

# Puerto Rico Infrastructure Financing Authority

(A Component Unit of the Commonwealth of Puerto Rico)

OMB Circular A-133 Audit for the  
Year Ended June 30, 2009, and  
Independent Auditors' Reports

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

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**PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY**

**PART I**

**BASIC FINANCIAL STATEMENTS, REQUIRED  
SUPPLEMENTARY INFORMATION, AND  
ADDITIONAL SUPPLEMENTARY INFORMATION**

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Puerto Rico Infrastructure Financing Authority (the "Authority"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 to 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied by us in the 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2010, on our consideration of the Authority's internal control over financial reporting and 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.

*Deloitte & Touche LLP*

June 28, 2010, except for Note 19, as to  
which the date is May 4, 2011

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affixed to original.

**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, 2009**

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

**1) FINANCIAL HIGHLIGHTS**

- Total assets and total liabilities of the Authority at June 30, 2009 amounted to \$3,350 million and \$3,469 million, respectively, for a deficit of \$119 million.
- By virtue of Act No. 3 of January 14, 2009 ("Act No. 3"), Act No. 44 of June 21, 1988 was amended to permit the Authority to sell all or a portion of the outstanding Corpus Account investments held in the 2000 Trust Agreement and use the net proceeds of said redemption to provide for the early extinguishment of the Series 2000 A and B Bonds described on Note 8 to the financial statements, maintain a permanent investment of \$300 million within the Corpus Account, make payments to the U.S. Internal Revenue Services (IRS), pay for transaction expenses, and contribute any remaining amounts to the Commonwealth of Puerto Rico (the "Commonwealth") and Government Development Bank for Puerto Rico (GDB), among other purposes. This transaction resulted in a realized gain of \$708 million, which has been included as part of earnings on investments and net increase in fair value of investments in the accompanying statement of activities and statement of revenues, expenditures, and changes in fund balances-governmental funds, respectively.
- The Authority has recorded an impairment loss of \$73 million on infrastructure projects that have not been transferred to Puerto Rico Aqueduct and Sewer Authority. The impairment loss has been recorded as part of the aqueduct and sewers function in the accompanying statement of activities.
- Subsequent to the issuance of the Authority's basic financial statements for the year ended June 30, 2008, the Authority's management determined that the Authority's basic financial statements were misstated as a result of several factors, which are described on Note 18 to the financial statements. Accordingly, the net assets as of June 30, 2008 in the statement of activities, as originally reported, have been restated to reflect a decrease of approximately \$108 million, which represents the correction of the prior period errors.

**2) OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
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**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.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
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**3) GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

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

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

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

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

**PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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**Revenues**

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

**Expenses**

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

**4) GOVERNMENTAL FUNDS RESULTS**

**General fund**

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

**Capital projects fund**

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

**Debt service fund**

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
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**Permanent fund**

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

**5) CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

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

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

**PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
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The Authority was created, among other things, to provide financial, administrative and other assistance to municipalities, political subdivisions, public corporations and instrumentalities of the Commonwealth to enable them to fulfill their public purpose of providing, preserving, operating, maintaining, repairing, replacing and improving portions of the infrastructure. Major additions related to projects under construction for the year ended June 30, 2009 are as follows:

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

**PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

**Debt Outstanding**

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

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

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

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

**PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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**6) ECONOMIC FACTORS**

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

Rum is the only article currently produced in Puerto Rico subject to federal excise taxes, the proceeds of which are required to be returned to the Commonwealth ("Cover-Over Revenues"). 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") (collectively the "Territories").

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

Recently, the USVI has dedicated a large share of current and future covered-over revenues to help finance public and private infrastructure that would directly benefit the rum industry. In June 2008, the USVI entered into a 30 year contractual agreement with London-based rum maker, Diageo Company ("Diageo"), owner of the Captain Morgan® brand, to begin operations in the USVI. Captain Morgan® is one of the top brands that are produced in Puerto Rico under a 10 year supply agreement entered into with a puertorrican rum distiller ending in 2012. Diageo is set to receive subsidies incentives, including the financing of the acquisition, design, construction, development and equipping of a rum production and maturation warehouse facility and any improvements thereto, worth up to half of the cover-over revenue that the USVI receives. As a result, the territories are in a dispute over how much they are able to subsidize rum producers using covered-over revenues. The Commonwealth argues that the USVI is using the covered-over revenues to make the kind of deals that amount to, essentially, unfair trading practices that will distort the market.

In response to the USVI actions, on April 27, 2009, Resident Commissioner of Puerto Rico in the US Congress introduced H.R. 2122 to limit, among other things, the territories from offering more than 10% of their covered-over revenues as an industrial subsidy. Nevertheless; the Congress appears to see the controversy as a dispute between two U.S. territories and sees no need to get involved, accordingly, it is uncertain how this proposed legislation would affect the USVI-Diageo agreement to manufacture rum in the USVI.

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

**PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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**7) REQUESTS FOR INFORMATION**

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



**PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY**  
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**STATEMENT OF NET ASSETS (DEFICIT)**  
**AS OF JUNE 30, 2009**

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

See notes to basic financial statements.

**PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY**  
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**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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

See notes to basic financial statements.

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

**BALANCE SHEET — GOVERNMENTAL FUNDS**  
**AS OF JUNE 30, 2009**

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

(Continued)

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

**BALANCE SHEET — GOVERNMENTAL FUNDS**  
**AS OF JUNE 30, 2009**

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

See notes to basic financial statements.

(Concluded)

**PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY**  
**(A Component Unit of the Government Development Bank for Puerto Rico)**

**RECONCILIATION OF BALANCE SHEET — GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET ASSETS (DEFICIT)**  
**AS OF JUNE 30, 2009**

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

See notes to basic financial statements.

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

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

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

(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, 2009**

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

See notes to basic financial statements.

(Concluded)

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

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

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

Net changes in fund balances — total governmental funds	\$(338,127,381)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period	189,906,523
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items	27,264,782
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds	1,700,442
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	<u>(127,307,143)</u>
<b>CHANGE IN NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$(246,562,777)</u></b>

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, 2009**

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**1. REPORTING ENTITY**

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**Government-Wide and Fund Financial Statements:**

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

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

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

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

