum distiller, for the renovation of its distilling plant. The agreement will also provide Bacardí with production and marketing incentives. In return, Bacardí has to maintain a minimum level of production in Puerto Rico for the next 20 years.

- In order to develop its own brands to offset volume cost increases and revenue losses tied to Diageo's exit, Serrallés began a new marketing strategy. During 2009, it announced the opening of its operations in Dallas, Texas, being the exclusive importer of Don Q brand in the United States. Furthermore, in August 2010, the Serrallés expanded its rum brands portfolio by launching across the United States the BlackBeard Spiced Rum label.

- In 2011, the Commonwealth entered into a 20 years production and marketing incentives agreement with Club Caribe Distillers, LLC. (" Club Caribe"). Pursuant to provisions set for the by the Agreement, Club Caribe will begin its distilling operations in Puerto Rico, receiving production and marketing incentives ranging from 15% to 25% of Commonwealth's cover-over revenues attributed to the Company's rum exports to the US, which is the Company's primary 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 Legislature of the Commonwealth, 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, PO Box 41207, San Juan, PR 00940.

PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
STATEMENT OF NET ASSETS/(DEFICIT)
JUNE 30, 2011

	Governmental Activities
ASSETS:	
Cash and cash equivalents	$ 1,632,746
Accounts receivable	245,447
Due from Commonwealth	79,567
Prepaid expenses and other assets	374,251
Bond issuance costs	38,268,703
Restricted assets:	
Temporarily restricted assets:	
Cash and cash equivalents	159,852,476
Accrued interest receivable	15,652
Investments and investment contracts	7,266,200
Due from Commonwealth	1,050,399
Accounts receivable	70,020,530
Net investment in direct financing lease	38,892,168
Permanently restricted assets - investments and investment contracts	165,269,148
Capital assets, net:	
Nondepreciable:	
Land	12,568,228
Construction in progress	93,047,141
Depreciable, net	125,268
Total assets	588,707,924
LIABILITIES AND NET ASSETS/(DEFICIT):	
Liabilities:	
Accounts payable and accrued expenses:	
Due in one year	2,444,518
Due in more than one year	4,859,000
Liabilities payable from restricted assets:	
Accounts payable and accrued expenses	115,775,435
Accrued interest payable	41,778,729
Bonds and loans payable:	
Due in one year	32,175,000
Due in more than one year	1,954,598,342
Total liabilities	2,151,631,024
NET ASSETS/(DEFICIT):	
Invested in capital assets, net of related debt	125,268
Restricted for:	
Debt service	31,986,462
Trust - nonexpendable	165,269,148
Other purpose	506,965
Unrestricted	(1,760,810,943)
TOTAL NET DEFICIT	$ (1,562,923,100)

The accompanying notes are an integral part of these 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, 2011

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	$ 14,815,082	$ 118,041,220	$ 19,346,828	$ 122,572,966
Education, aqueduct and sewers, and transportation	5,379,109	2,524,894	-	(2,854,215)
Economic development program	19,578,298	19,578,298	-	-
Recreation and sports	249,361,149	2,552,879	-	(246,808,270)
Edifications	25,329,875	230,137	-	(25,099,738)
Arts and entertainment	45,990,184	518,456	-	(45,471,728)
Public safety	2,491,239	-	-	(2,491,239)
ARRA programs	41,752,603	39,527,716	-	(2,224,887)
Interest on long-term debt	128,388,788	-	-	(128,388,788)
Total governmental activities	$ 533,086,327	$ 182,973,600	$ 19,346,828	(330,765,899)
GENERAL REVENUES - Unrestricted investment earnings				7,021
SPECIAL ITEM - Contribution to the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico				(162,499,456)
CHANGE IN NET DEFICIT				(493,258,334)
NET DEFICIT - Beginning of year				(1,069,664,766)
NET DEFICIT - End of year				$ (1,562,923,100)

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

PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Permanent Fund	Total Governmental Funds
ASSETS						
CASH AND CASH EQUIVALENTS	$ 1,632,746	$ -	$ -	$ -	$ -	$ 1,632,746
ACCOUNTS RECEIVABLE	245,447	-	-	-	-	245,447
DUE FROM OTHER FUNDS	2,881,221	-	-	-	-	2,881,221
DUE FROM COMMONWEALTH	79,567	-	-	-	-	79,567
RESTRICTED ASSETS:						
Cash and cash equivalents	9,956,257	1,722,054	74,918,731	73,255,434	-	159,852,476
Accrued interest receivable	-	-	9,850	5,802	-	15,652
Investments and investment contracts	-	-	4,127,700	3,138,500	165,269,148	172,535,348
Accounts receivable	-	17,626,719	52,393,811	-	-	70,020,530
Due from Commonwealth	-	-	1,050,399	-	-	1,050,399
	$ 14,795,238	$ 19,348,773	$ 132,500,491	$ 76,399,736	$ 165,269,148	$ 408,313,386

Continues

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

PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

Continued

	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	$ 2,115,862	$ -	$ -	$ -	$ -	$ 2,115,862
Liabilities payable from restricted assets:						
Accounts payable and accrued expenses	9,369,725	17,614,611	88,791,095	-	-	115,775,431
Deferred revenues	79,567	10,767,882	359,508	-	-	11,206,957
Due to other funds	-	1,115,381	1,765,840	-	-	2,881,221
Total liabilities	11,565,154	29,497,874	90,916,443	-	-	131,979,471
FUND BALANCES/(DEFICIT):						
Trust - nonexpendable	-	-	-	-	165,269,148	165,269,148
Restricted	506,965	-	41,584,048	76,399,736	-	118,490,749
Unassigned	2,723,119	(10,149,101)	-	-	-	(7,425,982)
Total fund balances/(deficit)	3,230,084	(10,149,101)	41,584,048	76,399,736	165,269,148	276,333,915
	$ 14,795,238	$ 19,348,773	$ 132,500,491	$ 76,399,736	$ 165,269,148	$ 408,313,386

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

PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS/(DEFICIT)
JUNE 30, 2011

TOTAL FUND BALANCE OF GOVERNMENTAL FUNDS		$ 276,333,915
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. At June 30, 2011, these amounts are:		
Nondepreciable capital assets	105,615,369	
Depreciable capital assets, net	125,268	105,740,637
Prepaid expenses and bond issuance costs are not available to pay current period expenditures and, therefore, are not deferred in the funds. At June 30, 2011, these amounts are:		
Bond issuance costs	38,268,703	
Prepaid expenses and other assets	374,251	38,642,954
Revenues in the statement of activities that do not provide current financial resources are deferred in the funds.		11,206,952
Other non-current assets are not available to pay current period expenditures and, therefore, are not deferred in the funds.		38,892,168
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. At June 30, 2011, these amounts are:		
Bonds and loans payable	(1,986,773,342)	
Accrued interest payable	(41,778,729)	
Legal reserve	(4,859,000)	
Compensated absences	(248,330)	
Other liabilities	(80,325)	(2,033,739,726)
TOTAL NET DEFICIT OF GOVERNMENTAL ACTIVITIES		$ (1,562,923,100)

The accompanying notes are an integral part of these 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, 2011

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Permanent Fund	Total Governmental Funds
REVENUES:						
Intergovernmental revenues:						
Contributions from Commonwealth of Puerto Rico	$ 122,100,427	$ -	$ 24,993,960	$ 264,582	$ -	$ 147,358,969
ARRA programs	-	42,435,955	-	-	-	42,435,955
Interest and investment income:						
Interest - bearing demand deposits	7,021	-	36,648	-	-	43,669
Investments and investment contracts	-	-	189,311	1,970,631	14,160,575	16,320,517
Direct financing lease revenues	-	-	-	3,073,275	-	3,073,275
Other	726,429	47,194	3,257,243	-	-	4,030,866
Total revenues	122,833,877	42,483,149	28,477,162	5,308,488	14,160,575	213,263,251
EXPENDITURES:						
Current:						
General government	170,101,160	-	403,510	-	-	170,504,670
Education and transportation	-	-	1,018,988	-	-	1,018,988
Economic development program	-	-	19,578,298	-	-	19,578,298
Recreation and sports	-	-	1,694,331	-	-	1,694,331
Edifications	-	-	6,037,522	-	-	6,037,522
Arts and entertainment	-	-	274,013	-	-	274,013
Public safety	-	-	2,491,239	-	-	2,491,239
ARRA programs	-	41,752,603	-	-	-	41,752,603
Debt service:						
Payment of maturing bonds	-	-	-	1,038,860,000	-	1,038,860,000
Repayment of notes payable to Government Development Bank for Puerto Rico	-	2,734,065	66,777	-	-	2,800,842
Interest	-	19,321	430,311	120,511,786		120,961,418
Capital outlays:						
General government	40,546	-	-	-	-	40,546
Education, aqueduct and sewers, and transportation	-	-	1,042,341	-	-	1,042,341
Recreation and sports	-	-	9,143,928	-	-	9,143,928
Edifications	-	-	2,661,129	-	-	2,661,129
Arts and entertainment	-	-	43,322	-	-	43,322
Total expenditures	170,141,706	44,505,989	44,885,709	1,159,371,786	-	1,418,905,190

Continues

The accompanying notes are an integral part of these 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, 2011

Continued

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Permanent Fund	Total Governmental Funds
EXCESS/(DEFICIENCY) OF REVENUES (UNDER)/OVER EXPENDITURES	$ (47,307,829)	$ (2,022,840)	$ (16,408,547)	$ (1,154,063,298)	$ 14,160,575	$ (1,205,641,939)
OTHER FINANCING SOURCES/(USES):						
Proceeds from loans payable to Government Development Bank for Puerto Rico	-	9,080,942	905,566	-	-	9,986,508
Transfers in	164,163,578	-	138,754	112,920,434	-	277,222,766
Transfers out	(112,920,434)	-	-	(1,802,876)	(162,499,456)	(277,222,766)
Total other financing sources/(uses)	51,243,144	9,080,942	1,044,320	111,117,558	(162,499,456)	9,986,508
NET CHANGES IN FUND BALANCES	3,935,315	7,058,102	(15,364,227)	(1,042,945,740)	(148,338,881)	(1,195,655,431)
FUND BALANCES - beginning of year	(705,231)	(17,207,203)	56,948,275	1,119,345,476	313,608,029	1,471,989,346
FUND BALANCES - end of year	$ 3,230,084	$ (10,149,101)	$ 41,584,048	$ 76,399,736	$ 165,269,148	$ 276,333,915

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

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, 2011

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		$ (1,195,655,431)
Amounts reported for governmental activities in the statement of activities are different because:		
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. At June 30, 2011, these amounts are:		
Capital outlays	12,924,845	
Depreciation expense	(125,301)	12,799,544
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. At June 30, 2011, these amounts are:		
Principal payments	1,041,662,168	
Amortization of bonds premium	5,647,674	
Amortization of bonds issue costs	(8,829,573)	
Amortization of bond deferred loss on refunding bonds	(3,631,767)	
Proceeds from long - term debt	(9,986,508)	1,024,861,994
Revenues in the statement of activities that do not provide current financial resources and are deferred in the governmental funds.		(10,935,802)
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.		(324,328,639)
CHANGE IN NET DEFICIT OF GOVERNMENTAL ACTIVITIES		$ (493,258,334)

The accompanying notes are an integral part of these 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 (the "Act No. 44") and an affiliate of Government Development Bank for Puerto Rico (the "GDB"). 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 revenues and expenses/expenditures 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 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 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/(deficit). Net assets/(deficit) are reported in three categories:

- Invested in capital assets, which consists of capital assets, net of accumulated depreciation and amortization, 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 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) interest and investment income, including the 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 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 available if they are collected within 60 days after the end of the current fiscal year. Other revenues are considered 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 payment is due
- 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") and interest up to 2050 (see Note 15) may not be expended but must be kept intact, that is, the capital must be maintained.

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, which are carried at cost. Fair value is determined based on quoted market prices, whenever available. For securities without a quoted price, fair value is determined based on 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.

Accounts Receivable– Accounts receivable are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions.

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.

Direct Financing Lease– Aggregate rental payments due over the term of the lease lees unearned income are include in direct financing lease receivable. Unearned income is amortized to lease income using systematic and rational methods that approximate the interest method.

Restricted Assets – Certain resources are set aside for the repayment of bonds payable, as disclosed in Note 9. The Authority also has resources set aside for construction of capital projects and other purposes, such as future contributions to the revolving loan funds, as disclosed in Note 14. 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 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 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 follows Governmental Accounting Standards Board (the "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 Premiums/Discounts – Premiums/discounts and bond issuance costs related to long-term debt are deferred and amortized/accreted over the life of the related debt, using systematic and rational methods that approximate the interest method. Loans 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.

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. Premiums/discounts related to general long-term debt in the governmental fund financial statements are recorded as part of other financing sources/uses and, therefore, are not accounted for in subsequent periods.

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).

Fund Balance – The Authority follows GASB 54 Fund Balance Reporting and Governmental Fund Type Definitions which establish fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balances for each governmental fund are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- **Non-spendable** – amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- **Restricted** – amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- **Committed** – amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board of Directors (the "Board"). Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process.
- **Assigned** – amounts in the assigned fund balance classification are intended to be used by the Institute for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board or Institute official delegated that authority by Board resolution.
- **Unassigned** – amounts that are available for any purpose.

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.

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 statement of net assets 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 replacement value and purchases property and casualty insurance policies. Insurance coverage for fiscal year 2011 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 are 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.

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

Use of Estimates – The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements ant the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Future Adoption of Accounting Pronouncements – The GASB has issued the following Statements:

GASB Statement 57 (GASB 57), OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. GASB 57 address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans and clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers. This statement is effective for periods beginning after June 15, 2011. The adoption of GASB 57 does not have any impact on the Authority's financial Statements.

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

GASB Statement No. 61, The Financial Reporting Entity: Omnibus- an amendment of GASB Statements No. 14 and No. 34. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The*

Financial Reporting Entity, and the related financial reporting requirements of Statement No. 34, *Basis Financial Statements and Management's Discussion and Analysis for State and Local Governments,* were amended to better meet user needs and to address reporting entity issues have arisen since the issuance of those Statements. This statement is effective for periods beginning after June 15, 2012.

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

GASB Statement No. 63 Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

GASB Statement No. 64 Application of Hedge Accounting Termination Provisions. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of as swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011.

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

3. CASH AND CASH EQUIVALENTS, AND INVESTMENTS AND INVESTMENT CONTRACTS

In accordance with investment guidelines promulgated by the GDB 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. Investments related to bond issuances are purchased in accordance with the related bond indenture.

As of June 30, 2011, the Authority held cash, cash equivalents, and investments and investment contracts as follows:

Unrestricted assets:		
Cash	$	116,759
Cash equivalents		1,515,987
Total cash and cash equivalents, unrestricted assets		1,632,746
Restricted assets:		
Cash		39,985,499
Cash equivalents and investments and investments contracts:		
Cash equivalents		119,866,977
Investments and investment contracts, temporarily restricted		7,266,200
Investments, permanently restricted		165,269,148
Total cash equivalents and investments and investments contracts		292,402,325
Total	$	334,020,570

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
Time deposits:			
Government Development Bank for Puerto Rico	$ 8,515,987	$ -	$ 8,515,987
Banco Popular de Puerto Rico	1,146,268		1,146,268
Money market funds:			
U.S. Bank Trust National Association	42,647,599		42,647,599
Federated Prime Obligations	72,573,110		72,573,110
Nonparticipating investment contracts — Calyon	-	3,766,200	3,766,200
Sales Tax Financing Corporation, Sales Tax Revenue Bonds, Junior Subordinate, Series 2011	-	165,269,148	165,269,148
Total	$ 124,882,964	$ 169,035,348	$ 293,918,312

The credit quality ratings for investments and investment contracts at June 30, 2011, are as follows:

	Credit Risk Rating	
Counterparty	**Standard & Poors**	**Moody's**
U.S. Bank Trust National Association	AA-	Aa2
Government Development Bank for Puerto Rico	BBB	Baa3
Federated Prime Obligations	AAAm	Aaa
Calyon	A+	Aa3
Banco Popular de Puerto Rico	BB-	Baa3

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.

Custodial credit risk is the risk that in the event of a bank failure, the bank's deposits may not be returned. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized. Deposits maintained in the GDB or Economic Development Bank ("EDB") are exempt from collateral requirement established by the Commonwealth and thus represents custodial credit risk because in the event of the GDB's or EDB's failure, the Authority may not be able to recover the deposits. The Authority's policy is to deposit funds with either institution which provides insurance or securities as collateral. Such collateral is held by the Department of the Treasury of the Commonwealth.

As of June 30, 2011, approximately $53.2 million, of the depository bank balance of approximately $54.3 million, was exposed to custodial credit risk since such deposits, all of which are maintained at the GDB, are uninsured and uncollateralized.

4. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2011, are as follows:

Description	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Due from federal government	$ -	$ 17,626,719	$ -	$ 17,626,719
Due from other governmental entities	245,447	-	52,393,811	52,639,258
Total	$ 245,447	$ 17,626,719	$ 52,393,811	$ 70,265,977

The reconciliation to the government-wide statement of net assets/(deficit) as of June 30, 2011, is as follows:

	2011
Unrestricted assets — accounts receivable	$ 245,447
Restricted assets — accounts receivable	70,020,530
Total	$ 70,265,977

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 GDB as disclosed in Note 9 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 disclosed in 9, 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 GDB 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 lease amount will be equal to the annual principal and interest requirement of the bonds hereunder. MHAASA's annual budget appropriations from the Commonwealth of Puerto Rico and the payments by the sublessors of MHAASA shall be assigned to the Trustee as security interest for the lease payments. 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, 2011, is as follows:

Description	Amount
Net minimum lease payments receivable	$ 87,324,145
Less unearned lease income	(48,431,977)
Total	$ 38,892,168

At June 30, 2011, the minimum future lease payments due under the direct financing lease are as follows:

Years Ending June 30	Amount
2012	$ 4,773,357
2013	6,565,388
2014	3,100,300
2015	3,061,100
2016	3,019,625
2017-2021	15,232,500
2022-2026	15,308,875
2027-2031	15,122,500
2032-2036	15,170,000
2037-2041	5,970,500
	$ 87,324,145

6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011, was as follows:

Governmental Activities	Beginning Balance	Increases	Other Reclassifications	Ending Balance
Capital assets:				
Nondepreciable:				
Land	$ 16,681,768	$ 246,584	$ (4,360,124)	$ 12,568,228
Construction in progress	399,444,708	12,644,137	(319,041,704)	93,047,141
Depreciable:				
Furniture and equipment	843,931	34,130	-	878,061
Vehicles	88,259	-	-	88,259
Leasehold improvements	677,295	-	(677,295)	-
Total capital assets	417,735,961	12,924,851	(324,079,123)	106,581,689
Less accumulated depreciation and amortization:				
Furniture and equipment	710,638	83,744	-	794,382
Vehicles	35,132	11,538	-	46,670
Leasehold improvements	647,276	30,019	(677,295)	-
Total accumulated depreciation and amortization	1,393,046	125,301	(677,295)	841,052
Capital assets — net	$ 416,342,915	$ 12,799,550	$ (323,401,828)	$ 105,740,637

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, as disclosed in Notes 9 and 10. 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. These capital projects, including land acquired, are included as part of the Authority's capital assets until construction is completed and the conditions for transfers to the ultimate beneficiaries are met, at which time they are recorded as an expense in the statement of activities.

On April 6, 2006, the Authority and PRASA entered into an assistance agreement whereby the infrastructure projects undertaken by the Authority for PRASA's benefit (the "PRASA Projects") would be transferred to PRASA not later than 90 days after the execution of the agreement. The Authority and PRASA would 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 continues to fund the completion of the projects still in development up to the maximum available for such purposes.

On June 28, 2010, the Authority and PRASA entered into an amended assistance agreement (the "Assistance Agreement") to acknowledge the Authority's compliance with the conditions precedent to transfer on all PRASA Projects, excluding land owned by the Authority, and PRASA's assumption of all operation, maintenance, and safety responsibilities of all PRASA Projects. In connection with the amendment, approximately $915 million of the Authority's capital assets were transferred to PRASA. The transfer to PRASA of land owned by the Authority in connection with such projects of approximately $7,568,000 at June 30, 2011, has not been executed since various conditions precedent to the transfer are in the process of being completed.

During the year ended June 30, 2011, the Authority incurred construction costs for the benefit of other instrumentalities amounting to approximately $12.9 million. Such construction costs have been included as part of capital outlays in the accompanying statement of revenues, expenditures, and changes in fund balances — governmental funds as follows:

Function/Programs	Amount
Recreation and sports	$ 9,143,928
Edifications, aqueduct and sewers, and arts and entertainment	2,951,036
Transportation	795,757
Total	$ 12,890,721

During the year ended June 30, 2011, the Authority transferred completed construction projects amounting to approximately $321 million to municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth, from which approximately $247.6 million relates to sports facilities developed for the celebration of the XXI Central American & Caribbean Games. In connection with the transfer of such sports facilities, approximately $230.3 million were made to the Puerto Rico Recreation and Sports Department.

During the year ended June 30, 2011, depreciation expense of $125,301 was charged to the general government function in the accompanying statement of activities.

During the year ended June 30, 2011, the Authority recorded an impairment loss of approximately $2.4 million on land premises. The impairment loss has been recorded as part of the education, aqueduct and sewers, and transportation function in the accompanying statement of activities.

7. INTERFUND TRANSFERS

The summary of the interfund balances as of June 30, 2011, is as follows:

Receivable By	Payable By	Purpose	Amount
General Fund	Capital Projects Fund	Reimbursement of expenditures	$ 1,765,840
General Fund	Spacial Revenue Fund	Reimbursement of expenditures	1,115,381
Total			$ 2,881,221

Interfund transfers for the year ended June 30, 2011, consist of the following:

Transfer Out	Transfer In	Purpose	Amount
Permanent Fund	General Fund	Provide funding for contribution to the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	$ 162,499,456
General Fund	Debt Service Fund	Debt service payments	112,920,434
Debt Service Fund	General Fund	Provide funding for contribution to the Commonwealth and the Bank	1,664,122
Debt Service Fund	Capital Projects Funds	Other contribution	138,754
Total			$ 277,222,766

8. RESTRICTED ASSETS

Restricted assets of the Authority included in the statement of net assets at June 30, 2011 consist of cash and cash equivalents, receivables, investments, capital assets, and other assets to be used for the following purposes:

Debt service and sinking fund	$ 115,291,904
Capital projects	237,065,465
Economic development program	1,050,399
ARRA Programs	19,348,773
Trust - nonexpendable	165,269,148
Other uses	10,081,521
	$ 548,107,210

9. BONDS PAYABLE

Special Tax Revenue Bonds — 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 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 primarily 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 GDB for the purpose of providing funds to pay certain capital improvements of the Authority or other Commonwealth's 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 to cover costs of issuance of the Series 2005 C Bonds. This refunding permitted the Authority to realize present value savings on its debt service requirements.

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 a 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, redemption premium and interest on the refunded 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 ranging from 4% to 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 (the "Series 2006 Bonds"), for the purpose of developing the infrastructure necessary for the XXI Central American and Caribbean Games (the "Games"). The proceeds of this issuance provided for (1) the acquisition, improvements and construction of sports and other facilities necessary for the Games; (2) the construction of capital projects of certain Commonwealth's instrumentalities and municipalities; and (3) the payment of capitalized interest and cost of issuance of the Series 2006 Bonds. The proceeds of the Series 2006 Bonds were deposited into a

Special Construction Fund administered by the Authority on behalf of the applicable benefited entities. The Series 2006 Bonds bear interest, payable on July 1 and January 1 of each year, at various rates ranging from 4.50% to 5.00%, and mature on various dates from July 1, 2010 to July 1, 2046.

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 through fiscal year 2057, the first $117,000,000 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. For the year ended June 30, 2011, of the total of $117,000,000 received by the Authority from the Commonwealth, a total of $113,000,000 was pledge for the debt service of the Special Tax Revue Bonds. For the year ended June 30, 2011, principal and interest paid on Special Tax Revenue Bonds amounted to approximately $111,549,400.

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. The level of federal excise taxes to be received by the Commonwealth is currently expected to fall, although the exact amount cannot be determined. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient, 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 Legislature of the Commonwealth, 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 Act No. 44, subject to compliance with certain financial tests in the trust agreement.

As of June 30, 2011, debt service requirements (in thousands) for special tax revenue bonds were as follows:

Years Ending June 30	Principal	Interest	Total
2012	$ 31,775	$ 80,396	$ 112,171
2013	33,430	78,684	112,114
2014	35,195	76,872	112,067
2015	37,055	74,954	112,009
2016	39,030	72,924	111,954
2017-2021	228,500	330,407	558,907
2022-2026	296,995	259,906	556,901
2027-2031	378,965	180,618	559,583
2032-2036	406,460	157,156	563,616
2037-2041	650,550	121,604	772,154
2042-2046	303,885	41,626	345,511
2047	107,615	2,690	110,305
	2,549,455	$ 1,477,837	$ 4,027,292
Add — Premium	116,394		
Less:			
Unaccreted discount on capital appreciation bonds	(674,140)		
Unamortized deferred loss on refunding bonds	(61,740)		
Total	$ 1,929,969		

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. At June 30, 2011, there is no principal outstanding on bonds defeased.

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 GDB and financing certain aqueduct and sewer infrastructure development projects. The Series 2000 Bonds were limited obligations of the Authority, payable solely from and secured by, a pledge of all proceeds collected 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 were subject to redemption, at the option of the Authority, on or after October 1, 2010 through September 30, 2011, at a redemption price of 101% and 100%

thereafter. The Series 2000 B Bonds were subject to redemption, at the option of the Authority, at a price equal to the principal balance plus accrued interest at the date of redemption, on any date not earlier than October 1, 2010.

By virtue of Act. No. 3 of January 14, 2009 (the "Act No. 3"), the Act No. 44 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 set aside $1,104,221,957 of the proceeds of said investments' redemption for the redemption of the Series 2000 Bonds, as disclosed in Note 15. At June 30, 2011, there is no principal outstanding on Series 2000 Bonds.

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 GDB 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 GDB amounting to $3,305,780.

The Series 2007 Bonds were issued under a trust indenture dated October 1, 2007, between the Authority and the GDB, which provides for the assignment of a lease with an option to purchase, dated October 24, 2007, as disclosed in Note 5. The Series 2007 A Bonds are payable semiannually on April 1 and October 1, 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 a rate of 5.75% payable annually on each October 1. The Series 2007 Bonds are subject to redemption rights at 100% of the principal, plus accrued interest.

As of June 30, 2011, debt service requirements (in thousands) for Mental Health Infrastructure Revenue Bonds were as follows:

Years Ending June 30	Principal	Interest	Total
2012	$ 400	$ 2,662	$ 3,062
2013	4,030	2,535	6,565
2014	700	2,400	3,100
2015	700	2,361	3,061
2016	700	2,320	3,020
2017-2021	4,400	10,832	15,232
2022-2026	6,100	9,209	15,309
2027-2031	8,200	6,923	15,123
2031-2036	11,400	3,770	15,170
2037-2038	5,600	371	5,971
	42,230	$ 43,383	$ 85,613
Less — Discount	(703)		
Total	$ 41,527		

10. 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 GDB. The Note was originally a loan granted by the GDB (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, 2011, was $4,956,449 and matures in June 2031. Principal and interest installments are payable annually. 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. During the year ended June 30, 2011, the Authority recorded Commonwealth appropriations amounting to $264,582 that were used to pay the interest on the Note as part of program revenues — operating grants and contributions — general government function and as part of contributions from Commonwealth in the accompanying statement of revenues, expenditures, and changes in fund balances — governmental funds.

On February 18, 2005, the Authority entered into a loan agreement with the GDB 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. Principal amount of the loan and be due and payable on June 30, 2018. The loan bears interest at 7% as of June 30, 2011 and interest installments are due annually. As of June 30, 2011, the principal balance outstanding under this loan agreement amounted to $3,957,841. During the year ended June 30, 2011, the Authority received contributions from the Puerto Rico Sales Tax Financing Corporation ("COFINA", for its Spanish acronym), also a component unit of the Commonwealth, amounting to $497,088. These contributions were used to pay the principal and interest due under this loan agreement. These contributions have been recorded as part of program revenues — operating grants and contributions — general government function in the accompanying statement of activities and as part of contributions from Commonwealth in the accompanying statement of revenues, expenditures, and changes in fund balances — governmental funds.

On June 1, 2009, the Authority entered into a nonrevolving line of credit facility (the "Line of Credit") with the GDB to provide interim financing for costs incurred by the Authority under certain American Recovery and Reinvestment Act Programs (the "ARRA Programs"). The Line of Credit will be repaid from the cost reimbursements received from the federal government under the ARRA Programs and contributions from the Commonwealth. The Line of Credit matured on June 30, 2011, and subsequently was extended until January 31, 2013. and bears interest at 150 basis points over the prime rate (4.75% as of June 30, 2010), with a minimum interest rate of 6%. As of June 30, 2011, the principal balance outstanding under the Line of Credit amounted to $6,362,779.

As of June 30, 2011, debt service requirements (in thousands) for loan agreements are as follows:

Years Ending June 30	Principal	Interest	Total
2012	$ -	$ 734	$ 734
2013	6,363	207	6,570
2014	99	214	313
2015	92	212	304
2016	111	204	315
2017-2021	4,529	912	5,441
2022-2026	877	754	1,631
2027-2031	3,206	435	3,641
	$ 15,277	$ 3,672	$ 18,949

11. CHANGES IN LONG-TERM AND OTHER LIABILITIES

Long-term liability activity (in thousands) in the governmental activities for the year ended June 30, 2011, was as follows:

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Special Tax Revenue Bonds:					
Series 1998 A Bonds	$ 25,565	$ -	$ (25,565)	$ -	$ -
Series 2005 A, B and C Bonds	2,084,340			2,084,340	28,005
Series 2006 Bonds	469,770		(4,655)	465,115	3,770
Special Obligation Bonds — Series 2000 A and B Bonds	1,008,240		(1,008,240)	-	-
Mental Health Infrastructure Revenue Bonds — Series 2007 A and B Bonds	42,630	-	(400)	42,230	400
Subtotal	3,630,545	-	(1,038,860)	2,591,685	32,175
Net premium/(discount)	121,339		(5,648)	115,691	
Unaccreted discount on capital appreciation bonds	(688,453)		14,313	(674,140)	
Unamortized deferred loss on refunding loans	(65,371)	-	3,631	(61,740)	-
Total bonds payable	2,998,060	-	(1,026,564)	1,971,496	32,175
Loans payable	8,092	9,986	(2,801)	15,277	,
Liability for legal matters	4,859	-	-	4,859	-
TOTAL	$ 3,011,011	$ 9,986	$ (1,029,365)	$ 1,991,632	$ 32,175

Long-term liabilities are presented in the government-wide statement of net assets/(deficit) as of June 30, 2011, as follows (in thousands):

Accounts payable and accrued expenses — Due in more than one year	$ 4,859
Liabilities payable from restricted assets — bonds and loans payable:	
Due in one year	32,175
Due in more than one year	1,954,598
Total	$ 1,991,632

Compensated Absences — The activity for compensated absences, included within accounts payable and accrued liabilities in the accompanying statement of net assets/(deficit), during the year ended June 30, 2011, is as follows (in thousands):

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Compensated absences	$ 214	$ 243	$ (209)	$ 248	$ 248

Compensated absences are available to be liquidated by the employees during the year.

12. ARBITRAGE

The interest paid by the Authority in the Special Tax Revenue Bonds 2005 Series A and B, Special Tax Revenue Refunding Bonds 2005 Series C and Special Tax Revenue Bond Series 2006 are exempt from federal income tax. As a result, the Authority is subject to Federal Arbitrage Regulations ("FAR"). FAR requires that arbitrage be calculated and rebated to the federal government at the end of each five-year period that tax exempt debt is outstanding (90 percent of the amount due) and at maturity. Arbitrage calculation for the Special Tax Revenue Bonds 2005 Series A and B, Special Tax Revenue Refunding Bonds 2005 Series C was made on June 16, 2010 the next calculation is schedule to be performed on June 16, 2015. The arbitrage calculation for the Special Tax Revenue Bonds Series 2006 is due on September 2011. As of June 30, 2011 there is no arbitrage exposure.

13. TERMINATION BENEFITS

On October 13, 2010, the Authority announced to its employees a voluntary termination plan (the "Plan") based on Act No. 70 enacted on July 2, 2010. Act No. 70 provides that eligible employees may retire from employment with the Commonwealth in exchange for an early pension, an economic incentive and other benefits. The Plan only applied to employees who were ten years or less from retirement in accordance with their applicable retirement plans as of December 31, 2010. The Plan approved by the Authority's board of directors provides the following:

- The employee will receive an annuity of fifty percent of salary in effect at September 30, 2010. The Authority is responsible for the payment of the annuity in addition to the related employee and employer contributions to the Employees' Retirement System of the Commonwealth of Puerto Rico (the "Retirement System") for a maximum period of ten years.

- The employee will receive an economic incentive of six month's salary. This incentive is exempt from income taxes as established by Act No. 70.

- The employee will receive the benefits of health and dental insurance for a period of one year.

Only one employee was voluntarily separated from employment under the Plan. Total cost related to this termination benefits was $424 thousand. Employee and employer contributions to the Retirement System and the employee annuity for the applicable period were discounted based on the average interest rate of unpledged investments. As of June 30, 2011, the total liability related to this plan was approximately $385 thousand.

14. REVOLVING LOAN FUNDS

Act No. 44 provided for the establishment of the Puerto Rico Water Pollution Control Revolving Fund (the "Revolving Fund"), a proprietary fund of the Commonwealth, 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, Act No. 44, and the Memorandum of Understanding entered into by and among EQB, PRASA, the GDB, and the Authority.

On July 7, 1997, the Legislature of the Commonwealth enacted legislation, which, among other things, established 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 the Drinking Water Fund. As of June 30, 2011, the Authority holds cash in a custodian capacity amounting to $9,449,292, which is presented as part of temporarily restricted cash and cash equivalents in the accompanying statement of net assets/(deficit). As of June 30, 2011, 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 expenses in the accompanying statement of net assets/(deficit).

15. PERMANENT FUND

Act No. 92 of June 24, 1998, of the Legislature of the Commonwealth (the "Act No. 92") provided, among other things, for the creation of the Permanent Fund of the Authority. The Permanent Fund consisted of a corpus account (the "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 provided 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 other 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 GDB.

By virtue of Act No. 3 of January 14, 2009 (the "Act No. 3"), the Act No. 44 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: (1) provide for the early extinguishment of the Series 2000 Bonds disclosed in Note 9, (2) maintain a permanent investment of $300 million within the Corpus Account, (3) pay any amounts due to the U.S. Internal Revenue Service (IRS), (4) pay transaction costs, and (5) contribute any remaining amounts to the Commonwealth and the GDB, 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. During the years ended June 30, 2011, 2010 and 2009, the Authority used the remaining proceeds of the redemption to make contributions to the Commonwealth and the GDB amounting to approximately $1.7 million, $3.3 million, and $464 million, respectively.

On June 16, 2011, the Legislature of the Commonwealth enacted Act No. 96, which required the early termination of the time deposit agreement between the Authority and the GDB. Act No. 96 also required the Authority to contribute $162.5 million to the Retirement System.

On June 23, 2011, the Authority early terminated the time deposit agreement and made the capital contribution of approximately $162.5 million to the Retirement System. The Authority invested the remaining funds from the early redemption, which amount to approximately $165 million, in Sales Tax Revenue Bonds Junior Subordinate, Series 2011 A (the "Sales Tax Revenue Bonds") as set forth by Act No. 96. The Sales Tax Revenue Bonds are obligations issued by COFINA. The Sales Tax Revenue Bonds shall not be subject to redemption prior to their maturity, which range from August 1, 2046 to August 1, 2050.

16. RELATED-PARTY TRANSACTIONS AND OTHER INTERGOVERNMENTAL TRANSACTIONS

During the year ended June 30, 2011, the Commonwealth assigned to the Authority $117 million of which approximately $116.92 million were used for debt service payments of the bonds and operating expenses. The remaining $80 thousand were collected after June 30, 2011, and are included as due from Commonwealth in the accompanying statement of net assets/(deficit) and balance sheet — governmental funds.

During the year ended June 30, 2011, the Authority contributed approximately $1.1 million and $600 thousands, to the Commonwealth and the GDB, respectively, as disclosed in Note 15. This contribution has been included as part of the general government function in the accompanying statement of activities and statement of revenues, expenditures, and changes in fund balances — governmental funds.

Interest income on interest-bearing demand and time deposits with the GDB amounted to approximately $14,000,000 for the year ended June 30, 2011. Furthermore, the GDB provides payroll services to the Authority at fixed amount of $50,000.

During the year ended June 30, 2011, the Authority transferred approximately $247.6 million related to sports facilities developed for the celebration of the XXI Central American & Caribbean Games. In connection with the transfer of such sports facilities, approximately $230.3 million were made to the PRRSD, as disclosed in Note 6.

In October 2010, the Authority entered into a memorandum of understanding with Puerto Rico Public-Private Partnerships Authority, Puerto Rico Public Building Authority, Puerto Rico Department of Education, Puerto Rico Department of Transportation and Public Works ("DTOP", for its Spanish acronym), and the GDB for the administration of the Schools for the 21st Century Program (the "21st Century Program"). The 21st Century Program comprises the modernization of approximately ninety-one (91) public schools and the construction ten (10) new public schools in Puerto Rico. At June 30, 2011, total investment under the Program amounted to $71.8 million.

17. COMMITMENTS — OPERATING LEASES

The Authority leases office space for a regional office in Mayagüez (Puerto Rico Employees Association building) and other equipment under noncancelable operating leases. The Authority also leases office space under cancellable operating leases. Rent expense for the year ended June 30, 2011, amounted to approximately $460,000.

At June 30, 2011, the minimum annual future rentals under noncancelable leases are as follows:

Years Ending June 30	Amount
2012	$ 613,008
2013	398,499
2014	395,718
2015	390,182
2016	387,414
2017-2021	1,935,039
2022-2026	1,815,154
2027-2031	1,815,154
2032-2036	1,815,154
2037-2039	1,089,093
	$ 10,654,415

18. COMMITMENTS — CONSTRUCTION

The Authority has active construction projects as of June 30, 2011, under various bond issuances. At June 30, 2011, the Authority's commitments with contractors are as follows:

Description	Commitment	Spent-to-Date	Remaining Commitment
Series 2000 Bonds	$ 205,689,006	$ 196,393,050	$ 9,295,956
Special Tax Revenue Bonds, Series 2005	111,249,185	85,743,885	25,505,300
Special Tax Revenue Bonds, Series 2006	240,117,179	211,773,928	28,343,251
Total	$ 557,055,370	$ 493,910,863	$ 63,144,507

19. CONTINGENCIES

At June 30, 2011 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 $4,859,000 has been reflected as part of accounts payable and accrued expenses in the accompanying statement of net assets/(deficit).

20. 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 a $20 million grant for the ARRA Act implementation costs and a $55 million grant for school renovations.

Under these ARRA Programs, the Authority is responsible to oversee the administration of all resources awarded to the Commonwealth under the ARRA Act. The Authority will also act as coordinator of efforts and tasks 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.

Pursuant to the provisions of the ARRA Act, the Authority entered into a sub-grant agreement with the Puerto Rico Energy Affairs Administration ("EAA") to administer approximately $62 million of a grant to be received from the United State Department of Energy ("DOE") under the Weatherization Assistance Program ("WAP"). WAP helps low-income families attain a reduction in household energy expenditures, while securing and enhancing the health and safety of the home. This program was established to provide assistance to the elderly, families with children, persons with disabilities, and those with a high-energy burden in their household.

In addition, pursuant to the provisions of the ARRA Act, the Authority entered into a sub-grant agreement with the EAA to assist in the administration of approximately $27 million of a grant to be received from the DOE under the State Energy Program ("SEP"). SEP was established to advance energy efficiency and renewable energy technologies throughout the Island with various initiatives for government, commercial, and residential sectors.

21. RETIREMENT SYSTEM

Defined Benefit Pension Plan — The Retirement System created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing, multiple-employer defined benefit pension plan sponsored by and reported as a pension trust fund of the Commonwealth. All regular employees of the Authority hired before January 1, 2000, and less than 55 years of age at the date of employment became members of the Retirement System as a condition to their employment. No benefits are payable if the participant receives a refund of accumulated contributions.

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

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, are entitled to an annual benefit payable monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than $200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined; otherwise, they will receive 75% of the average compensation, as defined.

Commonwealth legislation requires employees to contribute 5.775% for the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. The Authority is required by the same statute to contribute 9.275% of the participant's gross salary.

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

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

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

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

Total employee contributions to the above-mentioned plans during the year ended June 30, 2011, amounted to approximately $101,000. The Authority's contributions for the years ended June 30, 2011, 2010, and 2009, amounted to approximately $101,000, $80,000, and $47,000, respectively. These amounts represented 100% of the required contribution for the corresponding year.

Individual information for each option is not available since the allocation is performed by the Retirement System itself.

Additional information on the Retirement System is provided in its stand-alone financial statements for the year ended June 30, 2011, a copy of which can be obtained from the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration, 437 Ponce de León Avenue, Hato Rey, Puerto Rico 00918.

22. SUBSEQUENT EVENTS

Transfer of Construction Projects to the Puerto Rico Department of Transportation and Public Works

On October 2011, the Authority transferred completed construction projects amounting to approximately $28.5 million to the DTOP.

Special Revenue Bonds (Puerto Rico Ports Authority Project)

In December 2011, the Authority issued $669,215,000 Special Revenue Bonds (the "Bonds"), pursuant to a Loan and a Trust Agreement dated December 1, 2011, between the Authority and the Puerto Rico Ports Authority (the "Ports Authority"). The proceeds from the bonds were loaned to the Ports Authority in order to (i) refinance certain obligations, the proceeds of which were used by the Ports Authority to (a) finance or refinance the acquisition of land, site development, construction, renovation, or installation of airport or seaport facilities, related infrastructure or buildings, or acquisition or installation of furnishing, equipment, vehicles, or any combination of the forgoing, and (b) provide working capital to the Ports Authority, (ii) finance certain operating and capital costs, and (iii) finance the cost of issuance of the Bonds.

The Bonds are limited obligations of the Authority payable solely from and secured by the revenues received under the Loan and Trust Agreement, in which the Ports Authority will make loan payments sufficient to pay the principal of, premium, if any, and interest on the Bonds when due.

The Bonds also are secured by two irrevocable, transferable direct pay letters of credit issued by the GDB.

Special Revenue Bonds (Commonwealth's Matching Contribution to Revolving Fund)

In December, 2011, the Authority issued $20,721,636 Special Revenue Bonds pursuant to an Interagency Agreement dated September 23, 2011, between the Authority, EQB, the GDB, and the OMB, for the purpose of making a deposit in the Revolving Fund to cover the required Commonwealth's matching contribution pursuant to certain Capitalization Grants received by the Revolving Funds from the Federal Government, and (ii) pay the cost of issuance of the Bonds.

The Bonds are limited obligations of the Authority payable solely from and secured by funds held by the Revolving Fund in its Repayment Account, consisting of earnings from the repayments funds during the past years which, pursuant to the Enabling Act and Title VI of the Clean Water Act, can be used as collateral for the Bonds.

Sale of Capital Asset

In January, 2012, the Authority entered into an Agreement with the Municipality of San Juan (the "Municipality") to sale of a parcel of land owned by the Authority for $5 million. Pursuant to provisions set forth by this agreement, the Municipality will settle a legal claim against the Authority in the amount of approximately $3.7 million and will pay the remaining $1.7 million in three equal installments, which are due at the date of closing, in July 2013 and in July 2014. The carrying value of the asset amounted to approximately $5 million, after an impairment loss of approximately $2.4 recognized for this land premises during the year ended June 30, 2011, as disclosed in Note 6.

Real Estate Acquisition

In February 24, 2012, the Authority entered into an Assistance Agreement with the Puerto Rico Department of Justice ("PRDOJ") and the GDB for the purpose of the acquisition, refurbishment and maintenance of a real estate ("Property"), in which the main offices of the PRDOJ will be relocated. In connection with the assistance agreement, the GDB provided a $35 million credit facility to the Authority to undertake the acquisition and administration of the Property and handle the initial phase of the rehabilitation and refurbishment of the Property. On March 8, 2012, the Authority acquired the Property for $27 million.

The credit facility of the Authority is payable solely from, and secured by the assignment of, the PRDOJ lease agreement and any other existing and future lease agreement. Furthermore, the credit facility is also secured by mortgage lien on the Property.

SUPPLEMENTARY INFORMATION

PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)
SUPPLEMENTAL SCHEDULE OF SPECIAL OBLIGATIONS BONDS –
SERIES 2000 A AND B
JUNE 30, 2011

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** **(12519-099)**
Balance as of June 30, 2010	$ 1,043,886,907
Deposits:	
Sales of investments	-
Interest and dividends earned	1,729,035
Total deposits	1,729,035
Disbursements:	
Operating transfers out	1,664,122
Cash residual - transfer to another trust account	48
Principal payments to bondholders	1,008,240,000
Interest payments to bondholders	26,249,072
Penalty of 1% of total redemption- Premium payable	9,462,700
Total disbursements	1,045,615,942
Balance as of June 30, 2011	$ -

2. Descriptions of the bonds issued, paid, purchased, or redeemed during 2011 and the outstanding principal amount of the bonds:

a) Issued	$ -
b) Paid (principal):	
Series 2000 A	$ 957,570,000
Series 2000 B	$ 50,670,000
c) Purchased or redeemed	$ 996,940,000
d) Outstanding principal amount as of June 30, 2011:	
Series 2000 A	$ -
Series 2000 B	$ -