

Puerto Rico Infrastructure Financing Authority

(A Component Unit of the Commonwealth of
Puerto Rico)

Basic Financial Statements, Required
Supplementary Information, and Additional
Supplementary Information as of and for the
Year Ended June 30, 2010, and
Independent Auditors' Report

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Puerto Rico Infrastructure Financing Authority (the "Authority"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority, as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 to 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

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

Deloitte & Touche LLP

July 8, 2011

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

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

1) FINANCIAL HIGHLIGHTS

- Total assets and total liabilities of the Authority at June 30, 2010 amounted to approximately \$2,128 million and \$3,198 million, respectively, for a net deficit of \$1,070 million.
- On July 1, 2009, the Authority invested \$300 million in a time deposit agreement with the Government Development Bank for Puerto Rico (the "Bank"). The time deposit represents the Authority's permanent investment as established in Act No. 3 of 2009. The time deposit matures on October 1, 2040, and interest income will be capitalized until maturity.
- By virtue of Act No. 44 of June 21, 1998, as amended, federal excise taxes received by the Commonwealth and required to be transferred to the Authority increased from \$90 million in 2009 to \$117 million in 2010.
- Expenditures for programs managed by the Authority under the American and Reinvestment Act of 2009 ("ARRA Programs") totaled approximately \$67 million during the year ended June 30, 2010.
- Expenditures for infrastructure projects developed under the Investment in Our Infrastructure Program ("PINI" for its Spanish acronym) totaled approximately \$68 million during the year ended June 30, 2010.
- During the year ended June 30, 2010, the Authority transferred completed construction projects amounting to approximately \$948 million to municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth of Puerto Rico (the "Commonwealth"), including approximately \$915 million developed for the benefit of Puerto Rico Aqueduct and Sewer Authority ("PRASA").

2) OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

3) GOVERNMENT-WIDE FINANCIAL ANALYSIS

Condensed financial information on assets, liabilities, and net deficit as of June 30, 2010 and 2009 is as follows:

	2010	2009	Change
Cash and cash equivalents, investments and investment contracts, and other assets	\$ 1,711,319,630	\$ 2,063,072,425	\$ (351,752,795)
Capital assets	<u>416,342,915</u>	<u>1,286,756,479</u>	<u>(870,413,564)</u>
Total assets	<u>2,127,662,545</u>	<u>3,349,828,904</u>	<u>(1,222,166,359)</u>
Other liabilities	191,175,858	396,960,830	(205,784,972)
Bonds and loans payable	<u>3,006,151,453</u>	<u>3,071,705,209</u>	<u>(65,553,756)</u>
Total liabilities	<u>3,197,327,311</u>	<u>3,468,666,039</u>	<u>(271,338,728)</u>
Net deficit	<u>\$ (1,069,664,766)</u>	<u>\$ (118,837,135)</u>	<u>\$ (950,827,631)</u>

Cash and cash equivalents, investments and investment contracts, and other assets decreased by approximately \$352 million or 17%. This decrease was mainly due to a decrease in cash and cash equivalents, and investments and investment contracts of \$364 million. Cash and cash equivalents, and proceeds from investments and investment contracts were used to pay principal and interest on bonds and loans, to pay contributions due to the Commonwealth and the Bank, and for capital outlays. This decrease was partially offset by investment earnings of \$27 million generated during 2010.

Capital assets decreased by \$870 million or 68%. The decrease was mainly due to the transfer of \$948 million of completed construction projects to PRASA and other governmental entities. In addition, the Authority recorded an impairment loss on completed construction projects of \$24 million. This decrease in capital assets was partially offset by capital outlays made during 2010 of \$102 million.

Total liabilities of the Authority decreased by \$271 million or 8%, mainly as a result of the payment of \$161 million in contributions to the Commonwealth and the Bank that were accumulated during 2009, an aggregate repayment of matured bonds and loans of \$75 million, and a decrease in accounts payable and accrued liabilities of \$48 million. The decrease was partially offset by the issuance of debt of \$9 million, and an increase in the contingency for legal claims of \$4 million.

The following schedule compares revenues and expenses of the Authority for the years ended June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>
Revenues:			
Program revenues—operating grants and contributions, and earnings on investments	\$ 343,737,791	\$ 649,176,629	\$(305,438,838)
General revenues:			
Investment earnings	<u>3,065</u>	<u>97,988</u>	<u>(94,923)</u>
Total revenues	<u>343,740,856</u>	<u>649,274,617</u>	<u>(305,533,761)</u>
Expenses:			
Functions/Program:			
General government	15,245,539	545,235,984	(529,990,445)
Edification, aqueduct and sewers, and arts and entertainment	975,680,206	95,520,518	880,159,688
Economic development program	67,725,237	4,670,289	63,054,948
Recreation and sports	12,399,829	30,153,562	(17,753,733)
Education	6,680,797	28,930,346	(22,249,549)
Transportation	1,641,024	22,004,198	(20,363,174)
Public safety	636,394	7,746,546	(7,110,152)
ARRA Programs	66,636,964	5,099,968	61,536,996
Interest on long-term debt	<u>147,922,497</u>	<u>156,475,983</u>	<u>(8,553,486)</u>
Total expenses	<u>1,294,568,487</u>	<u>895,837,394</u>	<u>398,731,093</u>
Change in net deficit	<u>\$(950,827,631)</u>	<u>\$(246,562,777)</u>	<u>\$(704,264,854)</u>

Revenues

Total revenues decreased by approximately \$306 million during the year ended June 30, 2010 when compared with the year ended June 30, 2009. The decrease is mainly due to the decrease of approximately \$528 million in investment income, net of an increase of approximately \$158 million in contributions from the Commonwealth and municipalities for the development of infrastructure projects and repayment of debt, and an increase of approximately \$66 million in revenues from the implementation and progress of ARRA Programs.

Expenses

Total expenses increased by approximately \$399 million during 2010. This increase resulted mainly from an increase of approximately \$880 million in edification, aqueduct and sewer, and arts and entertainment activity expenses, which was mainly due to the transfer of capital assets to PRASA. In addition, there was an increase of approximately \$63 million and \$62 million of PINI and ARRA funds spending, respectively, due to the significant progress of the programs during the year ended June 30, 2010. The increase in total expenses was partially offset by a reduction of \$530 million in general government expenditures and a reduction of \$76 million in other functions. The reduction in expenditures of the general government and other functions was the result of expenses incurred in 2009 related to the sale of investments held in the corpus account by virtue of Act No. 3 of 2009 ("Act No. 3"), and advanced stages of the development of other infrastructure projects.

4) GOVERNMENTAL FUNDS RESULTS

General Fund

General Fund expenditures decreased by \$458 million, which is mostly related to the Authority's capital contribution of \$463 million in 2009 in connection with the sale of investments held in the corpus account.

Special Revenue Fund

Special Revenue Fund revenues and expenditures increased by \$52 million and \$66 million, respectively, due to the implementation and progress of ARRA programs directly managed by the Authority as subgrantee.

Capital Projects Fund

Capital Projects Fund revenues increased \$96 million, mostly as a result of the progress of infrastructure projects developed under PINI program, which increased revenues by \$69.5 million. In addition, the Commonwealth contributed \$36.8 million to repay an outstanding line of credit, including accrued interest, due to the Bank, related to the Symphonic Orchestra Hall Project, \$13.9 million to complete the sports facilities for the XXI Central American & Caribbean Games, and \$7.9 million contribution for the development of other infrastructure projects. The increase in revenues was partially offset by a decrease in investment earnings of \$32.7 million. During the year ended June 30, 2010, total expenditures of the Capital Projects Fund amounted to \$228.7 million.

Debt Service Fund

Principal payment on maturing bonds amounted to \$36.4 million during the year ended June 30, 2010. Interest expense decreased by \$7.6 million when compared to the prior year due to a reduction of outstanding debt of the Authority.

Permanent Fund

The Permanent Fund earnings on investments decreased by \$495 million, mainly due to the prior year sale of investments held in the corpus account. The proceeds of the transaction were used to provide for the early extinguishment of the Series 2000 A and B Bonds, maintain a permanent investment within the corpus account, pay amounts due to the U.S. Internal Revenue Service, pay transaction costs, and contribute any remaining amounts to the Commonwealth and the Bank, among other purposes.

On June 30, 2010, the Authority transferred the U.S. Treasury securities, including accrued interest, held for the future redemption of the Special Obligation Bonds, Series 2000 A and B to the debt service fund. This transfer amounted to approximately \$1,044 million. As of June 30, 2010, The Authority has invested approximately \$310 million in a time deposit agreement with the Bank as a permanent investment within the corpus account as established by Act No. 3. Investment earnings amounted to approximately \$21 million during the year ended June 30, 2010.

5) CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Non-depreciable capital assets represent construction work in progress, including land in which infrastructure projects are or will be developed. Depreciable assets include furniture and equipment, vehicles, and leasehold improvements. The following is a schedule of the Authority's capital assets as of June 30, 2010 and 2009:

	2010	2009	Increase (Decrease)
Land	\$ 16,681,768	\$ 15,675,433	\$ 1,006,335
Construction in progress	399,444,708	1,270,910,634	(871,465,926)
Furniture and equipment	843,931	761,605	82,326
Vehicles	88,259	67,476	20,783
Leasehold improvements	677,295	677,295	-
Total capital assets	417,735,961	1,288,092,443	(870,356,482)
Less accumulated depreciation and amortization	1,393,046	1,335,964	57,082
Capital assets — net	<u>\$ 416,342,915</u>	<u>\$ 1,286,756,479</u>	<u>\$ (870,413,564)</u>

The Authority was created, among other things, to provide financial, administrative and other assistance to municipalities, political subdivisions, public corporations and instrumentalities of the Commonwealth to enable them to fulfill their public purpose of providing, preserving, operating, maintaining, repairing, replacing and improving portions of the infrastructure. The decrease in capital assets was mainly due to the transfer of completed projects to PRASA during 2010.

Major additions related to projects under construction for the year ended June 30, 2010 amounted to approximately \$101.3 million, including \$71.4 million for projects related to the XXI Central American & Caribbean Games.

Debt Outstanding

As of June 30, 2010, the Authority had \$3,011 million in long-term liabilities. Total long-term liabilities includes bonds and loans payable, liability for legal matters, and accrued compensated absences, which decreased by \$61 million in comparison to June 30, 2010. The following is a schedule (in thousands) of outstanding bonds and other long-term liabilities as of June 30, 2010 and 2009:

Description	2010	2009	Increase (Decrease)
Bonds payable:			
Special Tax Revenue Bonds	\$ 2,579,675	\$ 2,604,460	\$ (24,785)
Special Obligation Bonds	1,008,240	1,019,430	(11,190)
Mental Health Infrastructure Revenue Bonds	<u>42,630</u>	<u>43,030</u>	<u>(400)</u>
Subtotal	3,630,545	3,666,920	(36,375)
Net premium	121,339	138,455	(17,116)
Unaccreted discount on capital appreciation bonds	(688,453)	(702,123)	13,670
Unamortized deferred loss on refunding loans	<u>(65,371)</u>	<u>(69,003)</u>	<u>3,632</u>
Total bonds payable	2,998,060	3,034,249	(36,189)
Loans payable	8,092	37,456	(29,364)
Liability for legal matters	<u>4,859</u>	<u>525</u>	<u>4,334</u>
Total long-term liabilities	<u>\$ 3,011,011</u>	<u>\$ 3,072,230</u>	<u>\$ (61,219)</u>

6) ECONOMIC FACTORS

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

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

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

The USVI has dedicated a substantial share of current and future cover-over revenues to help finance public and private infrastructure that would directly benefit the rum industry. In June 2008, the USVI entered into a 30-year contractual agreement with London-based rum maker, Diageo Company (“Diageo”), owner of the Captain Morgan brand, to begin operations in the USVI. Captain Morgan® is produced in Puerto Rico under a ten (10) year supply agreement entered into with Destilería Serrallés Inc. (“Serrallés”), a Puerto Rican rum distiller, ending in 2011. Diageo is set to receive subsidies incentives, including the financing of the acquisition, design, construction, development, and equipping of a rum production and maturation warehouse facility and any improvements thereto, worth up to half of the cover-over revenue that the USVI receives.

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

As a result of USVI-Diageo Agreement, the level of the Commonwealth’s cover-over revenues is expected to fall, although the exact amount is not presently known. However, various factors should reduce the amount that will not be received. Among them, the following can be singled out:

- By virtue of Act No. 178 of December 1, 2010 (“Act No. 178”), total investment that the Commonwealth is allowed to make in Puerto Rican rums promotional activities increased from 10 percent to 25 percent of Commonwealth’s cover-over revenues. Furthermore, it also gives to the Governor of the Commonwealth the discretion to increase such percentage up to 46 percent after December 31, 2011. Act No. 178 extends the uses of cover-over revenues to the development of incentives and promotional strategies and the investment in agricultural, industrial and commercial infrastructure that will enhance the potential growth of the rum industry.
- The Commonwealth has entered into a \$95 million grant agreement with Bacardí Ltd. (“Bacardí”), a Puerto Rican rum distiller, for the renovation of its distilling plant. The agreement will also provide Bacardí with production and marketing incentives. In return, Bacardí has to maintain a minimum level of production in Puerto Rico for the next 20 years.
- In order to develop its own brands to offset volume cost increases and revenue losses tied to Diageo’s exit, Serrallés began a new marketing strategy. During 2009, it announced the opening of its operations in Dallas, Texas, being the exclusive importer of Don Q brand in the United States. Furthermore, in August 2010, the Serrallés expanded its rum brands portfolio by launching across the United States the BlackBeard Spiced Rum label.

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

7) REQUESTS FOR INFORMATION

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

**STATEMENT OF NET ASSETS (DEFICIT)
AS OF JUNE 30, 2010**

	Governmental Activities
ASSETS:	
Cash and cash equivalents	\$ 132,068
Accounts receivable	144,459
Due from Commonwealth	5,179,995
Prepaid expenses and other assets	659,818
Bond issuance costs	47,098,276
Restricted assets:	
Temporarily restricted assets:	
Cash and cash equivalents	209,261,036
Accrued interest receivable	5,194,986
Investments and investment contracts	1,052,942,912
Due from Commonwealth	9,958,565
Accounts receivable	31,622,515
Net investment in direct financing lease	38,975,780
Permanently restricted assets — investments and investment contracts	310,149,220
Capital assets — net:	
Nondepreciable:	
Land	16,681,768
Construction in progress	399,444,708
Depreciable — net	
	<u>216,439</u>
Total assets	<u>2,127,662,545</u>
LIABILITIES AND NET ASSETS (DEFICIT):	
Liabilities:	
Accounts payable and accrued expenses:	
Due in one year	1,858,773
Due in more than one year	4,859,000
Liabilities payable from restricted assets:	
Accounts payable and accrued expenses	128,980,930
Accrued interest payable	55,477,155
Bonds and loans payable:	
Due in one year	1,041,994,954
Due in more than one year	<u>1,964,156,499</u>
Total liabilities	<u>3,197,327,311</u>
NET ASSETS (DEFICIT):	
Invested in capital assets — net of related debt	216,439
Restricted for:	
Debt service	1,079,744,640
Trust — nonexpendable	310,149,220
Other purpose	506,369
Unrestricted	<u>(2,460,281,434)</u>
TOTAL NET DEFICIT	<u>\$ (1,069,664,766)</u>

See notes to basic financial statements.

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets — Governmental Activities
		Operating Grants and Contributions	Earnings on Investment	
GOVERNMENTAL ACTIVITIES:				
General government	\$ 15,245,539	\$ 117,830,528	\$ 26,663,715	\$ 129,248,704
Edification, aqueduct and sewers, and arts and entertainment	975,680,206	40,565,196		(935,115,010)
Economic development program	67,725,237	72,685,425		4,960,188
Recreation and sports	12,399,829	18,745,000		6,345,171
Education	6,680,797			(6,680,797)
Transportation	1,641,024			(1,641,024)
Public safety	636,394			(636,394)
ARRA programs	66,636,964	67,247,927		610,963
Interest on long-term debt	147,922,497			(147,922,497)
Total governmental activities	\$ 1,294,568,487	\$ 317,074,076	\$ 26,663,715	(950,830,696)
GENERAL REVENUES — Unrestricted investment earnings				3,065
CHANGE IN NET DEFICIT				(950,827,631)
NET DEFICIT — Beginning of year				(118,837,135)
NET DEFICIT — End of year				\$ (1,069,664,766)

See notes to basic financial statements.

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

BALANCE SHEET — GOVERNMENTAL FUNDS
AS OF JUNE 30, 2010

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Permanent Fund	Total Governmental Funds
ASSETS						
CASH AND CASH EQUIVALENTS	\$ 132,068	\$ -	\$ -	\$ -	\$ -	\$ 132,068
ACCOUNTS RECEIVABLE	144,459					144,459
DUE FROM OTHER FUNDS	386,058		317,851			703,909
DUE FROM COMMONWEALTH	5,179,995					5,179,995
RESTRICTED ASSETS:						
Cash and cash equivalents	13,018,163		123,935,549	72,307,324		209,261,036
Accrued interest receivable			13,237	1,722,940	3,458,809	5,194,986
Investments and investment contracts			7,627,700	1,045,315,212	310,149,220	1,363,092,132
Accounts receivable		14,584,804	17,037,711			31,622,515
Due from Commonwealth			9,958,565			9,958,565
TOTAL	<u>\$ 18,860,743</u>	<u>\$ 14,584,804</u>	<u>\$ 158,890,613</u>	<u>\$ 1,119,345,476</u>	<u>\$ 313,608,029</u>	<u>\$ 1,625,289,665</u>

(Continued)

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

BALANCE SHEET — GOVERNMENTAL FUNDS
AS OF JUNE 30, 2010

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Permanent Fund	Total Governmental Funds
LIABILITIES AND FUND BALANCES (DEFICIT)						
LIABILITIES:						
Accounts payable and accrued expenses	\$ 6,736,329	-	-	-	-	\$ 6,736,329
Due to other funds	317,851	386,058				703,909
Liabilities payable from restricted assets:						
Accounts payable and accrued expenses	<u>12,511,794</u>	<u>31,405,949</u>	<u>101,942,338</u>			<u>145,860,081</u>
Total liabilities	<u>19,565,974</u>	<u>31,792,007</u>	<u>101,942,338</u>	-	-	<u>153,300,319</u>
FUND BALANCES (DEFICIT):						
Reserved for:						
Capital projects			56,948,275			56,948,275
Debt service				1,119,345,476		1,119,345,476
Trust — nonexpendable					313,608,029	313,608,029
Other purpose	506,369					506,369
Unreserved and undesignated	<u>(1,211,600)</u>	<u>(17,207,203)</u>				<u>(18,418,803)</u>
Total fund balances (deficit)	<u>(705,231)</u>	<u>(17,207,203)</u>	<u>56,948,275</u>	<u>1,119,345,476</u>	<u>313,608,029</u>	<u>1,471,989,346</u>
TOTAL	<u>\$ 18,860,743</u>	<u>\$ 14,584,804</u>	<u>\$ 158,890,613</u>	<u>\$ 1,119,345,476</u>	<u>\$ 313,608,029</u>	<u>\$ 1,625,289,665</u>

See notes to basic financial statements.

(Concluded)

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

**RECONCILIATION OF BALANCE SHEET — GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS (DEFICIT)
AS OF JUNE 30, 2010**

TOTAL FUND BALANCE OF GOVERNMENTAL FUNDS \$ 1,471,989,346

Amounts reported for governmental activities in the statement of net assets
(deficit) are different because:

Capital assets used in governmental activities are not financial resources and,
therefore, are not reported in the funds. 416,342,915

Prepaid expenses and bond issuance costs are not available to pay current
period expenditures and, therefore, are not deferred in the funds. 47,758,094

Revenues in the statement of activities that do not provide current
financial resources are deferred in the funds 22,059,147

Other long-term assets are not available to pay current period expenditures
and, therefore, are not deferred in the funds. 38,975,780

Liabilities, including bonds payable, loans payable, accrued interest payable,
and contingencies are not due and payable currently and, therefore, are not
reported in the funds. (3,066,790,048)

TOTAL NET DEFICIT OF GOVERNMENTAL ACTIVITIES \$ (1,069,664,766)

See notes to basic financial statements.

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Permanent Fund	Total Governmental Funds
REVENUES:						
Intergovernmental revenues:						
Contributions from Commonwealth of Puerto Rico	\$ 111,820,007	\$ -	\$ 118,660,816	\$ 264,582	\$ -	\$ 230,745,405
ARRA programs		53,571,806	10,345,000			53,571,806
Contributions from municipalities						10,345,000
Interest and investment income:						
Interest-bearing demand deposits	3,065		45,197			48,262
Investments and investment contracts			2,598,824	255,826	20,749,242	23,603,892
Direct financing lease revenues				3,095,675		3,095,675
Other	104,026	37,935	134,252			276,213
Total revenues	<u>111,927,098</u>	<u>53,609,741</u>	<u>131,784,089</u>	<u>3,616,083</u>	<u>20,749,242</u>	<u>321,686,253</u>
EXPENDITURES:						
Current:						
General government	9,346,162		642,723			9,988,885
Economic development program			67,725,237			67,725,237
Recreation and sports			2,275,172			2,275,172
Education			6,680,797			6,680,797
Edifications, aqueduct and sewers, and arts and entertainment			10,950,918			10,950,918
Transportation			1,641,024			1,641,024
Public safety			636,394			636,394
ARRA programs		67,013,346				67,013,346
Debt service:						
Payment of maturing bonds				36,375,000		36,375,000
Payment of notes payable to Government Development Bank for Puerto Rico		3,967,492	34,586,887			38,554,379
Interest		15,902	2,205,138			141,296,996
Capital outlays:						
General government	140,017					140,017
Edifications, aqueduct and sewers, and arts and entertainment			26,010,822			26,010,822
Recreation and sports			72,696,689			72,696,689
Transportation			2,638,031			2,638,031
Total expenditures	<u>9,486,179</u>	<u>70,996,740</u>	<u>228,689,832</u>	<u>175,450,956</u>	<u>-</u>	<u>484,623,707</u>

(Continued)

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Permanent Fund	Total Governmental Funds
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 102,440,919	\$ (17,386,999)	\$ (96,905,743)	\$ (171,834,873)	\$ 20,749,242	\$ (162,937,454)
OTHER FINANCING SOURCES (USES):						
Proceeds from loans payable to Government Development Bank for Puerto Rico	3,509,892	3,983,395	5,206,517			9,189,912
Transfers in	(107,812,691)		(159,530)	1,215,834,024	(1,111,363,170)	1,219,343,916
Transfers out				(8,525)		(1,219,343,916)
Total other financing sources (uses)	(104,302,799)	3,983,395	5,046,987	1,215,825,499	(1,111,363,170)	9,189,912
NET CHANGES IN FUND BALANCES	(1,861,880)	(13,403,604)	(91,858,756)	1,043,990,626	(1,090,613,928)	(153,747,542)
FUND BALANCES — Beginning of year	1,156,649	(3,803,599)	148,807,031	75,354,850	1,404,221,957	1,625,736,888
FUND BALANCES — End of year	\$ (705,231)	\$ (17,207,203)	\$ 56,948,275	\$ 1,119,345,476	\$ 313,608,029	\$ 1,471,989,346

See notes to basic financial statements.

(Concluded)

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

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

Net changes in fund balances — total governmental funds \$ (153,747,542)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period 101,391,519

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items 68,946,619

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds 22,054,600

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds (989,472,827)

CHANGE IN NET DEFICIT OF GOVERNMENTAL ACTIVITIES \$ (950,827,631)

See notes to basic financial statements.

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

NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

1. REPORTING ENTITY

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Government-Wide and Fund Financial Statements:

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

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

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

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

