BASIC FINANCIAL STATEMENTS AND REQUIRED AND OTHER SUPPLEMENTARY INFORMATION

Public Buildings Authority
Years Ended June 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young

Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required and Other Supplementary Information

Years Ended June 30, 2011 and 2010

Contents

Report of Independent Auditors 1
Management's Discussion and Analysis 3

Basic Financial Statements

Balance Sheets 16
Statements of Revenues, Expenses and Changes in Net Assets 18
Statements of Cash Flows 19
Notes to Financial Statements 21

Required Supplementary Information

Schedule of Funding Progress for Postemployment Healthcare Benefits 57

Other Supplementary Information

Schedule of Bond Sinking Fund Accounts 58
Schedule of Operating Cash Accounts 59
Schedule of Operating Rental Revenues and Receivables 60
Schedule of Capital Improvements Program Compared to Budget 61

Ernst & Young LLP
1000 Scotiabank Plaza
273 Ponce de León Avenue
San Juan, PR 00917-1951

Tel: 787 759 8212
Fax: 787 753 0808
www.ey.com

Report of Independent Auditors

The Board of Directors of
Public Buildings Authority

We have audited the accompanying balance sheet of the Public Buildings Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, as of June 30, 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Public Buildings Authority as of June 30, 2010, were audited by other auditors whose report dated September 28, 2010, expressed an unqualified opinion on those statements. Those financial statements were restated and reissued dated November 15, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Authority's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of the Public Buildings Authority at June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and schedule of funding progress for postemployment healthcare benefits on pages 3 to 15 and page 57 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2011 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2011 basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Ernst + Young LLP

December 15, 2011

Stamp No. 2614136
affixed to
original of
this report.

Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis

Years Ended June 30, 2011 and 2010

Following is an overview and analysis of the financial activities of the Public Buildings Authority (the Authority) for the fiscal years ended June 30, 2011 and 2010. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. It is intended to serve as an introduction to the Authority's financial statements, which are comprised of the basic financial statements and the notes to financial statements. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole.

The *Statement of Net Assets* presents information on all of 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. Net assets increase when revenues exceed expenses. Increases to assets, without a corresponding increase to liabilities, result in increased net assets, which also indicate an improved financial position.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the Authority's net assets are reported as soon the underlying event occur, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* reports cash receipts, cash payments, and net changes in cash resulting from operations, non-capital financing activities, capital and related financing activities, and investing activities.

The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the basic financial statements.

In addition to the basic financial statements and accompanying notes, various schedules present certain information concerning changes in bonds sinking funds accounts, activity at operating cash accounts, detail of rental operating revenues and receivable, and summary of capital improvements programs compared to budget.

Financial Highlights

- The Authority's net assets decreased by $168,793,902 (162.0%) on June 30, 2011 and by $15,989,301 (13.3%) on June 30, 2010. For the year ended June 30, 2011, the Authority reported an operating loss of $12,865,997; however, this loss was mainly due to a reduction in rent revenue caused by a Scoop & Toss transaction where a significant portion of bond interest payment was covered by a line of credit. This transaction has the effect to reduce the debt service component paid by the client agencies.

- The Authority's operating income decreased from $128.1 million for year ended June 30, 2010 to an operating loss of $12.9 million for year ended June 30, 2011. That decrease was mainly due to the same reason mentioned above.

Overview of the Financial Statements

Statements of Net Assets – Following is condensed financial information of the statements of net assets of the Authority.

<u>Analysis of 2011 and 2010</u>

			Change	
	2011	**2010**	**In Dollars**	**Percentage**
Current assets	**$ 86,989,991**	$ 57,301,917	$ 29,688,074	51.8%
Capital assets	**2,989,269,976**	2,895,140,953	94,129,023	3.0%
Other noncurrent assets	**529,421,301**	618,188,831	(88,767,530)	(14.4)%
Total assets	**$3,605,681,268**	$3,570,631,701	$ 35,049,567	1.0%
Current liabilities	**$ 268,433,570**	$ 341,589,392	$ (73,155,822)	(21.4)%
Noncurrent liabilities	**3,401,864,336**	3,124,865,045	276,999,291	8.9%
Total liabilities	**3,670,297,906**	3,466,454,437	203,843,469	5.9%
Net assets (deficit):				
Invested in capital assets, net of related debt	**37,267,277**	13,664,857	23,602,420	172.7%
Restricted	**67,019,252**	38,117,890	28,901,362	73.9%
Unrestricted	**(168,903,167)**	52,394,517	(221,297,684)	(321.0)%
Total net assets (deficit)	**(64,616,638)**	104,177,264	(168,793,902)	(162.0)%
Total liabilities and net assets	**$3,605,681,268**	$3,570,631,701	$ 35,049,567	1.0%

Analysis of 2010 and 2009

	2010	2009	Change In Dollars	Change Percentage
Current assets	$ 57,301,917	$ 154,346,458	$ (97,044,541)	(62.9)%
Capital assets	2,895,140,953	2,868,073,813	27,067,140	0.9%
Other noncurrent assets	618,188,831	538,968,222	79,220,609	14.7%
Total assets	$3,570,631,701	$3,561,388,493	$ 9,243,208	0.3%
Current liabilities	$ 341,589,392	$ 448,404,052	$(106,814,660)	(23.8)%
Noncurrent liabilities	3,124,865,045	2,992,817,876	132,047,169	4.4%
Total liabilities	3,466,454,437	3,441,221,928	25,232,509	0.7%
Net assets:				
Invested in capital assets, net of related debt	13,664,857	148,935,233	(135,270,376)	(90.8)%
Restricted	38,117,890	770,500	37,347,390	4,847.2%
Unrestricted	52,394,517	(29,539,168)	81,933,685	(177.4)%
Total net assets	104,177,264	120,166,565	(15,989,301)	(13.3)%
Total liabilities and net assets	$3,570,631,701	$3,561,388,493	$ 9,243,208	0.3%

Analysis of Net Assets at June 30, 2011 and 2010

The total net assets at June 30, 2011, compared to prior year, had a decrease of 162.0%. This was caused by a reduction in rent revenue due to a decrease in the debt service rental invoicing.

When compared June 30, 2011 with June 30, 2010, there was a decrease in current liabilities of 21.4%. This decrease was the net effect of a reclassification to noncurrent liabilities due to various lines of credit to be paid with a Series S issuance, a decrease in accounts payable, and an increase in due to other government agencies, related to the Schools for the 21st Century Program. During the year ended June 30, 2011, the Authority disbursed $20 million to the Puerto Rico Electric Power Authority as partial payment of the $36.4 million in arrears owed to the utility agency as of June 30, 2010. The Authority has continued to pay its current utility expenses.

Other non-current assets show a decrease of 14.4% mainly driven by the decrease in rent receivable, related to a $38.5 million commitment for past due receivable.

Analysis of Net Assets at June 30, 2010 and 2009

The total net assets at June 30, 2010, compared to prior year, had a decrease of 13.3%. The decrease in balance is mainly the result of increase in interest on bonds and notes and increase in the amortization of bond issuance costs. In addition, for the fiscal year ended June 30, 2009, the Authority recognized a gain on sale of real estate in the amount of $29.7 million. No such event occurred during fiscal year 2010.

The decrease in current assets when compared June 30, 2010 with June 30, 2009, is mainly the result of collections of the rent revenue related with fiscal year 2009-10. For fiscal year 2009-10, the Authority collected 93% of the contractual amount, as compared to 65% for prior fiscal year.

When compared June 30, 2010 with June 30, 2009, there was a decrease in current liabilities of 23.8%. This decrease was due to payments made to suppliers and to other governmental entities, principally for utility expenses. During the year ended June 30. 2010, the Authority disbursed $25 million to the Puerto Rico Electric Power Authority as partial payment of the $57.9 million in arrears owed to the utility agency as of June 30, 2009. The Authority has continued to pay its current utility expenses. It is expected that the remaining fees owed to the Puerto Rico Electric Power Authority will be substantially paid during fiscal year 2011.

Other non-current assets shows an increase of 14.7% mainly had driven by the increase in bonds sinking funds.

Statements of Revenues, Expenses and Changes in Net Assets

			Change	
	2011	**2010**	**In Dollars**	**Percentage**
Operating revenues – rent revenue	**$212,814,430**	$332,316,169	$(119,501,739)	(36.0)%
Non-operating revenues:				
Contributions from P.R. Sales Tax Financing Corporation	**5,639,813**	12,857,123	(7,217,310)	(56.1)%
Interest income	**157,348**	185,753	(28,405)	(15.3)%
Intergovernmental	**10,350,978**	15,752,411	(5,401,433)	(34.3)%
Float interest, service charges, and others	**2,626,535**	–	2,626,535	100.0%
Other income	–	3,439,660	(3,439,660)	(100.0)%
Total revenues	**231,589,104**	364,551,116	(132,962,012)	(36.5)%

Statements of Revenues, Expenses and Changes in Net Assets (continued)

	2011	2010	Change In Dollars	Change Percentage
Balances brought forward	**231,589,104**	364,551,116	(132,962,012)	(36.5)%
Operating expenses:				
Salaries and employee benefits	**82,009,762**	90,085,812	(8,076,050)	(9.0)%
Depreciation	**67,387,667**	66,266,227	1,121,440	1.7%
Utilities	**22,504,298**	20,257,372	2,246,926	11.1%
Repairs and maintenance	**20,652,645**	6,633,985	14,018,660	211.3%
Termination benefits	**13,409,606**	–	13,409,606	100.0%
Security services	**3,528,225**	7,596,315	(4,068,090)	(53.6)%
Rent and insurance	**7,260,485**	8,207,208	(946,723)	(11.5)%
Settlement of legal claim and other contingencies	**1,549,216**	1,994,334	(445,118)	(22.3)%
General and administrative	**7,378,523**	3,163,865	4,214,658	133.2%
Total operating expenses	**225,680,427**	204,205,118	20,350,809	10.5%
Non-operating expenses:				
Interest on bonds and notes, net of capitalized interest	**167,711,431**	159,806,600	4,904,831	3.1%
Float interest, service charges, and others	**–**	2,235,078	(2,235,078)	(100.0)%
Amortization of deferred loss on bond defeseance	**7,462,637**	7,270,561	192,076	2.6%
Amortization of bond issuance costs	**2,505,609**	4,407,052	(1,901,443)	(43.1)%
Loss on disposition of capital assets	**22,902**	2,616,008	(2,593,106)	(99.1)%
Total non-operating expenses	**174,702,579**	176,335,299	(1,632,720)	(1.0)%
Total expenses	**400,383,006**	380,540,417	19,842,589	5.2%
Change in net assets	**(168,793,902)**	(15,989,301)	(152,804,601)	955.7%
Net assets at beginning of year	**104,177,264**	120,166,565	(15,989,301)	(13.3)%
Net assets (deficit) at end of year	**$ (64,616,638)**	$104,177,264	$(168,793,902)	(162.0)%

Analysis of Fiscal Years 2011 and 2010

For fiscal years 2011 and 2010, operating revenues were approximately $212.8 million and $332.3 million, respectively. This change resulted in a 36% decrease of the rental income. The decrease was mainly due to a reduction in the debt service rental invoicing.

Analysis of Fiscal Years 2011 and 2010 (continued)

For the year ended June 30, 2011, the operating expenses increased compared to prior year ended June 30, 2010. The main reason for increase was due to the net effect of increase in repairs and maintenance and general and administrative due to the School Summer Program 2010, that is required to perform the necessary improvements as painting, trimming, fumigating, among others, in order that the schools be in good condition for the beginning of the semester. Decrease in salaries and employee benefits, increase in termination benefits due to the enacted Act No. 70 for voluntary employment termination program, and a decrease in security services. Note the Authority followed GASB No. 47, *Accounting for Termination Benefits*. Non-operating expenses for the year ended June 30, 2011 increased due to increase on bond interest and notes and the decrease of intergovernmental income.

Statements of Revenues, Expenses and Changes in Net Assets

			Change	
	2010	**2009**	**In Dollars**	**Percentage**
Operating revenues – rent revenue	$332,316,169	$326,119,053	$ 6,197,116	1.9%
Non-operating revenues:				
Gain on sale of real estate	–	29,699,209	(29,699,209)	(100.0)%
Contributions from P.R. Sales Tax Financing Corporation	12,857,123	–	12,857,123	100.0%
Interest income	185,753	2,075,925	(1,890,172)	(91.1)%
Intergovernmental	15,752,411	15,902,637	(150,226)	0.9%
Float interest, service charges, and others	–	2,468,655	(2,468,655)	(100.0)%
Other income	3,439,660	–	3,439,660	100.0%
Interest on swaps	–	2,502,145	(2,502,145)	(100.0)%
Total revenues	364,551,116	378,767,624	(14,216,508)	(3.8)%
Operating expenses:				
Salaries and employee benefits	90,085,812	92,040,210	(1,954,398)	(2.1)%
Depreciation	66,266,227	66,153,843	112,384	0.2%
Utilities	20,257,372	20,431,222	(173,850)	(0.9)%
Repairs and maintenance	6,633,985	10,104,829	(3,470,844)	(34.3)%
Security services	7,596,315	14,099,069	(6,502,754)	(46.1)%
Rent and insurance	8,207,208	8,157,327	49,881	0.6%
Settlement of legal claim and other contingencies	1,994,334	1,335,400	658,934	49.3%
General and administrative	3,163,865	2,636,638	527,227	20.0%
Total operating expenses	204,205,118	214,958,538	(10,753,420)	(5.0)%

Analysis of Fiscal Years 2011 and 2010 (continued)

Statements of Revenues, Expenses and Changes in Net Assets (continued)

			Change	
	2010	**2009**	**In Dollars**	**Percentage**
Balances brought forward	204,205,118	214,958,538	(10,753,420)	(5.0)%
Non-operating expenses:				
Interest on bonds and notes, net of capitalized interest	159,806,600	156,391,048	3,415,552	2.2%
Float interest, service charges, and others	2,235,078	–	2,235,078	100.0%
Amortization of deferred loss on bond defeseance	7,270,561	7,270,561	–	0.0%
Amortization of bond issuance costs	4,407,052	631,140	3,775,912	598.3%
Loss on disposition of capital assets	2,616,008	93,725	2,522,283	2691.2%
Total non-operating expenses	176,335,299	164,386,474	11,948,825	7.3%
Total expenses	380,540,417	379,345,012	1,195,405	3.2%
Change in net assets	(15,989,301)	(577,388)	(15,411,913)	2669.2%
Net assets at beginning of year	120,166,565	120,743,953	(577,388)	(0.5)%
Net assets at end of year	$104,177,264	$120,166,565	$(15,989,301)	(13.3)%

Analysis of Fiscal Years 2010 and 2009

For fiscal years 2010 and 2009, operating revenues were approximately $332.3 million and $326.1 million, respectively. This change resulted in a 1.9% increase of the rental income. The increase was mainly due to increase in debt service requirements.

For the year ended June 30, 2010, the net operating expenses decreased compared to prior year ended June 30, 2009. The main reason for decrease was due to decrease in salary and employee benefits. Also, there was a decrease in security services. Non-operating expenses for the year ended June 30, 2010 increased due to increase on interest on bonds and notes and the amortization of bond issuance costs.

Capital Assets

Capital assets as of June 30, 2011 and 2010 were as follows:

	June 30		
	2011	**2010**	**Change**
Capital assets being depreciated	**$ 3,533,911,730**	$ 3,445,719,899	$ 88,191,831
Accumualted depreciation and amortization	**(971,832,713)**	(904,855,207)	(66,977,506)
	2,562,079,017	2,540,864,692	21,214,325
Land	**130,730,944**	130,735,879	(4,935)
Construction in progress	**296,460,015**	223,540,382	72,919,633
Capital assets, net	**$ 2,989,269,976**	$ 2,895,140,953	$ 94,129,023

	June 30		
	2010	**2009**	**Change**
Capital assets being depreciated	$ 3,445,719,899	$ 3,324,016,558	$ 121,703,341
Accumualted depreciation and amortization	(904,855,207)	(839,082,347)	(65,772,860)
	2,540,864,692	2,484,934,211	55,930,481
Land	130,735,879	118,756,957	11,978,922
Construction in progress	223,540,382	264,382,645	(40,842,263)
Capital assets, net	$ 2,895,140,953	$ 2,868,073,813	$ 27,067,140

Capital Assets (continued)

June 30, 2011 and 2010

The Authority's investment in capital assets as of June 30, 2011 and 2010 amounted to approximately $3.0 billion and $2.9 billion, respectively, net of accumulated depreciation. Capital assets include land, land improvements, construction in progress, buildings, equipment, furniture, and vehicles. Most buildings consist of governmental facilities that are leased to the Commonwealth's agencies and public corporations. For more information, please refer to Note 8 of the basic financial statements.

During the years ended June 30, 2011 and 2010, the Authority invested approximately $157 million and $83 million, respectively, for the construction of buildings that will then be leased to the Commonwealth. This construction activity was financed through interim lines of credit with the Governmental Development Bank (GDB) and the proceeds of the bonds issuances. The rent revenue generated by these buildings is pledged first for the payment of long-term debt.

June 30, 2010 and 2009

The Authority's investment in capital assets as of June 30, 2010 and 2009 amounted to approximately $2.9 billion for both years, net of accumulated depreciation. Capital assets include land, land improvements, construction in progress, equipment, furniture, and vehicles. Most buildings consist of governmental facilities that are leased to the Commonwealth's agencies and public corporations. For more information, please refer to Note 8 of the basic financial statements.

During the years ended June 30, 2010 and 2009, the Authority invested approximately $83 million and $90 million, respectively, for the construction of buildings that will then be leased to the Commonwealth. This construction activity was financed through interim lines of credit with the Governmental Development Bank (GDB) and the proceeds of the bonds issuances. The rent revenue generated by these buildings is pledged first for the payment of long-term debt.

Debt Administration

Long-term debt at June 30, 2011 and 2010 was as follows:

Bonds Payable	June 30 2011	June 30 2010	Change
Revenue bonds	**$ 37,315,000**	$ 43,380,000	$ (6,065,000)
Public education and health	**–**	32,585,000	(32,585,000)
Government facilities	**3,032,224,085**	3,078,424,085	(46,200,000)
Total bonds	**3,069,539,085**	3,154,389,085	(84,850,000)
Add (deduct):			
Bond discounts	**(25,272,894)**	(26,454,183)	1,181,289
Deferred loss on bonds deferred	**(142,673,870)**	(151,563,716)	8,889,846
Accreted value on bonds outstanding	**30,341,471**	26,197,997	4,143,474
Bond premiums	**76,268,664**	84,785,495	(8,516,831)
Total bonds	**$ 3,008,202,456**	$ 3,087,354,678	$ (79,152,222)

Debt Administration (continued)

	June 30		
	2011	**2010**	**Change**
Bonds payable	**$ 3,008,202,456**	$ 3,087,354,678	$ (79,152,222)
Borrowings under line of credit	**415,182,000**	165,749,102	249,432,898
Long-term debt outstanding	**3,423,384,456**	3,253,103,780	170,280,676
			–
Other long-term liabilities:			–
Due to contractors	**40,568,111**	40,954,604	(386,493)
Advances from other governmental agencies	**3,024,596**	1,949,596	1,075,000
Compensated absences	**12,146,386**	12,019,413	126,973
Contingencies	**10,026,514**	9,419,778	606,736
Other postemployment benefit obligations	**5,910,172**	3,127,048	2,783,124
Voluntary termination benefits	**13,409,606**	–	13,409,606
Due to Commonwealth	**1,683,808**	1,683,808	–
Total other long-term liabilities	**86,769,193**	69,154,247	17,614,946
Total long-term obligations	**3,510,153,649**	3,322,258,027	$ 187,895,622
Less:			
Current portion	**108,289,313**	197,392,982	
Long-term obligations, less current portion	**$ 3,401,864,336**	$ 3,124,865,045	

The Authority's long-term debt increased by $170.3 million from $3.253 million as of June 30, 2010 to $3.423 million as of June 30, 2011.

As of June 30, 2011 and 2010, the Authority has outstanding bonds payable of $3.008 billion and $3.087 billion, respectively. The balance is net of unamortized bond discounts, bond premium, deferred loss on bonds refunding, and bonds issuance costs. For more information, please refer to Note 12 of the basic financial statements.

Other Currently Known Facts

As discussed in Note 19, the Authority is currently involved in the "Schools for the 21st Century" program, which is a multi-agency effort with the objective of rehabilitating, renovating and/or constructing approximately 100 public schools through the use of an innovative procurement approach that effectively transfers the risk of design, construction and maintenance to the private sector. Under this program, the Puerto Rico Public-Private Partnerships Authority ensures overall compliance with procurement requirements while the Puerto Rico Infrastructure Financing Authority serves as procurement and construction manager. The public schools included under the program will undergo major repairs of structural deficiencies, renovations of electrical and mechanical defects, and the creation of new community spaces, sciences labs, art centers, among other things.

The Authority is issuing its $756,449,000 aggregate principal amount of Government Facilities Revenue Bonds, Series R (Qualified School Construction Bonds-Issuer Subsidy) (the "Series R Bonds"). The proceeds of the Series R Bonds will be used to finance the rehabilitation, renovation or construction of at least 100 public schools under this program. The Authority expects to finance the rehabilitation, renovation or construction of the remaining public schools through a future issuance of bonds also designated as "Qualified School Construction Bonds".

Concurrently with the issuance of the Bonds, on August 24, 2011 the Authority issued its $303,945,000 aggregate principal amount of Government Facilities Revenue Bonds, Series S Guaranteed by the Commonwealth of Puerto Rico. The bonds are being issued to (i) repay certain advances made to the Authority by Government Development Bank under line of credit facilities to (a) pay interest due January 1 and July 1, 2011 on certain bonds issued under the 1995 Bond Resolution and the 1970 Bond Resolution, and (b) pay a portion of the construction costs of certain buildings and facilities leased by the Authority to various departments, agencies, instrumentalities and municipalities of the Commonwealth; and (ii) pay costs of issuance the bonds. The Government Facilities Revenue Bonds, Series S, repay the lines of credit principals by the amounts of $147.8 million, $162.2 million and $122 million, and accrued interest of $16 million.

In July 2011, the Authority repaid the accrued interest for the line of credit of $98,000,000 with annual rate equal to 1.50%. The accrued interest paid at July 30, 2011 was in the amount of $309,490.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those interested parties. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Comptroller's Office, Public Buildings Authority, PO Box 41029, San Juan, PR 00940-1029.

Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Balance Sheets

	June 30 2011	June 30 2010 *(As restated)*
Assets		
Current assets:		
Cash and cash equivalents	**$ 34,701,282**	$ 35,784,524
Rent receivable	**51,758,194**	21,114,617
Other receivables, net	**530,515**	402,776
Total current assets	**86,989,991**	57,301,917
Noncurrent assets:		
Restricted cash and cash equivalents:		
Bond sinking funds	**176,103,008**	161,424,843
Cash to be deposited in bond sinking funds	**52,709,263**	43,171,585
Construction funds	**61,243,055**	72,661,525
Funds for construction of facilities for other governmental agencies	**3,796,605**	4,965,135
School Renovation Fund	**305,136**	305,136
Rent receivable	**88,916,621**	187,517,907
Due from Commonwealth	**92,903,697**	92,903,697
Notes receivable from other governmental agency	**7,734,568**	7,734,568
Land and buildings under construction for other governmental agencies	**350,381**	150,390
Prepaid insurance on bonds	**25,832,818**	27,089,162
Deferred charges	**16,442,311**	17,181,045
Capital assets, net	**2,989,269,976**	2,895,140,953
Property held for sale	**3,083,838**	3,083,838
Total noncurrent assets	**3,518,691,277**	3,513,329,784
Total assets	**$ 3,605,681,268**	$ 3,570,631,701

(Continued)

Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Balance Sheets (continued)

	June 30	
	2011	**2010**
		(As restated)
Liabilities and net assets (deficit)		
Liabilities:		
Current liabilities:		
Borrowings under credit line	**$ –**	$ 95,749,102
Accounts payable	**2,937,387**	9,751,490
Due to other governmental agencies	**53,981,733**	44,788,746
Accrued expenses	**19,820,263**	4,556,671
Compensated absences, current portion	**3,158,060**	3,041,471
Bonds payable	**81,001,970**	84,850,000
Interest payable	**82,218,575**	85,099,503
Other advances	**1,186,299**	–
Due to contractors	**20,966,664**	13,363,228
Other post-employment benefits obligation, current portion	**1,072,275**	389,181
Voluntary termination benefits	**2,090,344**	–
Total current liabilities	**268,433,570**	341,589,392
Noncurrent liabilities:		
Borrowings under credit line	**415,182,000**	70,000,000
Bonds payable	**2,927,200,486**	3,002,504,678
Due to contractors, including retainage	**19,601,447**	27,591,376
Advances from other governmental agencies	**3,024,596**	1,949,596
Compensated absences	**8,988,326**	8,977,942
Contingencies	**10,026,514**	9,419,778
Other post-employment benefits obligation	**4,837,897**	2,737,867
Voluntary termination benefits	**11,319,262**	–
Due to Commonwealth	**1,683,808**	1,683,808
Total noncurrent liabilities	**3,401,864,336**	3,124,865,045
Total liabilities	**3,670,297,906**	3,466,454,437
Commitments		
Net assets (deficit):		
Investment in capital assets, net of related debt	**37,267,277**	13,664,857
Restricted	**67,019,252**	38,117,890
Unrestricted	**(168,903,167)**	52,394,517
Total net assets (deficit)	**(64,616,638)**	104,177,264
Total liabilities and net assets (deficit)	**$ 3,605,681,268**	$ 3,570,631,701

See accompanying notes.

Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30	
	2011	**2010**
		(As restated)
Operating revenue:		
Rent revenue	**$ 212,814,430**	$ 332,316,169
Operating expenses:		
Salaries and employee benefits	**82,009,762**	90,085,812
Depreciation	**67,387,667**	66,266,227
Utilities	**22,504,298**	20,257,372
Repairs and maintenance	**20,652,645**	6,633,985
Voluntary termination benefits	**13,409,606**	–
Security services	**3,528,225**	7,596,315
Rent and insurance	**7,260,485**	8,207,208
Settlement of legal claim and other contingencies	**1,549,216**	1,994,334
General and administrative	**7,378,523**	3,163,865
Total operating expenses	**225,680,427**	204,205,118
Operating (loss) income	**(12,865,997)**	128,111,051
Nonoperating revenues (expenses):		
Contributions from Puerto Rico Sales Tax Financing Corporation	**–**	12,857,123
Interest income	**157,348**	185,753
Intergovernmental	**15,990,791**	15,752,411
Float interest, service charges, and other	**2,626,535**	(2,235,078)
Interest on bonds and notes	**(164,711,431)**	(159,806,600)
Other income	**–**	3,439,660
Amortization of deferred loss on bond defeasance	**(7,462,637)**	(7,270,561)
Amortization of bond issuance costs	**(2,505,609)**	(4,407,052)
Loss on disposition of capital assets	**(22,902)**	(2,616,008)
Total nonoperating expenses, net	**(155,927,905)**	(144,100,352)
Change in net assets	**(168,793,902)**	(15,989,301)
Net assets at beginning of year	**104,177,264**	120,166,565
Net assets (deficit) at end of year	**$ (64,616,638)**	$ 104,177,264

See accompanying notes.

Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Cash Flows

	Year Ended June 30	
	2011	**2010**
		(As restated)
Operating activities		
Receipts from tenants covering debt service and operating	**$ 280,644,400**	$ 371,633,295
Payments to employees and related benefits	**(74,898,233)**	(88,275,962)
Payments to suppliers for goods and services	**(48,246,723)**	(63,396,547)
Payments for claims	**(942,480)**	–
Net cash provided by operating activities	**156,556,964**	219,960,786
Noncapital related financing activities		
Non-operating revenue	**12,346,056**	13,758,077
Net cash provided by noncapital related financing activities	**12,346,056**	13,758,077
Capital and related financing activities		
Capital expenditures	**(162,855,807)**	(103,830,190)
Repayment of bonds	**(84,850,000)**	(384,290,000)
Borrowings under credit lines	**255,072,711**	86,299,955
Interest paid	**(170,769,505)**	(149,008,328)
Net advances to governmental agencies	**1,075,000**	(1,060,194)
Proceeds from bonds issue	**–**	483,475,000
Payment on credit lines	**(5,639,813)**	(106,092,158)
Payment of bonds issue costs	**–**	(6,094,056)
SWAP termination payments	**–**	(28,395,000)
Contribution from Puerto Rico Sales Tax Financing Corporation	**5,639,813**	12,857,123
Other advances	**1,186,299**	–
Net cash used in capital and related financing activities	**(161,141,302)**	(196,137,848)
Investing activities		
Interest collected	**2,783,883**	78,759
Net cash provided by investing activities	**2,783,883**	78,759
Net increase in cash and cash equivalents	**10,545,601**	37,659,774
Cash and cash equivalents at beginning of year	**318,313,232**	280,653,458
Cash and cash equivalents at end of year	**$ 328,858,833**	$ 318,313,232

(Continued)

Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Cash Flows (continued)

	Year Ended June 30 2011	Year Ended June 30 2010 *(As restated)*
Reconciliation to cash and cash equivalents presented in the balance sheet		
Unrestricted	**$ 34,701,282**	$ 35,784,524
Bonds sinking funds	**176,103,008**	161,424,843
Cash to be deposited in bond sinking funds	**52,709,263**	43,171,585
Construction funds	**61,243,055**	72,661,525
Restricted for the School Renovation Fund	**305,136**	305,136
Other restricted cash and cash equivalents	**484**	484
Funds for construction of facilities for other governmental agencies	**3,796,605**	4,965,135
	$ 328,858,833	$ 318,313,232
Reconciliation of operating (loss) income to net cash provided by operating activities		
Operating (loss) income	**$ (12,865,997)**	$ 128,111,051
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Depreciation	**67,387,667**	66,266,227
Loss on disposition of capital assets	**22,902**	2,616,008
Decrease (increase) in operating assets:		
Rent receivable	**67,957,709**	54,943,558
Other receivables	**(127,739)**	5,360,385
Increase (decrease) in operating liabilities:		
Accounts payable	**(7,200,596)**	(14,052,628)
Due to other governmental agencies	**9,192,987**	(21,991,630)
Other post-employment benefits obligation	**2,783,124**	3,127,048
Voluntary termination benefits	**13,409,606**	–
Claims	**606,736**	1,994,334
Accrued expenses	**15,390,565**	(6,413,567)
Net cash provided by operating activities	**$ 156,556,964**	$ 219,960,786
Summary of noncash transactions		
Accretion of bonds payable	**$ 4,143,474**	$ 11,787,756

See accompanying notes.

1. Reporting Entity

The Public Buildings Authority (the Authority) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth), created on June 19, 1958 by Act No. 56, as amended, of the Legislature of Puerto Rico (the Enabling Act). The Authority designs, constructs, administers, and provides maintenance to office buildings, courts, warehouses, schools, health care facilities, welfare facilities, shops, and related facilities leased to the Commonwealth or any of its departments, agencies, instrumentalities or municipalities. The annual rent for each leased building is based on the amounts needed by the Authority to cover the payment of:

a) principal, interest and other amortization requirements of the notes and bonds issued to finance the buildings;
b) operating and maintenance expenses of the buildings, including a reasonable proportional share of administrative expenses, excluding depreciation;
c) cost of equipment replacement and extraordinary repairs.

Components (b) and (c), described above, are subject to escalation to permit the Authority to recover the investment incurred. Amounts due from departments and governmental agencies of the Commonwealth may be subject to periodic revisions and/or adjustments based on the availability of funds at the Commonwealth level.

The Enabling Act provides that the full faith and credit of the Commonwealth is pledged for the payment of rent under any lease agreement executed pursuant to the Enabling Act with any department of the Commonwealth. The Enabling Act also provides that the Department of the Treasury of the Commonwealth of Puerto Rico (the Treasury Department) will make advances to the Authority for any unpaid portion of rent payable to the Authority by any agency or instrumentality of the Commonwealth that has entered into lease agreements with the Authority. Such advances are recorded as a reduction of accounts receivable since the responsibility of reimbursement belongs to the agency in accordance to the Enabling Act.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are presented on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Under this method, revenues are recognized when earned, regardless of when received, and expenses are recognized when incurred, regardless of when paid.

2. Summary of Significant Accounting Policies (continued)

Basis of Presentation

The financial statements are presented as an enterprise fund and conform to the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for the State and Local Governments*, (GASB 34). GASB 34, as amended, establishes standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets (or balance sheet), a statement of revenues, expenses and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted, described as follows:

- *Invested in capital assets, net of related debt* – Consists of capital assets, net of accumulated depreciation reduced by the outstanding balance of any bonds, mortgage notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds, is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

- *Restricted* – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through covenants), contributors or law or regulations of other governments or constraints imposed by law through constitutional provision or enabling legislation.

- *Unrestricted* – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

As permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Authority has elected to apply all Financial Accounting Standards Board Statements and Interpretations, issued after November 30, 1989, that does not conflict with those issued by GASB.

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from those estimates.

Future Adoption of Accounting Standards

GASB has issued the following accounting standards that the Authority has not yet adopted:

GASB Statement		Adoption required in fiscal year
57	OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans	2012
60	Accounting and Financial Reporting for Service Concession Arrangements	2012
61	Accounting and Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34	2013
62	Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements	2013
63	Financial Reporting of Deferred Outflows of Resources, Deferred Inflows od Resources, and Net Position	2013
64	Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53	2012

The impact of these standards has not yet been determined.

Effects of New Pronouncements

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The Authority adopted the provisions of GASB Statement No. 59 during the year ended June 30, 2011. The adoption of GASB Statement No. 59 had no impact on the Authority.

2. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The carrying amounts reported in the balance sheets for cash and cash equivalents and receivables, approximate fair value due to their short-term duration. Amounts deposited in bond sinking funds and construction funds are carried at fair value. The carrying amount of bonds payable approximates fair value since interest rates on such debt approximate the rates currently available in the market for other debt with similar terms and remaining maturities.

Cash Equivalents

Cash equivalents include all highly liquid instruments with maturities of three months or less at the time of acquisition. If such instruments are included in restricted assets, they are considered cash equivalents for purposes of the statements of cash flows. The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance.

Custodial Credit Risk

This is the risk, in the event of a bank failure, that the government's deposits may not be returned to it.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing receivables, excluding debt service rentals and maintenance charges that may become uncollectible based on evaluations of the collectability of each balance. Because of uncertainties inherent in the estimation process, management's estimate of losses in the receivables outstanding and the related allowance may change in the near term. As of June 30, 2011 and 2010, the allowance for doubtful accounts for other receivables amounted to approximately $17.3 million for both years.

2. Summary of Significant Accounting Policies (continued)

Allowance for Doubtful Accounts (continued)

Law No. 97, Article 15, of May 15, 2006, establishes that any rent to be paid to the Authority during any fiscal year by any department, agency or public corporation of the Commonwealth of Puerto Rico under the conditions of a rental contract in accordance of the dispositions of Law No. 56 of June 19, 1958, as amended, the Commonwealth of Puerto Rico will advance to the Authority the amount not paid due from rent. This law requires to the Secretary of the Treasury Department to make an advance of any available funds committed by the good faith and credit of the Commonwealth. In case of the rent to be paid to the Authority by any municipality this law requires to the Municipal Revenue Collection Center to make payments to the Authority from any property tax collection.

Investments

The Authority is authorized to invest in Puerto Rico and U.S. government obligations or in obligations guaranteed by the Puerto Rico or U.S. governments or its agencies or instrumentalities. The Authority invests in certificates of deposit with financial institutions rated AA or AAA by Moody's Investor Services. Pursuant to the Investment Guidelines for the Commonwealth, adopted by the Governmental Development Bank for Puerto Rico (GDB), the Authority may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Monies in the sinking funds can only be invested in direct obligations of the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

Restricted Assets and Liabilities Payable from Restricted Assets

Restricted assets represent the amounts deposited by the Authority to provide for the amortization of bonds payable and related interest costs and cash available in the related construction fund.

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

2. Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are recorded at cost. The construction costs include indirect administrative costs and interest costs allocated during the construction period. Capital assets are assets with an individual cost of more than $100 and a useful life in excess of five (5) years. As of June 30, 2011 and 2010, property (excluding cost of land, equipment and construction in progress) with a total cost of $3,520 million and $3,432 million, respectively, is leased to other governmental agencies.

Expenditures for major renewals and betterments that extend the useful life of the assets are capitalized and normal repairs and maintenance are expensed when incurred. Depreciation is determined using the straight-line method, over the estimated useful lives of the assets, is as follows:

Buildings	50 years
Equipment and automobiles	5-10 years

During the year ended June 30, 2011, the Authority evaluated its capital assets for impairment and did not determine any material impairment amount.

Property Held for Sale

Capital assets that have been identified to be for sale are presented net of accumulated depreciation and net of the incidental cost to dispose or sell such assets.

Amortization of Discount, Premium and Bond Issuance Costs on Bonds Payable

Discount, premium and bond issuance costs on bonds payable are amortized over the term of the bond, based on the straight-line method, which approximates the effective interest method.

Operating Revenues and Expenses

Operating revenues and expenses are those that result from the Authority's operations. All leases are deemed to be operating leases. Accordingly, rent revenue is recognized as operating revenue over the term of the lease. Rent revenue is pledged as collateral for the repayment of the Authority's revenue bonds.

2. Summary of Significant Accounting Policies (continued)

Operating Revenues and Expenses (continued)

Non-operating revenues include activities that have the characteristics of non-exchange transactions that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations and investment income.

Risk Financing

The Authority carries commercial insurance to cover casualty, theft, claims and other loss. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage during the past three years. The Authority also pays premiums for workers compensation insurance to another component unit of the Commonwealth.

Compensated Absences

Compensated absences are accrued when earned by the employees. Employees may carry forward their vacation and sick leave as permitted by statute and may receive a cash payment from the Authority upon termination of employment.

Reclassifications

Certain reclassifications have been made to the June 30, 2010 financial statements to conform them to current year presentation.

3. Net Assets

Restricted assets at June 30, 2011 and 2010 include $66.3 million and $38.1 million, respectively, which have been appropriated principally to comply with long-term principal and interest debt services requirements.

3. Net Assets (continued)

As of June 30, 2011, the Authority is in a net deficit position. The Authority faces a number of business challenges that have been exacerbated by the Commonwealth's economic recession. During fiscal year ended June 30, 2011, the Authority collected approximately $60.4 million related to a second partial payment of rent in arrears due to the Authority, principally by agencies of the Government of Puerto Rico. Also, during the current fiscal year, management continued its policy of strict fiscal and budgetary control and economic measures. In addition, the Authority intends to improve its government office facilities in order to retain existing tenants and attract new agencies and instrumentalities.

4. Cash, Restricted Cash, and Deposits

At June 30, 2011 and 2010, the Authority maintained cash deposited at the Governmental Development Bank for Puerto Rico (GDB), of $87 million and $90 million, respectively, a component unit of the Commonwealth; therefore the collateralization requirement does not apply.

The Authority had the following depository accounts in commercial banks. All deposits are carried at cost plus accrued interest.

Depository Account	Bank Balance At June 30, 2011	Book Balance At June 30, 2011
Insured	**$ 500,000**	$ 500,000
Unrestricted, but collateralized held in the Authority's name	**10,125,197**	6,130,347
Total deposits	**$10,625,197**	$6,630,347

Restricted cash consist of the following:

a. Bond sinking funds,
b. Cash to be deposited in sinking funds,
c. Construction funds,
d. Funds for construction of facilities for other governmental entities, and
e. School renovation funds.

4. Cash, Restricted Cash, and Deposits (continued)

Bond Sinking Funds

The bond sinking funds under Bond Resolutions No. 158 and No. 468 as of June 30, 2011 and 2010, consist of cash and money market funds carried at fair value, as follows:

	Bond Service Account	
Description	**2011**	**2010**
Resolution No. 158 – Public Education and Health Facilities	**$ –**	$ 33,507,223
Resolution No. 468 – Governmental Facilities – Money Market Funds	**176,103,008**	127,917,620
	$176,103,008	$161,424,843

Each bond sinking fund consists of three (3) separate accounts designated as a "Bond Service Account", a "Reserve Account" and a "Redemption Account", except under Resolution No. 468, which has no Reserve Account in its Sinking Fund. Revenues received from debt service rentals with respect to the facilities financed under Bond Resolutions No. 158 and No. 468 are deposited with their respective Fiscal Agents for the credit of such accounts in the following order:

- to the Bond Service Account, in such amount as may be required to make the amount equal to the amount of interest then due and payable and the interest, which will become due and payable within the next ensuing six months on all bonds of each series then outstanding and the principal of all serial bonds, if any, which will become payable within the next ensuing twelve months;

- to the Redemption Account, in such amount as may be required to make the amounts so deposited in the current fiscal year equal to the amortization requirement, if any, for such fiscal year for the term bonds of each series then outstanding, plus the premium, if any, which would be payable on a like principal amount of bonds if such principal amount of bonds should be redeemed on the next redemption date from monies in their respective Bond Sinking Funds; and

- the remaining balance, if any, is deposited to the credit of the Reserve Account, except under Resolution No. 468, where such balance is deposited to the credit of the Bond Service Account.

4. Cash, Restricted Cash, and Deposits (continued)

Bond Sinking Funds (continued)

Bond Resolution No. 158 requires that monies be invested and reinvested in investment obligations, repurchase agreements or time deposits fully secured by investment obligations; as those terms are defined therein.

Bond Resolution No. 468 requires that monies be invested and reinvested in government obligations, bankers' acceptances, certificates or time deposits of any Commonwealth's approval bank or national banking association; repurchase or reverse repurchase agreements or any other investment, which are rated in one of the three highest rating categories.

Cash to be Deposited in Bond Sinking Funds

These funds represent the funds deposited to be transferred to the bond sinking fund accounts with the fiscal agents. Funds available at June 30, 2011 and 2010 amounted to $52,709,263 and $43,171,585, respectively.

Construction Funds

Construction funds are created for the purpose of providing resources for the payment of all or any part of the remaining cost of the Initial Facilities, as defined, or for payment of all or any part of the cost to the Authority of any Additional Facilities or Improvements, as defined, in accordance with the Bond Resolutions. As of June 30, 2011 and 2010, construction funds aggregate $61,243,055 and $72,661,525, respectively.

Funds for the Construction of Facilities for Other Governmental Entities

Funds for the construction of facilities for other governmental entities represent the balance of the funds received less the amounts invested in the construction of said facilities. The properties constructed through this arrangement belong to the individual agencies and not to the Authority. Upon completion of each project, the Authority settles with the agency either by returning remaining funds or billing for the excess costs over the funds received. Funds available at June 30, 2011 and 2010 amounted to approximately $3.8 million and $5.0 million, respectively.

4. Cash, Restricted Cash, and Deposits (continued)

School Renovation Funds

These funds represent the balance received under federal financial assistance programs, as a sub-recipient of the Commonwealth of Puerto Rico Department of Education. These funds are restricted to be used for projects related to school renovation and are subject to compliance requirements applicable to this federal program. At June 30, 2011 and 2010, the balance of these funds amounted to approximately $305 thousand for both years.

5. Rent Receivable

This balance represents the amount due from Commonwealth agencies and instrumentalities determined in accordance with the corresponding rent contracts. In accordance with the provisions of the Enabling Act, the Secretary of the Treasury of the Commonwealth may make advances on behalf of certain agencies and instrumentalities lessees and make payments on behalf of certain department lessees. Minimum lease rentals for the following five years are as follows:

Year Ending June 30,	Minimum Lease Rentals
2012	$385,790,523
2013	$386,119,946
2014	$386,537,756
2015	$386,382,669
2016	$386,130,606

Minimum lease rentals are revised every July 1st based on, among other things, debt service requirements for the particular year. At June 30, 2011 and 2010, the Authority reclassified approximately $89 million and $187 million, respectively, of the rent receivables as a noncurrent asset because collection will not be received during the next 12-month period.

On September 24, 2010, the Treasury Department transferred $60.4 million to the Authority for the payment of debts from agencies of the Commonwealth of Puerto Rico related to rent due as of June 30, 2009.

6. Notes Receivable from Other Governmental Agency

On July 23, 2004, the Authority entered into a note receivable agreement with the Department of Education (Institute of Technology in Ponce), for the payment of construction costs aggregating $12,256,705 to be collected into a thirty-two (32) years period plus interest at 2.81%. Subsequent to the signing of the agreement, the Authority credited $4,522,137 of the total balance as agreed with the Puerto Rico Office of Management and Budget. Future minimum collections, during the remaining term of the note, after the application of the credit of $4,522,137, are as follows:

Year Ending June 30,	Principal	Interest
2012	$ –	$ 869,364
2013	–	217,341
2014	–	217,341
2015	–	217,341
2016	–	217,341
2017-2021	597,547	1,074,004
2022-2026	2,040,590	865,140
2027-2031	2,348,025	557,705
2032-2036	2,701,780	203,953
2037-2038	46,626	1,803
Total	$7,734,568	$4,441,333

As of June 30, 2011, the Department of Education is not in compliance with the agreement.

7. Transaction with the Commonwealth of Puerto Rico

Due from Commonwealth

The amount due from the Commonwealth of Puerto Rico represents the approximate costs of certain construction projects that have been either suspended or cancelled unilaterally by the Commonwealth during planning stages and, therefore, the funds must be returned and deposited in the corresponding bond sinking, construction, or reserve accounts, as deemed appropriate by the bond indentures.

7. Transaction with the Commonwealth of Puerto Rico (continued)

Due from Commonwealth (continued)

The Puerto Rico's Office of Management and Budget (OMB) recognized that, subject to certain audit requirements by the OMB, this account shall be recognized as a liability by the Commonwealth. Accordingly, the Authority has recognized this amount as amount due from the Commonwealth as, in the opinion of the Authority's management; these costs will be recovered from future appropriations from the Commonwealth. Nevertheless, OMB has not appropriated any funds to reimburse the Authority and, since the timing of the collection cannot be readily determined, this amount is presented as a noncurrent asset.

Contributions from the Puerto Rico Sales Tax Financing Corporation

On May 13, 2006, the Legislature of the Commonwealth approved Act No. 91 and created the Puerto Rico Sales Tax Financing Corporation (the Tax Financing Corporation). Act No. 91 was amended by Act No. 291 of December 26, 2006 and by Act No. 56 of July 6, 2007.

On July 31, 2007, December 20, 2007 and June 26, 2008, the Puerto Rico Sales Tax Financing Corporation (known as COFINA for its Spanish acronym), a component unit of the Commonwealth, issued its Sales Tax Revenue Bonds Series 2007A and B, Series 2007C and Series 2009A, respectively, to refinance certain of Bonds outstanding issued by certain of the Commonwealth's agencies and component units (including the Authority).

During the year ended June 30, 2010, the Tax Financing Corporation contributed $12.8 million for the payment of principal and interest due on lines of credits. Such transaction has been reflected as a contribution from the Puerto Rico Sales Tax Financing Corporation in the Statements of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2010.

Due to Commonwealth

The balance of $1.7 million as of June 30, 2011 and 2010, respectively, represents excess of advances received from other governmental agencies for rent charges over construction costs incurred for government agencies projects.

8. Capital Assets

Capital assets activity for the years ended June 30, 2011 and 2010 were as follows:

	Year Ended June 30, 2011			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets, not being depreciated:				
Land	$ 130,735,879	$ –	$ (4,935)	$ 130,730,944
Construction in progress	223,540,382	156,947,129	(84,027,496)	296,460,015
Total capital assets, not being depreciated	354,276,261	156,947,129	(84,032,431)	427,190,959
Capital assets, being depreciated:				
Buildings	3,431,836,076	183,748,668	(95,330,936)	3,520,253,808
Equipment and automobiles	13,883,823	310,141	(536,042)	13,657,922
	3,445,719,899	184,058,809	(95,866,978)	3,533,911,730
Less accumulated depreciation for:				
Buildings	(892,621,471)	(67,025,195)	260	(959,646,406)
Equipment and automobiles	(12,233,736)	(362,472)	409,901	(12,186,307)
	(904,855,207)	(67,387,667)	410,161	(971,832,713)
Total capital assets, being depreciated, net	2,540,864,692	116,671,142	(95,456,817)	2,562,079,017
Capital assets, net	$2,895,140,953	$273,618,271	$(179,489,248)	$2,989,269,976

8. Capital Assets (continued)

	Year Ended June 30, 2010			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets, not being depreciated:				
Land	$ 118,756,957	$ 11,978,922	$ –	$ 130,735,879
Construction in progress	264,382,645	83,163,146	(124,005,409)	223,540,382
Total capital assets, not being depreciated	383,139,602	95,142,068	(124,005,409)	354,276,261
Capital assets, being depreciated:				
Buildings	3,309,831,178	124,005,409	(2,000,511)	3,431,836,076
Equipment and automobiles	14,185,380	163,548	(465,105)	13,883,823
	3,324,016,558	124,168,957	(2,465,616)	3,445,719,899
Less accumulated depreciation for:				
Buildings	(826,829,394)	(65,792,077)	–	(892,621,471)
Equipment and automobiles	(12,252,953)	(503,730)	522,947	(12,233,736)
	(839,082,347)	(66,295,807)	522,947	(904,855,207)
Total capital assets, being depreciated, net	2,484,934,211	57,873,150	(1,942,669)	2,540,864,692
Capital assets, net	$2,868,073,813	$153,015,218	$(125,948,078)	$2,895,140,953

Total interest costs capitalized during the years ended June 30, 2011 and 2010 aggregates to approximately $13.1 million and $10 million, respectively. Total general and administrative expenses capitalized during the years ended June 30, 2011 and 2010, aggregates to approximately $5.2 million and $2.2 million, respectively.

9. Property Held for Sale

The Authority identified certain properties for sale, as part of its efforts to increase liquidity. The amount shown of $3 million as of June 30, 2011 and 2010, respectively, was reclassified from capital assets as property held for sale and is recorded at cost or net book value. No costs of disposal have been estimated as these properties consist of real estate and the Authority believes that the net realizable amount will exceed the current book value of the property held for sale.

10. Land and Buildings under Construction and Advances from Other Governmental Agencies

Land and buildings under construction for other governmental agencies as of June 30, 2011 and 2010 were as follow:

	June 30, 2011			
	2010	**Increase**	**Decrease**	**2011**
Construction in progress	**$150,390**	**$ 209,291**	**$ (9,300)**	**$350,381**

	June 30, 2010			
	2009	**Increase**	**Decrease**	**2010**
Construction in progress	$152,282	$1,075,000	$(1,076,892)	$150,390

Advances from other governmental entities at June 30, 2011 and 2010 amounted to approximately $3.0 million and $1.9 million, respectively. These amounts represent funds received from several agencies and municipalities for the construction of projects.

11. Due to Other Governmental Entities

Due to other governmental entities as of June 30, 2011 and 2010 were as follow:

Description	2011	2010
Puerto Rico Infrastructure Financing Authority	**$35,073,867**	$ –
Puerto Rico Electric Power Authority	**12,826,215**	36,431,608
Puerto Rico Aqueduct and Sewer Authority	**3,148,272**	3,203,582
Employees' Retirement System	**1,862,953**	2,729,169
Puerto Rico Department of Labor	**616,704**	1,975,570
Puerto Rico Land Authority	**335,304**	335,304
Board of Environmental Quality	**57,625**	–
General Services Administration	**27,468**	100,964
Municipality of San Juan	**16,746**	–
Puerto Rico Land Administration	**12,549**	12,549
Treasury Department of Puerto Rico	**2,390**	–
Municipality of Caguas	**1,530**	–
Department of Transportation and Public Works	**110**	–
Total	**$53,981,733**	$44,788,746

12. Bonds Payable

Bonds payable as of June 30, 2011 and 2010 were as follow:

Description	2011	2010
Office Buildings Bonds:		
Serial Bonds, maturing through 2010, with interest rates ranging from 4.50% to 6.90%	**$ –**	$ 6,065,000
Term Bonds, maturing through 2021, with interest rates ranging from 5.50% to 6.00%	**37,315,000**	37,315,000
	37,315,000	43,380,000
Public Education and Health Facilities Bonds:		
Serial Bonds, maturing through 2010, with interest rates ranging from 4.50% to 6.60%	–	32,585,000
	–	32,585,000
Government Facilities Revenue Bonds:		
Serial Bonds maturing through 2027, with interest rates ranging from 3.00% to 6.75%	**996,410,000**	1,042,610,000
Term Bonds maturing through 2039, with interest rates ranging from 3.00% to 5.75%	**1,954,930,000**	1,954,930,000
Capital Appreciation Bonds, maturing through 2031, with interest rates ranging from 3.75% to 5.50%	**111,225,556**	107,082,082
	3,062,565,556	3,104,622,082
Total bonds outstanding	**3,099,880,556**	3,180,587,082
Less: Bond discounts	**(25,272,894)**	(26,454,183)
Deferred loss on bonds defeased	**(142,673,870)**	(151,563,716)
Plus: Bond premiums	**76,268,664**	84,785,495
Net bonds payable	**3,008,202,456**	3,087,354,678
Less: Current portion	**(81,001,970)**	(84,850,000)
Bonds payable, noncurrent portion	**$2,927,200,486**	$3,002,504,678

12. Bonds Payable (continued)

Aggregate maturities of sinking funds' amortization requirements on bonds, (excluding discounts and premiums), accreted value on bonds and related interest payments in future years are as follows:

Year ending June 30,	Principal	Interest
2012	$ 81,001,970	$ 163,671,494
2013	78,580,449	159,823,235
2014	74,135,000	155,261,025
2015	77,920,000	151,199,375
2016	81,945,000	146,910,800
2017-2021	384,305,000	660,011,477
2022-2026	445,140,000	540,311,403
2027-2031	638,245,691	390,804,592
2032-2036	848,370,975	199,594,691
2037-2040	359,895,000	27,615,811
Principal outstanding and interest	3,069,539,085	2,595,203,903
Add (deduct): Bond discounts	(25,272,894)	
Deferred loss on bonds defeased	(142,673,870)	
Accreted value on bonds outstanding	30,341,471	
Bonds premiums	76,268,664	
Net bonds payable	3,008,202,456	
Less: Current portion	(81,001,970)	
Bonds payable, noncurrent portion	$2,927,200,486	$2,595,203,903

12. Bonds Payable (continued)

Activity of bonds payable during the years ended June 30, 2011 and 2010 are as follows:

	Year Ended June 30, 2011				
	2010	Issuances/ Accretion	Payments/ Decreases	2011	Current Portion
Office Building Bonds:					
Serial Bonds	$ 6,065,000	$ –	$ (6,065,000)	$ –	$ –
Terms Bonds	37,315,000	–	–	37,315,000	–
	43,380,000	–	(6,065,000)	37,315,000	–
Public Education and Health Facilities Bonds:					
Serial Bonds	32,585,000	–	(32,585,000)	–	–
	32,585,000		(32,585,000)	–	–
Government Facilities Revenue Bonds:					
Serial Bonds	1,042,610,000	–	(46,200,000)	996,410,000	81,001,970
Terms Bonds	1,954,930,000	–	–	1,954,930,000	–
Capital Appreciation Bonds	107,082,082	4,143,474	–	111,225,556	–
	3,104,622,082	4,143,474	(46,200,000)	3,062,565,556	81,001,970
Total bonds outstanding	3,180,587,082	4,143,474	(84,850,000)	3,099,880,556	81,001,970
Less: Bonds discounts	(26,454,183)	–	1,181,289	(25,272,894)	–
Deferred loss on bond defeased	(151,563,716)	–	8,889,846	(142,673,870)	–
Plus: Bonds premiums	84,785,495	–	(8,516,831)	76,268,664	–
Total bonds payable, net	$3,087,354,678	$ 4,143,474	$(83,295,696)	$3,008,202,456	$81,001,970

12. Bonds Payable (continued)

	Year Ended June 30, 2010				
	2009	**Issuances/ Accretion**	**Payments/ Decreases**	**2010**	**Current Portion**
Office Building Bonds:					
Serial Bonds	$ 11,800,000	$ –	$ (5,735,000)	$ 6,065,000	$ 6,065,000
Terms Bonds	37,315,000	–	–	37,315,000	–
	49,115,000	–	(5,735,000)	43,380,000	6,065,000
Public Education and Health Facilities Bonds:					
Serial Bonds	66,015,000	–	(33,430,000)	32,585,000	32,585,000
	66,015,000	–	(33,430,000)	32,585,000	32,585,000
Government Facilities Revenue Bonds:					
Serial Bonds	958,880,000	123,975,000	(40,245,000)	1,042,610,000	46,200,000
Term Bonds	1,900,310,000	409,500,000	(354,880,000)	1,954,930,000	–
Capital Appreciation Bonds	98,061,979	11,787,756	(2,767,653)	107,082,082	–
	2,957,251,979	545,262,756	(397,892,653)	3,104,622,082	46,200,000
Total bonds outstanding	3,072,381,979	545,262,756	(437,057,653)	3,180,587,082	84,850,000
Less: Bonds discounts	(22,789,583)	(4,776,955)	1,112,355	(26,454,183)	–
Deferred loss on bond defeased	(138,693,597)	(20,173,169)	7,303,050	(151,563,716)	–
Plus: Bonds premiums	102,194,283	–	(17,408,788)	84,785,495	–
Total bonds payable, net	$3,013,093,082	$520,312,632	$(446,051,036)	$3,087,354,678	$84,850,000

The maturities of bonds payable are funded by debt service rental revenue collected from the lessees. The bonds are secured by a pledge of the rentals of government facilities financed or refinanced by such bonds and leased by the Authority to departments, agencies, and instrumentalities of the Commonwealth.

12. Bonds Payable (continued)

The good faith and credit of the Commonwealth are pledged for the payment or advance of such rentals. The payment of principal and interest on the bonds is further secured by the guaranty of the Commonwealth under which the Commonwealth pledges to draw from any funds available in the Department of Treasury of Puerto Rico such sums as may be necessary to cover any deficiency in the amount required for the payment of principal and interest on the bonds, in an aggregate principal amount not exceeding $4,325 million.

The Authority's bonds payable are subject to the arbitrage rebate regulations issued by the Internal Revenue Service of the United States of America that require rebate to the federal government of excess investment earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2011.

Defeased and Refunding Bonds

In prior years, the Authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old debts. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the statements of net assets. As of June 30, 2011 and 2010, approximately $742 million and $940 million of bonds outstanding, respectively are considered defeased.

In July 1, 2009, the Authority issued $331 million Government Facilities Revenue Refunding Bonds, Series P. The proceeds from the issuance were used to advance refund $297 million Government Facilities Revenue Refunding Bonds, Series K, make swap termination payments of $28.4 million and pay cost of issuance of $4.7 million. On the same date, the Authority converted $50 million principal amount of its Government Facilities Revenue Refunding Bonds, Series K, from a LIBOR-based rate to a fixed rate and remarketed such bonds. As a result of the transaction, the Authority recognized a loss on defeasance of $22 million which has been deferred and will be amortized over the life of the old debt.

On October 16, 2009, the Authority issued $152,540,000 aggregate principal amount of Government Facilities Revenue Refunding Bonds, Series Q, guaranteed by the Commonwealth of Puerto Rico. The bonds are being issued to refund interest (but not principal) of certain bonds issued by the Authority under the 1995 Resolution.

13. Other Long-Term Liabilities

Other long-term liabilities at June 30, 2011 and 2010 are composed of the following:

	Year Ended June 30, 2011				
	Beginning Balance	**Increases**	**Payments/ Decreases**	**Ending Balance**	**Current Portion**
Borrowings under lines of credit	**$165,749,102**	**$255,072,711**	**$ (5,639,813)**	**$415,182,000**	**$ –**
Due to contractors, including retainage	**40,954,604**	**81,346,403**	**(81,732,896)**	**40,568,111**	**20,966,664**
Advances from governmental agencies	**1,949,596**	**2,150,000**	**(1,075,000)**	**3,024,596**	**–**
Compensated absences	**12,019,413**	**3,820,136**	**(3,693,163)**	**12,146,386**	**3,158,060**
Contingencies	**9,419,778**	**1,549,215**	**(942,479)**	**10,026,514**	**–**
Other post-employment benefits obligation	**3,127,048**	**2,783,124**	**–**	**5,910,172**	**1,072,275**
Termination benefits	**–**	**13,409,606**	**–**	**13,409,606**	**2,090,344**
Due to Commonwealth	**1,683,808**	**–**	**–**	**1,683,808**	**–**
Total other long-term liabilities	**$234,903,349**	**$360,131,195**	**$(93,083,351)**	**$501,951,193**	**$ 27,287,343**

	Year Ended June 30, 2010				
	Beginning Balance	**Increases**	**Payments/ Decreases**	**Ending Balance**	**Current Portion**
Borrowings under lines of credit	$185,541,305	$ 86,299,955	$(106,092,158)	$165,749,102	$ 95,749,102
Due to contractors, including retainage	49,642,149	79,294,102	(87,981,647)	40,954,604	13,363,228
Advances from governmental agencies	3,009,790	6,343,602	(7,403,796)	1,949,596	–
Compensated absences	13,948,924	–	(1,929,511)	12,019,413	3,041,471
Contingencies	9,435,534	1,994,334	(2,010,090)	9,419,778	–
Other post-employment benefits obligation	–	3,127,048	–	3,127,048	389,181
Due to Commonwealth	3,649,359	–	(1,965,551)	1,683,808	–
Total other long-term liabilities	$265,227,061	$177,059,041	$(207,382,753)	$234,903,349	$112,542,982

13. Other Long-Term Liabilities (continued)

Borrowings under Lines of Credit

Borrowings under lines of credit at June 30, 2011 and 2010 are composed of the following:

June 30, 2011					
	Principal		Interest		Total
$	121,666,308	$	9,193,034	$	130,859,342
	12,252,525		710,000		12,962,525
	69,124,076		134,408		69,258,484
	4,065,174		309,490		4,374,664
	147,779,119		4,030,734		151,809,853
	14,516,024		210,332		14,726,356
	30,911,320		279,456		31,190,776
$	400,314,546	$	14,867,454	$	415,182,000

June 30, 2010					
	Principal		Interest		Total
$	81,997,800	$	3,452,598	$	85,450,398
	5,917,399		202,419		6,119,818
	70,000,000		–		70,000,000
	4,065,174		113,712		4,178,886
$	161,980,373	$	3,768,729	$	165,749,102

On May 2, 2008, the Authority executed two Loan Agreements with GDB for the interim financing of its Capital Improvement Program in an amount not to exceed $226 million, bearing interest at 6.0%. The loans are due on October 31, 2011 and will be payable from the proceeds of the next bond issuance of the Authority divided into $209 million on a tax-exempt basis and $16.9 million on a taxable basis.

13. Other Long-Term Liabilities (continued)

Borrowings under Lines of Credit (continued)

The Authority maintains a line of credit with GDB for $75 million, bearing interest at a fixed interest rate of 7%. The line is collateralized with two of the Authority's properties. The proceeds were used to finance the Authority's operational expenses. Payments of principal and interest will be appropriate from the Commonwealth of Puerto Rico's general budget pursuant to the provisions of the Resolution No. 387 of December 21, 2005. The loan is due on June 30, 2018. During the fiscal years ended June 30, 2011 and 2010, payments of principal and interest due of $875,924 and $5,000,000 and $4,763,889 and $7,857,123, respectively, were made by the Puerto Rico Sales Tax Financing Corporation.

On April 27, 2009, GDB provide to the Authority a non-revolving credit facility in the maximum principal amount of $98,500,000 bearing interest on the unpaid principal amount of each advance at a fluctuating annual rate equal to 1.50% over and above the Prime Rate or at such other rate determined by GDB. The proceeds of the Facility will be used exclusively for the payment of certain amounts due by the Authority to its suppliers and service providers. All such payments shall be subject to the prior approval of GDB and shall be disbursed directly to the suppliers and service providers. The loan is due on June 30, 2011 and will be payable from all funds generated by the PBA and any other properties owned and pledged to GDB.

On July 9, 2010 the Authority executed a loan agreement with GDB for the financing of the interest component of certain of its outstanding revenue and revenue refunding bonds in an aggregate principal amount not to exceed $36,944,781. The loan shall mature on such date as GDB may determine but in no event later than June 30, 2012 and will be payable from the proceeds of the issuance of revenue bonds to be issued by the Authority under Section 209 of Resolutions No. 468 and No. 158. The loan bears interest at a rate of interest per annum equal to the Prime Rate (as determined by the Lender) plus 150 basis points; provided that such interest shall not be less than six percent (6%). On September 22, 2010, the loan agreement was amended to provide an increase in the loan amount of $12,314,927 for a new loan balance of $49,259,708. On November 29, 2010 a second amendment to the loan agreement occurred in order to increase the amount of the loan by $98,519,416 from $ 49,258,708 to $147,779,124.

13. Other Long-Term Liabilities (continued)

Borrowings under Lines of Credit (continued)

On August 18, 2010, GDB provide to the Authority a non-revolving credit facility in the maximum principal amount of $93,627,486 bearing interest at a fluctuating annual rate equal to Prime plus 1.50 percent, provided that such interest shall not be less than six percent (6%), or at such other rate determined by GDB. The proceeds of the Facility will be used for construction projects development. The loan is due on June 30, 2012 and will be payable from the proceeds of the future bond issuance of the Authority.

On October 21, 2010 the Authority executed a loan agreement with GDB for the financing of the projects costs, under the Inter-Departmental Agreement, until such time as the Authority issues the Qualified School Construction Bonds (the QSCBs) in an aggregate principal amount not to exceed $160,000,000. The loan shall mature and all outstanding principal of and interest on the loan shall be due and payable on August 31, 2011, and will be payable from the proceeds of the issuance of the QSCBs or from any other funds available to the Authority. The loan shall bear interest at a rate of interest per annum equal to the Prime Rate (as determined by the Lender) plus 150 basis points; provided that such interest shall not be less than six percent (6%) per annum nor greater than twelve percent (12%) per annum. On April 4, 2011, the loan agreement was amended to provide an increase in the loan amount of $561,600,000 for a new loan balance of $721,600,000.

The Authority, in conjunction with the Puerto Rico Public Partnerships Authority (the P3 Authority), the Puerto Rico Department of Education, the Puerto Rico Department of Transportation and Public Works, and the Puerto Rico Infrastructure Financing Authority, is undertaking a significant and expansive modernization project for the Puerto Rico's Public Schools, known as the Schools for the 21st Century.

Due to Contractors, including Retainage

This amount represents the remaining balance due to contractors for projects under construction. Normally, the contractors submit progress billings for projects in progress and the Authority pays these invoices, except for the retainage portion. This withholding is used as a guarantee that the Contractor will complete the project in accordance with contract requirements.

Normally the retainage will be paid upon completion and acceptance of the projects, as determined by the Authority's engineers.

13. Other Long-Term Liabilities (continued)

Advances from Other Governmental Entities

This amount represents the balance of the amounts advanced by other governmental entities, mainly for the construction of facilities that will be owned by these entities. These projects include appropriations from the Commonwealth to finance the construction of facilities by these agencies, which in turn request the Authority to carry out the construction and the administration of the construction process. Upon acceptable completion, the project is completed and is taken over by the corresponding agency. The assets are not owned by the Authority.

Compensated Absences

This amount represents the accrued compensated absences of the Authority. These are absences for which employees will be paid, such as vacation and sick leave.

Contingencies

This amount represents the Authority's estimates of possible legal and contractual settlements arising from normal litigation procedures. The estimated amount was based on the corresponding number of legal cases currently underway and based upon the advice and consent of the Authority's legal division and its external legal advisors. Actual amount to be settled may be materially different from the amount accrued. (Refer to Note 18.)

Other Post-Employment Benefits Obligation

This amount represents the Authority's liability for its retirement healthcare benefits under the Healthcare Benefit Plan to Retirees. See Note 15 for additional information.

Termination Benefits

This amount represents the Authority's liability related to a program that provides benefits for early retirement or economic incentives for voluntary employment termination to certain eligible employees. See Note 16 for additional information.

14. Employee Retirement Plan

The Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (the System) is a cost sharing multiple-employer defined-benefit pension plan sponsored by, and reported as a component unit of, the Commonwealth. The System was created under Act No. 447 (the Act) approved on May 15, 1951, as amended, and became effective on January 1, 1952. All regular appointed and temporary employees of the Authority under age fifty-five (55) at the date of employment become plan participants of the System.

The System provides retirement, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits generally vest after ten (10) years of plan participation. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest thirty-six (36) months of compensation recognized by the System. The annuity, for which a plan member is eligible, is limited to a minimum of $300 per month and a maximum of 75 percent of the average compensation.

Contribution requirements, which are established by law and not actuarially determined, are as follows:

Commonwealth	9.275% of applicable payroll
Employees:	
Hired on or before March 31, 1990	5.775% of monthly gross salary up to $550 and 8.275% of monthly gross salary over $550
Hired on or after April 1, 1990	8.275% of monthly gross salary

On September 24, 1999, an amendment to the Act, which created the System, was enacted with the purpose of establishing a defined contribution plan (System 2000) effective January 1, 2000. Employees participating in the defined benefit plan (the traditional plan) at December 31, 1999, had the option to either stay in the traditional plan or transfer to System 2000. Persons employed on or after January 1, 2000 are only allowed to become members of System 2000.

14. Employee Retirement Plan (continued)

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan there is a pool of pension assets, which are invested by the System, together with those of System 2000 benefit plan. The Commonwealth does not guarantee benefits at retirement age. The annuity is based on a formula which assumes that each year the participants' contribution (with a minimum of 8.275% of the participants' salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not granted under System 2000. The employers' contributions (9.275% of the employee's salary) are used to fund the traditional plan. System 2000 reduces the retirement age from sixty-five (65) years to sixty (60) years for those employees who joined the current plan on or after January 1, 2000.

Total employee and employer contributions for the years ended June 30, 2011 and 2010 are as follows:

	2011	**2010**
Traditional Plan:		
Employer	**$2,504,483**	$3,029,461
Employee	**$2,207,449**	$2,702,834
System 2000:		
Employer	**$1,639,132**	$1,712,308
Employee	**$1,468,458**	$1,527,692

14. Employee Retirement Plan (continued)

The System issued financial reports that include their basic financial statements and required supplementary information. Those reports may be obtained by writing to the System's administrator at 437 Ponce de León Avenue, Hato Rey, Puerto Rico 00918. Activity of accrued pension costs, included within accrued expenses, during the years ended June 30, 2011 and 2010 are as follows:

Description	2011	2010
Beginning balance	**$ 894,839**	$ 995,658
Increase	**32,977,650**	10,458,198
Decrease	**(19,441,880)**	(10,559,017)
Ending balance	**$ 14,430,609**	$ 894,839

15. Other Post-Employment Benefits

Plan Description

The Authority provides retirement healthcare benefits under the Healthcare Benefit Plan to Retirees (the Plan) pursuant to collective bargain agreements. The Plan is administered by the Authority. Benefits consist of a maximum monthly payment (annuity) to cover medical expenses. Based on the Plan's features and functionality, and for the purpose of the actuarial valuation, it has been identified as a single –employer defined benefit healthcare plan. Participants groups covered are employees under Collective Labor Agreement with "Unión Independiente de Empleados de la Autoridad de Edificios Públicos" (UIEAEP), employees under Collective Labor Agreement with "Unión de Empleados de Oficina y Profesionales de la Autoridad de Edificios Públicos" (UEOP) and the Authority's management employees. All employees with at least 10 years of rendered service within the Authority are eligible for the healthcare benefit upon retirement age. Normal retirement is as follows:

For those employees by the Authority before March 30, 1990, normal retirement age would be:

- 30 years of service.

For employees employed by the Authority after March 30, 1990, normal retirement age would be at:

- 10 years of service and 65 years old.

15. Other Post-Employment Benefits (continued)

The benefit is paid in case of permanent disability of the retiree until death. Also, the benefit is paid in case an active employee gets disable until death. The obligation ends in case of death after retirement.

The Authority follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*, for its other post-employment benefits and requires the calculation and recording of the net other post-employment benefit (OPEB) obligations. The net OPEB obligation is, in general, the cumulative difference between the actuarial required contribution and the actual contributions at the valuation date.

Description of the other post-employment benefits provided – In addition to providing the pension benefits described in Note 14 above, the Authority provides a defined dollar contribution to partially cover medical insurance cost to eligible retired employees. The Authority contribution is limited to $200 monthly per eligible retired employees up to a period of thirty-six months (twelve months for managerial employees). This benefit is included in the Collective Bargain Agreement and it will be effective until May 2013 and will be re-evaluated when the agreement is up for renewal on May 2013. Under this level of benefits provided, the risk of medical cost increases resides with the retiree and, therefore, results in a lower OPEB liability for the Authority.

Membership – As of June 30, 2011 and 2010, the number of active employees and retirees amounted to 1,422 and 1,251, respectively.

The following table shows the components of the Authority's annual OPEB cost for the years ended June 30, 2011 and 2010, the amount actually contributed to the plan and the Authority's net OPEB obligation at June 30, 2011 and 2010:

	2011	**2010**
Normal cost	**$1,431,775**	$1,376,707
Amortization of unfunded actuarial accrued liability	**2,197,465**	1,950,853
Annual required contribution	**$3,629,240**	$3,327,560
OPEB contributions made during fiscal year	**$1,072,275**	$ 389,181
Percentage of expense contributed	**30%**	12%

15. Other Post-Employment Benefits (continued)

The net OPEB obligation change for the years ended June 30, 2011 and 2010 is as follows:

	2011	2010
Change in net OPEB obligation		
Net OPEB obligation	**$ 3,127,048**	$ –
Total annual OPEB costs	**3,172,305**	3,316,318
Actual benefit payments	**(389,181)**	(189,270)
Net OPEB obligation	**$ 5,910,172**	$ 3,127,048

OPEB costs components for the years ended June 30, 2011 and 2010 are as follows:

	2011	2010
Annual OPEB Costs		
ARC for fiscal year	**$ 3,327,560**	$ 3,316,318
Interest on Net OPEB Obligation	**93,811**	–
ARC Amortization Adjustment	**(249,066)**	–
Total Annual OPEB Costs	**$ 3,172,305**	$ 3,316,318

As of June 30, 2011 and 2010, the actuarial accrued liability for benefits amounted to $25.6 million and $23.1 million, respectively, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was approximately $59 million and $62.9 million during the years ended June 30, 2011 and 2010, respectively, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 43.4% and 36.7%, respectively.

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

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

15. Other Post-Employment Benefits (continued)

The amortization method of the initial unfunded actuarial accrued liability is the level dollar for a period of 30 years-closed. The amortization method for the gain or loss is the level dollar for a period of 15 years-closed.

The valuation date was July 1, 2011 and the Projected Unit Credit Cost Method was used. The actuarial assumptions were based on a set of assumptions supplied by the Authority. Turnover rates were based on service and age-related turnover. A discount rate of 3.0% was used. This rate is the best actuarial estimate of expected long-term experience and is in accordance with guidelines for selection of these rates under GASB 45. The healthcare trend rates are based on the actuarial knowledge of the general healthcare environment and the specific coverage offered by the Authority.

16. Voluntary Termination Benefits

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Authority. Act No. 70 was a voluntary selection for the public corporations, such as the Authority, and established that early retirement benefits will be provided to eligible employees that have completed between 20 to 29 years of credited of service in the Retirement System, between 48 and 55 year of age, and will consist of biweekly benefits of a 50 % of each employee' salary, as defined. In this early retirement benefit program, the Authority will make the employee and the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have at least 30 years of credited service in the Retirement System who have attained the age for retirement. Economic incentives will consist of a lump-sum payment of six months of salary based on employment years. For eligible employees that choose the economic incentives and have at least 30 years of credited service in the Retirement System and the age for retirement or have the age for retirement, the Authority will make the employee and the employer contributions to the Retirement System for a five year period. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have at least 20 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Authority.

16. Voluntary Termination Benefits (continued)

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Authority's financial statements of a liability of $13.4 million in the balance sheet as of June 30, 2011 and a charge of approximately $13.4 million in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2011. At June 30, 2011, unpaid long-term benefits granted on this program were discounted at 1.85% and 2.35% depending on the employee voluntary termination benefits selected.

17. Commitments

The Authority has entered into various contracts with outside contractors for the construction of buildings and other facilities. The Authority records the liability for these contracts as progress billings are received, based on completed work. The uncompleted portion of these contracts is approximately $72.7 million as of June 30, 2011 and 2010.

18. Contingent Liabilities

The Authority is a defendant and/or co-defendant in various lawsuits for alleged breach of contracts and other actions arising in the ordinary course of business. There are two cases which area considered material. Even though arbitration was required, they involved issues of law which are being considered in judicial review.

In the first case, an Arbitration Panel awarded "Target" $2.6 million for anticipated earnings for the cancellation of a construction contract of a public school in the Municipality of Dorado. It is the contention of the Authority that the cancellation of the contract was lawfully executed and that anticipated earnings cannot be recognized against Government instrumentalities and Government agencies, which have the right and obligation of managing its necessities and priorities while protecting public funds. Judicial review is pending.

In the second case, an Arbitration Panel awarded "Target" $1.2 million for anticipated earnings for the cancellation of a construction contract of a public school in the Municipality of Carolina. The same defense as above was presented, but due to the comments of a member of the Arbitration Panel, where his prejudicial state of mind against the Authority's legal defense accidentally became part of the record, the Authority requested his impeachment and disqualification before its final decision. All controversies and legal contentions are pending in judicial review.

18. Contingent Liabilities (continued)

Recently, Appellate Court recognized the Authority's legal arguments in another case not related to "Target". Anticipating earnings was not recognized against the Authority for cancellation of construction contract. Rule of law is included in the Authority's arguments requesting judicial review of arbitration proceedings.

Management, based on the advice of the legal counsel, has recorded reserves to cover for possible liabilities related to these cases. These reserves are recorded as part of the contingencies in the accompanying balance sheets.

19. Subsequent Events

The Authority is currently involved in the "Schools for the 21st Century" program, which is a multi-agency effort with the objective of rehabilitating, renovating and/or constructing approximately 100 public schools through the use of an innovative procurement approach that effectively transfers the risk of design, construction and maintenance to the private sector. Under this program, the Puerto Rico Public-Private Partnerships Authority ensures overall compliance with procurement requirements while the Puerto Rico Infrastructure Financing Authority serves as procurement and construction manager. The public schools included under the program will undergo major repairs of structural deficiencies, renovations of electrical and mechanical defects, and the creation of new community spaces, sciences labs, art centers, among other things.

The Authority has issued its $756,449,000 aggregate principal amount of Government Facilities Revenue Bonds, Series R (Qualified School Construction Bonds-Issuer Subsidy) (the "Series R Bonds"). The proceeds of the Series R Bonds will be used to finance the rehabilitation, renovation or construction of at least 100 public schools under this program. The Authority expects to finance the rehabilitation, renovation or construction of the remaining public schools through a future issuance of bonds also designated as "Qualified School Construction Bonds".

19. Subsequent Events (continued)

Concurrently with the issuance of the Series R Bonds, on August 24, 2011 the Authority issued its $303,945,000 aggregate principal amount of Government Facilities Revenue Bonds, Series S Guaranteed by the Commonwealth of Puerto Rico. The bonds are being issued to (i) repay certain advances made to the Authority by Government Development Bank under line of credit facilities to (a) pay interest due January 1 and July 1, 2011 on certain bonds issued under the 1995 Bond Resolution and the 1970 Bond Resolution, and (b) pay a portion of the construction costs of certain buildings and facilities leased by the Authority to various departments, agencies, instrumentalities and municipalities of the Commonwealth; and (ii) pay costs of issuance the bonds. The Government Facilities Revenue Bonds, Series S, repay the lines of credit principal in the amounts of $147.8 million, $16.2 million and $122 million, and accrued interest of $16 million.

In July 2011, the Authority repaid the accrued interest for the line of credit of $98,500,000 with annual rate equal to 1.50%. The accrued interest paid at July 30, 2011, was in the amount of $309,490.

Required Supplementary Information

Schedule of Funding Progress for Postemployment Healthcare Benefits

Year Ended June 30, 2011

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability	Funded Ratio	Annual Covered Payroll	Percentage of Covered Payroll
30/06/2009	$ –	$ 23,078,962	$ 23,078,962	—%	$ 64,275,952	38.1%
30/06/2010	$ –	$ 24,497,806	$ 24,497,806	—%	$ 62,901,044	36.7%
30/06/2011	$ –	$ 25,618,770	$ 25,618,770	—%	$ 59,056,613	43.4%

See accompanying independent auditors' report.

Other Supplementary Information

Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Bond Sinking Funds Accounts

Year Ended June 30, 2011

	2011 Total	Bond Service Account
Public Education and Health Facilities Bonds		
Balance at June 30, 2010	$ 33,507,223	$ 33,507,223
Receipts:		
Transfers from other accounts	**14,595**	**14,595**
Disbursements:		
Payment of bonds principal and interest	**(33,521,818)**	**(33,521,818)**
Balance at June 30, 2011	**$ –**	**$ –**
Governmental Facilities Bonds		
Balance at June 30, 2010	$ 127,917,620	$ 127,917,620
Receipts:		
Transfers from other accounts	**580,000**	**580,000**
Transfers from GDB Loan	**251,668,227**	**251,668,227**
Disbursements:		
Payment of bonds interest	**(72,622,790)**	**(72,622,790)**
Payment of bonds principal and interest	**(122,847,970)**	**(122,847,970)**
Other disbursements:		
Serie E	**(96,667)**	**(96,667)**
Capitalized interest	**(8,495,412)**	**(8,495,412)**
Balance at June 30, 2011	**$ 176,103,008**	**$ 176,103,008**

Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Operating Cash Accounts

Year Ended June 30, 2011

Description	Banco Popular de Puerto Rico	Government Development Bank for Puerto Rico
Balance as of June 30, 2010	$ (17,684)	$ 67,171,585
Deposits:		
Rent collected	**25,267,763**	**227,514,350**
Investments	**(6,658,244)**	–
Interest	–	**72,590**
Disbursements:		
For current expenses, transfers to bond service	–	–
acounts and others	**(17,349,967)**	**(223,397,233)**
Service charges	**(8,753)**	–
Debt services payable	–	**(11,300,562)**
Insurance payment	–	**(7,351,467)**
Balance as of June 30, 2011	**$ 1,233,115**	**$ 52,709,263**
	(A)	**(B)**

(A) Balance included in cash and cash equivalents in the accompanying balance sheet, *as unrestricted* .

(B) Balance included in cash and cash equivalents in the accompanying balance sheet, *as restricted*

Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Operating Rental Revenues and Receivables

Year Ended June 30, 2011

	Rental Revenues Year Ended June 30, 2011	Receivables as of June 30, 2011
Office Buildings		
Debt service rentals - bonds	$ 29,274,815	$ –
Operating, administrative and equipment replacement reserve rentals	59,895,681	39,393,187
Total office buildings	89,170,496	39,393,187
Public Education Buildings		
Debt service rentals - bonds	65,018,758	–
Operating, administrative and equipment replacement reserve rentals	34,526,694	68,169,193
Total public education buildings	99,545,452	68,169,193
Health Facilities		
Debt service rentals - bonds	21,600,819	–
Operating, administrative and equipment replacement reserve rentals	2,497,663	33,112,435
Total health facilities	24,098,482	33,112,435
Total	$ 212,814,430	$ 140,674,815

Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Capital Improvements Program Compared to Budget

Year Ended June 30, 2011

	Actual	Budget *(Unaudited)*
Educational facilities	$ 104,472,965	$ 460,617,422
Police facilities	8,362,058	7,180,258
Offices buildings	24,435,469	85,691,277
Courthouses	1,765,491	3,872,693
Firehouses	502,765	2,628,509
Penintentiaries	–	1,426,548
Authority's equipment	310,141	–
Total	$ 139,848,889	$ 561,416,707

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com