PUERTO RICO PORTS AUTHORITY
(A Component Unit of the Commonwealth
Of Puerto Rico)

Basic Financial Statements
as of and for the Year Ended June 30, 2013
and Independent Auditors' Report

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NIEVES VELAZQUEZ & CO., P.S.C.
Certified Public Accountants and Financial Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
the Puerto Rico Ports Authority
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the Puerto Rico Authority (The Authority), a component unit of the Commonwealth of Puerto Rico as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

421 Muñoz Rivera Avenue, Suite 314, San Juan, Puerto Rico 00919 • Telephone (787) 250-1712 • Tel/Fax:(787) 250-1713
http://www.nievelaz.com • E-Mail: nievelaz@coqui.net

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 3 and further discussed in Note 20 to the basic financial statements, on February 28, 2013, the Authority entered into a significant transaction involving the operations of the Luis Muñoz Marín International Airport.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information, such as Management's Discussion and Analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Nieves Velázquez & Co., P.S.C.

NIEVES VELAZQUEZ & CO., P.S.C.
San Juan, Puerto Rico
March 24, 2014

CPA Stamp No. 02696611
of the Puerto Rico Society of
Certified Public Accountants has
been affixed to the file copy of this report.

NIEVES VELAZQUEZ & CO., P.S.C.
LIC. NO. 7
PUERTO RICO
Certified Public Accountants

Introduction

The following discussion and analysis of the financial performance and activity of the Authority is intended to provide an introduction to its financial statements for the fiscal year ended June 30, 2013, with selected comparative information from the fiscal year ended June 30, 2012. This section has been prepared by the Authority's management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Overview of Financial Results

The Authority's net position totaled $133.3 million at June 30, 2013, representing a $73.4 million decrease as compared to June 30, 2012 due to decrease principally in net investment in capital assets and unrestricted net position. This decrease in net position for 2013 is approximately $42.7 million over the $30.7 million decrease in net position for 2012. This change resulted from a net effect of: reduction in operating revenues of $16 million, increase in operating expenses of $26.5 million, decrease in depreciation and amortization of $4.6 million, net decrease in non-operating revenues of $12.6 million, decrease in non-operating expenses of $9.8 million and increase in early termination benefits expense of $1.9 million.

Net operating revenues totaled $140.2 million in 2013 and $156.2 million in 2012. These figures include $84.4 million of gross maritime revenues and $70.9 million of gross aviation revenues, reduced by $4.9 million of provision for bad debt and $10.2 million of discounts and incentives in 2013; and $75.6 million of gross maritime revenues and $91.1 million of gross aviation revenues reduced by $9.7 million bad debt provision and $10.5 million of discounts and incentives for 2012. The net increase of $10.4 million in maritime operating revenue is primary due to the enhance security fee for which the rapid scan services were provided during the entire year. The net decrease of $26.7 million in airport operating revenues resulted principally from the transfer, through the establishment of a Public Private Partnership (PPP) with Aerostar Airport Holdings, LLC (Aerostar), of the right to operate, manage, develop and maintain the Luis Muñoz Marín International Airport (LMMIA) at the end of February 2013.

Operating expenses excluding depreciation and amortization totaled $156.3 million in 2013, which is $26.5 million higher than in 2012. The increase resulted principally from an increase of $16.0 million in general and administrative expenses, principally related to the rapid scan security operation costs which operated the entire 2013. In addition, professional services had a net increase of $13.8 million, which includes approximately $17 million related to the LMMIA PPP transaction costs. These increases were offset by reduction in salaries and employee benefits, utilities and other costs associated to the operation of the LMMIA, which operations were transferred to Aerostar during February 2013.

The depreciation and amortization decreased $4.6 million during 2013, as compared to 2012. This change resulted principally from the depreciating discontinuance, after February 2013, of the assets related to the LMMIA, as required by the accounting pronouncements.

Overview of Financial Results (Continued)

Non-operating revenues consist of passenger facility charges ("PFC"); a Federal Aviation Administration approved program, fuel flowage fees, penalties and other fees, contribution from Commonwealth and other governmental entities and interest. Total non-operating revenues had a net decrease of approximately $4.2 million during 2013, as compared to 2012. This net decrease resulted principally from reduction in passenger facility charges of approximately $7.5 million and an offsetting increase of approximately $5.3 million in local government and federal financial assistance. The decrease in passenger facility charges resulted from the transfer of the LMMIA operations to Aerostar since, after the transfer, such revenues belong to them.

Net non-operating expenses (including balances for grant subsidies and awards, gain on income tax settlement, interest expense and Swap interest expense for 2012) decrease by $1.3 million during 2013 as compared to 2012. The elimination of the Swap interest agreements during 2012, resulted also in the elimination of its related interest expense for 2013. However, with the liquidation of Series A Bonds, approximately $19 million of deferred costs associated with such bonds were recognized as expense during 2013.

Other Highlights

- During fiscal year 2013, and as part of the ongoing aggressive investment plan to increase capacity of the LMMIA, the Authority negotiated a Lease and Use Agreement of the airport premises granted to Aerostar to operate, manage, maintain, develop and rehabilitate the LMMIA during a term of 40 years, subject to extension conditions as defined, in exchange for an upfront payment of a leasehold fee of $615 million to the Authority (See Note 20).

Overview of the Financial Statements

Management's discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements, including the notes to the financial statements. The basic financial statements comprise the following: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows and the Notes to Basic Financial Statements.

Statement of Net Position

The Statement of Net Position presents the financial position of the Authority at the end of the fiscal year and includes all of its assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Net position equals total assets, plus total deferred outflows of resources, less total liabilities, less total deferred inflows of resources. A summarized comparison of the Authority's assets, liabilities, deferred inflows of resources and net position follows:

	2013	2012	Change	
	(In Thousands)		In Dollars	Percentage
Assets:				
Current assets	$ 50,589	$ 44,259	$ 6,330	14%
Non-current assets:				
Capital assets, net	1,137,533	1,140,164	(2,631)	0%
Other noncurrent assets	196,939	120,813	76,126	63%
Total assets	$ 1,385,061	$ 1,305,236	$ 79,825	6%
Liabilities:				
Current liabilities	$ 268,832	$ 606,214	$ (337,382)	-56%
Non-current liabilities:				
Loans, notes and bonds payable	270,676	417,379	(146,703)	-35%
Other non-current liabilities	92,821	74,923	17,898	24%
Total liabilities	632,329	1,098,516	(466,187)	-42%
Deferred inflows of resources	619,416	-	619,416	0%
Net position:				
Net investment in capital assets	149,179	193,496	(44,317)	-23%
Restricted	47,396	60,607	(13,211)	-22%
Unrestricted	(63,259)	(47,383)	(15,876)	34%
Total net position	133,316	206,720	(73,404)	-36%
Total liabilities, deferred inflows and net position	$ 1,385,061	$ 1,305,236	$ 79,825	6%

Analysis of Net Position at June 30, 2013 and 2012

The Authority's net position at June 30, 2013 includes assets of $1.39 billion, liabilities of $632.3 million and deferred inflows of resources of $619.4 million. Net capital assets, considering the LMMIA's assets transferred to Aerostar, decreased by $2.7 million from 2012. This amount includes construction in progress and completed projects, net of its related accumulated depreciation.

Net position totaled approximately $133.3 million at June 30, 2013, a decrease of approximately $73.4 million from 2012. Net investment in capital assets, net of related debt, which totaled $149.2 million at June 30, 2013, represents the largest of the three components of the Authority's net position and comprises the net investment in capital assets (e.g., land, buildings piers, improvements, roads and parking areas, among others), less the related outstanding indebtedness incurred to acquire those capital assets.

Statement of Revenues, Expenses and Changes in Net Position

The change in net position is an indicator of whether the overall fiscal condition of a government has improved or worsened during the year. Following is a summary of the Statement of Revenues, Expenses and Changes in Net Position for the years ended on June 30, 2013 and 2012.

	2013	2012	Change	
	(In Thousands)		In Dollars	Percentage
Operating revenues:				
Maritime operations	$ 85,945	$ 75,585	$ 10,360	14%
Airport operations	64,429	91,103	(26,674)	-29%
Less discount and incentives	(10,206)	(10,458)	252	-2%
Total operating revenues	140,168	156,230	(16,062)	-10%
Non operating revenues:				
Federal financial assistance	23,712	20,254	3,458	17%
Contribution from Commonwealth of Puerto Rico	6,942	5,139	1,803	35%
Contribution from Puerto Rico Tourism Company	4,000	4,193	(193)	0%
Gain on income tax settlement	-	8,917	(8,917)	0%
Passenger facility charges	10,498	18,019	(7,521)	-42%
Fuel flowage fees	1,630	2,465	(835)	-34%
Penalties and other fees	718	1,158	(440)	-38%
Total non operating revenues	47,500	60,145	(12,645)	-21%
Total revenues	187,668	216,375	(28,707)	-13%
Operating expenses:				
Salaries and employee benefits	57,886	61,590	(3,704)	-6%
General and administrative	54,939	38,944	15,995	29%
Professional services	32,770	18,998	13,772	72%
Insurance, rent, repairs and maintenance	10,716	10,274	442	4%
Depreciation and amortization	35,774	40,379	(4,605)	-13%
Total operating expenses	192,085	170,185	21,900	13%
Non operating expenses:				
Interest expense, net	62,653	66,851	(4,198)	-6%
Grant subsidies and awards	-	5,644	(5,644)	-100%
Total expenses	254,738	242,680	12,058	5%
Decrease in net position before early termination expense	(67,070)	(26,305)	(40,765)	155%
Early termination expense	(6,334)	(4,417)	(1,917)	43%
Decrease in net position	(73,404)	(30,722)	(42,682)	139%
Net position, at beginning of year	206,720	237,442	(30,722)	-13%
Net position, at end of year	$ 133,316	$ 206,720	$ (73,404)	-36%

Analysis of Fiscal Years 2013 and 2012

Net maritime operating revenues, totaled $85.9 million compared to $75.6 million in 2012, an increase of $10.4 million that resulted principally from the increase in the enhancement security fee for which the rapidscan services operated during the entire 2013. Net airport operating revenues, totaled $64.4 million compared to $91.1 million in 2012, a decrease of $26.7 million, mostly resulting from the transfer of the LMMIA operations to Aerostar.

Non-operating revenues consist of passenger facility charges ("PFC"); a Federal Aviation Administration approved program, fuel flowage fees, penalties and other fees, contribution from Commonwealth and other governmental entities and interest. After the transfer of the LMMIA operations to Aerostar, the PFC belong to them. Federal and state financial assistance principally represents grants received from the Federal Aviation Administration, the Federal Transportation Administration, Homeland Security and appropriations from the Government of Puerto Rico.

Capital Activities

The Authority's net costs for capital construction projects totaled $32.6 million in 2013. Funding sources were as follows: $18.7 million was funded with federal contributions, $12.9 million was funded with PFC's; and the balance of approximately $1 million was funded with the Authority's own monies and financing activities.

Loan, Notes and Bonds Payable

In December 2011, the Authority entered into a refinancing transaction by the issuance of Puerto Rico Infrastructure Financing Authority (a component unit of the Commonwealth of Puerto Rico) bonds in a conduit debt transaction. The proceeds were used to pay various outstanding debts. The outstanding balance of such notes was $631.6 million at June 30, 2012.

In February 2013, the Authority entered into a lease and use agreement with Aerostar for the LMMIA premises, receiving an advance leasehold fee of $615 million. A portion of this fee was used to pay the outstanding principal and interest balance of bonds, and partial payments of principal and interest on loans and notes payable to the Government Development Bank and other entities. The outstanding balance of the loans, notes and bonds payable amounted to $448.8 million and $935.6 million at June 30, 2013 and 2012, respectively.

The Authority has various notes payable with Government Development Bank (GDB) and other private entities. The outstanding balance as of June 2013 is $233.9 million (see Note 10).

The Authority issued bonds at various times for the purpose of financing the construction of certain facilities and improvements for the airports and maritime facilities. There is no outstanding balance of these bonds as of June 2013 (see Note 11).

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mrs. Cristina Rivera, CPA (Finance Director) of the Puerto Rico Ports Authority, P.O. Box 362829, San Juan, Puerto Rico 00936-2829.

PUERTO RICO PORTS AUTORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION
JUNE 30, 2013

	2013 (In thousands)
Assets:	
Current assets:	
Cash - unresctricted	$ 6,407
Accounts receivable, net of allowance for doubtful accounts of $72.6 million	40,298
Prepaid expenses and other current assets	3,884
Total current assets	50,589
Capital assets - net	1,137,533
Other non-current assets:	
Cash - restricted	108,762
Due from Commonwealth of Puerto Rico - OMB	16,500
Due from other governmental entities	43,127
Other assets - restricted	25,351
Deferred debt issuance costs	3,199
Total non-current assets	196,939
Total assets	$ 1,385,061

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

PUERTO RICO PORTS AUTORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET POSITION
JUNE 30, 2013

		2013 (In thousands)
Liabilities:		
Current liabilities:		
Notes payable, current portion	$	178,178
Accounts payable and accrued expenses		79,873
Retainage and construction costs payable		5,262
Termination benefits accrual, current portion		2,512
Tenants deposits		1,399
Interest payable		1,540
Unearned revenues, current portion		68
Total current liabilities		268,832
Non-current liabilities:		
Loan payable		214,892
Notes payable		55,784
Termination benefits accrual		22,546
Unearned revenues		1,790
Due to Commonwealth of Puerto Rico		25,804
Due to governmental entities		36,200
Other post-employment benefits obligation		6,481
Total non-current liabilities		363,497
Total liabilities		632,329
Deferred inflows of resources:		
Deferred service concession arrangement receipts		619,416
Total deferred inflows of resources		619,416
Net position:		
Net investment in capital assets		149,179
Restricted:		
Acquisition of assets		25,351
Construction		15,967
Retirement		3,288
Debt service		2,790
Unrestricted - deficit		(63,259)
Total net position		133,316
Total liabilities, deferred inflows of resources and net position	$	1,385,061

Concluded

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

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

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
YEAR ENDED JUNE 30, 2013

	2013 (In thousands)
Operating revenues:	
Maritime operations	$ 85,945
Airport operations	64,429
Less: discount and incentives	(10,206)
Total operating revenues, net	140,168
Operating expenses:	
Salaries and employee benefits	57,886
General and administrative	54,939
Professional services	32,770
Insurance	6,125
Rent and repairs & maintenance	4,591
Total operating expenses	156,311
Operating loss before depreciation and amortization	(16,143)
Depreciation and amortization	35,774
Operating loss	(51,917)
Non operating revenues (expenses):	
Federal financial assistance	23,712
Contribution from Commonwealth of Puerto Rico	6,942
Contribution from Puerto Rico Tourism Company	4,000
Passenger facility charges	10,498
Fuel flowage fees	1,630
Penalties and other fees	718
Interest expense	(62,742)
Interest income	89
Total non operating loss, net	(15,153)
Decrease in net position before early termination expense	(67,070)
Early termination expense	(6,334)
Decrease in net position	(73,404)
Net position, at beginning of year	206,720
Net position, at end of year	$ 133,316

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

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

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013

	2013 (In thousands)
Cash flows from operating activities:	
Cash received from charges	$ 133,622
Cash payments to suppliers for goods and services	(85,701)
Cash payments to employees for services	(59,505)
Net cash used in operating activities	(11,584)
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(32,352)
Capital contributions	34,653
Interest paid	(42,685)
Repayment of bonds payable	(45,216)
Proceeds from notes payable	177,279
Repayment of loans payable	(436,785)
Principal payments on notes payable	(202,162)
Service concession arrangement receipts	611,932
Passenger facility charges received for capital expenditures	12,940
Net cash provided by capital and related financing activities	77,604
Cash flows from non-capital and related financing activities:	
Penalties and other fees	718
Fuel flowage fees	1,630
Net change in due from government agencies	8,694
Net cash provided by non-capital and related financing activities	11,042
Cash flows provided by investing activities - Interest received	89
Net increase in cash	77,151
Cash, beginning of year	38,018
Cash, end of year	$ 115,169

Continued

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

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

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013

	2013 (In thousands)
Reconciliation of cash:	
Unrestricted fund	$ 6,407
Restricted funds:	
Construction	12,337
Employees retirement	50,000
Regional airports improvements	25,000
LMMIA transaction guarantee	15,005
Debt service	2,790
Federal	1,133
Renewal and replacements, maintenance and others	2,497
Total restricted	108,762
Total cash	$ 115,169
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (51,917)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Capital assets impairment	1,813
Depreciation and amortization	35,774
Amortization of deferred inflows in resources	(5,801)
Early retirement termination expense	(6,334)
Net change in operating assets and liabilities:	
Increase in accounts receivable	(1,388)
Decrease in prepaid expenses and other assets	3,648
Decrease in accounts payable and accrued expenses	7,895
Increase in tenant deposits	31
Increase in other employee benefits	4,785
Increase in unearned revenues	(90)
Net cash used in operating activities	$ (11,584)

Concluded

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

1. REPORTING ENTITY

The Puerto Rico Ports Authority (the "Authority") is a component unit of the Commonwealth of Puerto Rico, (the "Commonwealth") created by Act No. 125 on May 7, 1942, as amended. The purpose of the Authority is to administer port and aviation transportation facilities of the Commonwealth and to render other related services. The Authority owns eleven airport facilities, including Luis Muñoz Marín International Airport ("LMMIA"), the main aviation port of entry into Puerto Rico, and most of government-owned maritime operations, including the Port of San Juan. The Authority's airport system consists of LMMIA, and other regional airports. Maritime operations consist principally of cargo and cruise ships with ports and docks all around Puerto Rico. See note 20 for the Public-Private Partnership transaction regarding the administration and operations of the LMMIA.

The Board of Directors is composed of five members as follows: the Secretary of Transportation and Public Works, Chairman; Secretary of Economic Development; the Executive Director of the Tourism Company of Puerto Rico, the Executive Director of Puerto Rico Industrial Development Company ("PRIDCO") and one private citizen appointed by the Governor with the consent of the Senate of Puerto Rico.

Act No. 82, approved on June 26, 1959, as amended, empowers the Authority to levy and collect a fee from the suppliers of aviation fuel and for the services and use of facilities in the Puerto Rico airports. This fee is currently two cents per gallon of aviation fuel supplied to airlines and other suppliers operating in the Puerto Rico airports.

Act No. 113, approved on July 4, 2011, created a fund called the Port Authority Cruise Ships Incentives Fund. This fund receives funding from the Puerto Rico Tourism Company ("PRTC") and the Puerto Rico Office of Management and Budget ("OMB") in order to provide incentives to cruiseship companies for making Puerto Rico ports a destination for their cruise ships. During fiscal year 2013, funds assigned by PRTC and OMB to the Authority under this new fund amounted to $9.5 million and are presented within non-operating revenues in the statement of revenues, expenses and changes in net position. The assigned funds have been fully expended during fiscal year 2013 and are presented within discounts and incentives as a contra account of operating revenues.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America, as applicable to governmental units. The Authority follows Governmental Accounting Standard Board ("GASB") pronouncements under the hierarchy established by GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, in the preparation of its financial statements. The following is a summary of the most significant accounting policies:

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Cash Equivalents - The Authority considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The Authority's cash composition as of June 30, 2013 are disclosed in Note 4.

Allowance for Doubtful Accounts - The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectability of accounts receivable and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the existing accounts receivable and related allowance may change in the future.

Prepaid Expenses - Prepaid expenses consist mostly of insurance policies and certain material and office supplies.

Capital Assets - Capital assets are stated at cost or at estimated historical cost. The cost of property and equipment includes costs for infrastructure assets, equipment and other related costs, buildings, furniture and equipment. Costs for infrastructure assets include construction costs, design and engineering fees and other direct costs incurred during the construction period.

Capital assets are defined by the Authority as assets with an initial, individual cost of $500 or more and an estimated useful life over one year. Costs to acquire additional capital assets, which replace existing assets or otherwise prolong their useful lives, are generally capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or do not materially extend assets lives are not capitalized.

Interest cost is capitalized as part of the historical cost of acquiring certain assets. During the construction period, the interest costs related with specific assets qualify for interest capitalization.

Depreciation is computed using the straight-line method during the estimated useful lives of the related assets. The useful lives of assets are determined by the Authority's Engineering Department using past experience, standard industry expectations, and information from external sources such as consultants, manufacturers and contractors. Useful lives are reviewed periodically for each specific type of asset class.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Asset lives used in the calculation of depreciation are generally as follows:

Buildings, piers, improvements and other structures	30 to 50 years
Other infrastructure	5 to 25 years
Machinery, furniture and equipment	3 to 10 years
Runways, roadways and other paving	10 to 20 years
Utility infrastructure	10 to 20 years
Automobile and service vehicles	3 to 10 years
Infrastructure master plans	5 years

Those assets located at facilities leased by the Authority from others are depreciated over the lesser of the remaining term of the lease or the related asset lives.

Capital assets related to the LMMIA under the APP Agreements described in Note 20 are maintained at the Authority's books and also stated at cost or at estimated historical cost. Construction in progress made by Aerostar after the closing of the APP Agreements is not recorded by the Authority while such construction is still in progress and not ready for use and operation; at completion such constructed assets and improvements will be recognized at their corresponding fair value. The capital assets related to the APP Agreements are not being depreciated since the closing date of the APP Agreements because the APP Agreements require Aerostar to return the related LMMIA facilities to the Authority in its original or enhanced condition. Such capital assets continued to apply existing capital asset guidance, including depreciation through February 27, 2013, the closing date of the APP Agreements. The carrying amount of capital assets, excluding construction in progress, under the APP Agreements amounted to approximately $474.6 million at June 30, 2013.

During the year ended June 30, 2013, the Authority performed an assessment of impairment on capital assets under the provisions of Statement on Governmental Accounting Standard (GASB) No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* which establishes that, generally, an asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Management is then required to determine whether impairment of an asset has occurred. Impaired capital assets that will no longer be used by the Authority should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the Authority should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. During 2013, management identified as fully impaired the so called "Army Terminal" assets and wrote-off accordingly such assets' carrying value in the amount of $1.8 million, presenting such loss on impairment within general and administrative expenses in the accompanying statements of revenues, expenses and changes in net position.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition, GASB Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations,*" applicable for periods beginning after December 15, 2007, addresses accounting and financial reporting principles for pollution (including contamination) remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current obligations, and future pollution activities that are required upon retirement of an asset, such as post-closure care. As of June 30, 2013, the Authority maintains an environmental reserve of approximately $3 million, which in the opinion of management is adequate to cover the contingency exposure, if any. Such reserve is included as part of accounts payable and other accrued liabilities in the accompanying statement of net position. In establishing such reserve, management has evaluated its tenants' responsibilities in environmental and pollution exposures.

Claims and Judgments - The estimated amount of the liability for claims and judgments is recorded on the accompanying statement of net position based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Refer to disclosures included in Note 15.

Compensated Absences - Employees earn vacation benefits at a rate of 30 days per year which is the maximum permissible accumulation. Employees accumulate sick leave at the rate of 20 days per year. Maximum permissible accumulation for sick leave is 60 days for managerial and clerical employees of which the excess is paid within the next fiscal year. Union employees are paid for accumulations over 26 days within the next fiscal year. The Authority records as a liability and as an expense the vested accumulated vacation and sick leave as benefits accrued to employees. Compensated absences as of June 30, 2013, amounted to approximately $10.5 million and is included as a component of accounts payable and accrued expenses in the accompanying statement of net position.

Termination Benefits - The Authority accounts for termination benefits in accordance with the provisions of GASB No. 47, *Accounting for Termination Benefits,* which indicates that employers should recognize a liability and expense for *voluntary* termination benefits when the offer is accepted and the amount can be estimated. A liability and expense for *involuntary* termination benefits should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. Refer to disclosure included in Note 13.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Postemployment Benefits Other Than Pensions - The Authority accounts for postemployment benefits other than pensions ("OPEB") under the provisions of the GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This statement requires a systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. GASB No. 45 allows employers to amortize the portion of the cost attributed to past service over a period not to exceed thirty (30) years.

Other Retirement Benefits - The Authority accounts for pension costs under the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers.* This statement establishes standards for the measurement, recognition and display of pension expense and related liabilities in financial statements of state and local governmental employers.

Deferred Debt Issuance Costs - Deferred debt issuance costs are presented as a deferred asset in the accompanying statement of net position. The issuance costs are amortized over the life of the revenue and Puerto Rico Infrastructure Financing Authority bonds ("PRIFA bonds") on a method that approximates the effective interest method. Amortization of debt issuance costs for the year ended June 30, 2013, was approximately $3.3 million. Amortization of debt issuance costs is included as a component of interest expense in the accompanying statement of revenues, expenses and changes in net position.

Derivative Instruments - The Authority follows GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instrument* ("GASB 53"). This Statement enhances the usefulness and comparability of derivative instrument information reported by state and local governments by providing a comprehensive framework for the recognition, measurement, and disclosure of derivative instrument transactions.

Derivative instruments such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaps, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedge able items) to lower the costs of borrowings to effectively fix cash flows or synthetically fix prices or to offset the changes in fair value of hedgeable items. At June 30, 2013, the Authority has no derivative instruments.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Inflows of Resources - Deferred inflows of resources represent the acquisition of net assets by the Authority that is applicable to a future reporting period. In relation to the APP Agreements described in Note 20, on February 27, 2013, the Authority received an upfront fee of $615 million, the promise of annual payments of $2.5 million for the next five years, present valued at approximately $10.5 million; and also recognized a contractual obligation of $3.068 million to perform certain capital improvements. The net effect of these resources were received in exchange for awarding Aerostar the right to operate, manage, maintain, develop and rehabilitate the LMMIA for a term of 40 years. The net effect of these resources, to be increased over the years as the contractual obligation is satisfied, is considered a deferred inflow of resources, which is recognized into revenue under the straight-line method over the APP Agreements term of 40 years. The amount recognized into revenue during fiscal year 2013 amounted to approximately $5.8 million and is recognized within operating revenues-airport in the accompanying statement of revenues, expenses and changes in net position.

Net Position - Net position is classified in the following components:

Net Investment in Capital Assets - This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are directly attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resourses at year end, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of this component of net position. Rather, that portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restricted assets result when contraints placed on those assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of June 30, 2013, the reconciliation of net position was as follows:

		(in thousands)
Net capital assets	$	1,137,533
Liabilities directly attributable to capital assets:		
Loan payable		(214,892)
Notes payable		(233,961)
Retainage payable to contractors		(5,262)
Deferred inflows of resources		(532,699)
Accrued interest		(1,540)
Net investment in capital assets	$	149,179
Restricted cash, net of deferred inflows of resources of $86,717	$	22,045
Restricted for capital asset		25,351
Restricted net position	$	47,396

Revenue Recognition - The Authority distinguishes operating revenues and expenses from non-operating items. Revenues associated with maritime and airport operations are recorded as operating revenues. Expenses related to the administration and maintenance of piers and airports, repairs and maintenance of corresponding roads and equipment, and the Authority's administrative expenses are recorded as operating expenses. All other revenues and expenses are considered non-operating.

Non-Operating Revenues - Non-operating revenues consist principally of federal financial assistance, Commonwealth of Puerto Rico appropriations, passenger facility charges, fuel flowage fee, interest and penalties, contributions from other component units of the Commonwealth, and other fees. Federal financial assistance and Commonwealth of Puerto Rico appropriations are funds assigned by federal and local government entities such as the Federal Aviation Administration ("FAA"), Federal Transit Administration ("FTA"), and the Transportation Security Administration ("TSA") to the Authority for the exclusive purpose of the construction of specific projects or infrastructure, repairs and maintenance. Capital grants of the Authority are reported as non-operating revenues. Funds received or assigned to the Cruise Ships Incentives Fund are also presented as non-operating revenues.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Principles Adopted - The following new accounting principles were adopted by the Authority effective July 1, 2012:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement improved financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which: (i) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration; and (ii) the operator collects and is compensated by fees from third parties. On February 27, 2013, the Authority entered into a SCA involving LMMIA. See Note 20 for additional disclosures related to the effects of the adoption of GASB No. 60.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. This Statement improved financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The most significant effects of the amendments are to: 1) increase the emphasis on financial relationships by raising the bar for inclusion; 2) refocus and clarify the requirements to blend certain component units, and 3) improve the recognition of ownership interests (joint ventures, component units, investments). The adoption of this Statement had no impact on the basic financial statements of the Authority.

- GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This Statement incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (i) *FASB Statements and Interpretations; (ii) Accounting Principles Board Opinions*; and (iii) *Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure*. This Statement also superseded Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, which means that guidance on 29 topics has been brought into the GASB literature, allowing enterprise funds and business type activities (such as the Authority) to continue to apply, as other accounting literature ("level e" GAAP) post-November 30, 1989 issued FASB pronouncements that do not conflict with or contradict GASB pronouncements. The adoption of this Statement had no significant impact on the basic financial statements of the Authority.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement provided financial reporting guidance for deferred outflows of resources, which is a consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources which is an acquisition of net assets by the government that is applicable to a future reporting period. GASB Statement No. 63 also amended the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This Statement also amended the reporting of the "net investment in capital assets" component of net position. This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are now required to be included in this component of net position. The principal impact for fiscal year 2013 was the renaming of net assets as net position, and presenting in separate section of the statement of net position, as deferred inflows of resources, the net resources received in the concession agreement described in Note 20.

Future Adoption of Accounting Principles - The GASB has issued the following accounting principles that have effective dates for the Authority after its June 30, 2013 year ended:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities, or viceversa. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. Although the Authority is still in the process of analyzing the exact impact of this Statement, most of the impact might be of a reclassification nature remaining within the statement of net position; except for its existing deferred debt issue costs of approximately $3.2 million at June 30, 2013, which will require elimination against beginning net position upon adoption on July 1, 2013; and prospectively, new debt issue costs on bonds or debt issuance will require immediate expensing.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 66, *Technical Corrections 2012*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Authority is in the process of analyzing the effects of this Statement, but no significant impact is expected upon adoption on July 1, 2013.

- GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. The major fundamental change, among others related to the application and determination of certain measurement assumptions in valuing pension plans, is switching from the existing "funding-based" accounting model, where currently the Annual Required Contribution (ARC) is

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

compared to the actual payments made and that difference determines the Net Pension Obligation; to an "accrual basis" model similar to current FASB standards, where the Total Pension Obligation (Actuarially determined) is compared to the Net Plan Position (or assets) and the difference represents the Net Pension Liability. This particular Statement will affect the reporting of the three Retirement Systems of the Commonwealth, not to the Authority or any of the Commonwealth's Component Units. The impact of this Statement will be establishing its new Net Pension Liability for the Commonwealth to an amount resembling the existing actuarial deficiency in the aforementioned Retirement Systems, which might exceed approximately $36 billion, for fiscal year 2014.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. This Statement will bring the effect of Statement No. 67 summarized in the previous paragraph, into the accounting records of the individual agencies, component units and municipalities, whose employees participate in the Retirement Systems.

The Authority, as well as the other component units of the Commonwealth and the municipalities, are considered "cost-sharing" employers of the Retirement Systems; therefore, the Authrority would report its allocated share of the Commonwealth's resulting Net Pension Liability from Statement No. 67 as follows:

- ✓ Based on the Authority's individual proportion to the collective net pension liability of all the governments participating
- ✓ The proportion should be consistent with the method used to assess contributions (percentage of payroll). The use of the Authority's long term expected contribution effort to Retirement Systems divided by those of all governments in the plan, is encouraged.
- ✓ This Statement is not effective until the Authority's fiscal year 2015. The Commonwealth and the Retirement Systems are in the process of evaluating the exact impact of this Statement on its agencies and component units and also on the municipalities of the Commonwealth. The information to adopt this Statement will be based on the new actuarial reports to be prepared under the new Standard 67 described on the previous paragraph.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. . GASB Statement No. 69, Government Combinations and *Disposals of Government Operations*. This Statement establishes accounting and financial reporting principles related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfer of operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

- GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial *Guarantees*. This Statement requires a governmental entity guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. Certain qualitative factors should be considered when evaluating the likelihood of a guaranty payment, such as: initiation of a bankruptcy process, breach of a debt contract in relation to the guaranteed obligation and indications of significant financial difficulty to pay agents or trustees. This Statement is not expected to have any impact on the Authority as the Authority has no financial guarantees outstanding at June 30, 2013. This Statement is effective for financial statements for periods beginning after June 15, 2013.

3. FINANCIAL CONDITION AND MANAGEMENT PLANS

As reflected in the accompanying financial statements, the Authority has a decrease in net position of approximately $73.4 million during the fiscal year ended June 30, 2013. As a result of the continuing decrease in net position, management entered, during fiscal year 2013, into significant transactions involving the operations of the LMMIA, as described in Note 20, which are expected to improve the Authority's financial condition and refocus the objectives of the Authority into the future.

As further described in Notes 10 and 20, the Authority refinanced during fiscal year 2012 the majority of its long term debt through a Puerto Rico Infrastructure Financing Authority's (PRIFA) conduit debt issuance of $678.4 million, in anticipation of the LMMIA lease and use agreements. The lease and use agreements involving the LMMIA generated an upfront leasehold fee of $615 million for the Authority, $500 million of which were used to cancel and fully redeem certain outstanding debt and related interests, relieving the Authority from the corresponding applicable debt service requirements. Another $50 million from the aforementioned leasehold fee were reserved and set aside for the early termination of several employees, commencing effective June 30 and July 15, 2013, which should provide payroll savings from fiscal year 2014 going forward. In addition, $25 million were also set aside for improvements to the regional airports in order to attract visitors and increase demand and revenues.

3. FINANCIAL CONDITION AND MANAGEMENT PLANS (Continued)

In addition, management has implemented and established an aggressive collection process to monitor and collect old outstanding balances. A stop-hiring policy has also been put into place and retired employees are not being replaced. Implementation of new software system at both aviation and maritime is underway which management expect will maximize the capture of revenues.

Also, the Authority, has prepared a development plan for the regional airports in order to improve the services and increase revenues. A valuation for all properties owed by the Authority will be prepared in order to verify (1) if the rent collected for lease property is in accordance with the market value and (2) if the unused property is tagged at the correct market value in the eventuality of a potential sale.

4. CASH

At June 30, 2013, cash amounted to approximately $115.2 million. There were no cash equivalents at June 30, 2013. Cash balances are detailed as follows:

	2013 (in thousands)
Restricted funds:	
For construction	$ 12,337
Federal	1,133
Renewal and replacements, maintenance and other	2,497
For employees retirement	50,000
For regional airports improvement	25,000
As guaranty fund for LMMIA transaction	15,005
Debt service	2,790
Total restricted	108,762
Unrestricted fund	6,407
Total cash	$ 115,169

5. DEPOSITS AND INVESTMENTS

The Authority is restricted by law to deposit funds only in institutions approved by the Puerto Rico Treasury Department, and such deposits are required to be kept in separate accounts in the name of the Authority.

Pursuant to the Investment Guidelines for the Commonwealth of Puerto Rico adopted by the Government Development Bank ("GDB"), the Authority may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Monies in the sinking fund, if any, can only be invested in direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by bond resolutions, as applicable.

Custodial Credit Risk - Deposits

For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be recovered by the Authority. However, under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. The bank balance of the Authority's accounts with commercial banks at June 30, 2013, amounted to $16.6 million.

As of June 30, 2013, the Authority's custodial credit risk was approximately $101.8 million, which is the bank balance of cash deposited at the GDB and Economic Development Bank for Puerto Rico ("EDB"). These deposits are exempt from the collateral requirements established by the Commonwealth.

6. CAPITAL ASSETS

The following schedule summarizes the capital assets held by the Authority as of June 30, 2013 (in thousands):

	Balance June 30, 2012	Additions	Retirement	Balance June 30, 2013
Land and land improvements	$ 292,918	$ -	$ -	$ 292,918
Construction in progress	105,479	55,537	(26,914)	134,102
Total assets not being depreciated	398,397	55,537	(26,914)	427,020
Assets being depreciated:				
Building, piers, improvements and structures	832,400	16,675	(19,494)	829,581
Other infrastructure	175,662	1,771	(1,203)	176,230
Roads and parking areas	352,300	1,997	(172)	354,125
Machinery, furniture and equipment	112,709	3,679	(988)	115,400
Automobiles and service vehicles	13,880	705	(3,185)	11,400
Infrastructure Master Plans	11,766	1,610	(934)	12,442
Total	1,498,717	26,437	(25,976)	1,499,178
Less accumulated depreciation and amortization	(756,950)	(35,774)	4,059	(788,665)
Net total assets being depreciated	741,767	(9,337)	(21,917)	710,513
Total capital assets, net	$ 1,140,164	$ 46,200	$ (48,831)	$ 1,137,533

Total capital assets presented in the statement of net position and in this note are segregated as follows:

Capital assets - net (excluding assets under concession agreement)	$ 662,951
Capital assets under service concession agreement	474,582
Total	$ 1,137,533

The Authority capitalized interest amounting to approximately $446 thousand during the fiscal year ended June 30, 2013.

7. DUE FROM/DUE TO GOVERNMENTAL ENTITIES

Due from governmental entities as of June 30, 2013 consists of:

		2013 (in thousands)
Office of Management and Budget		$ 16,500
Maritime Transportation Authority of Puerto Rico and Municipality Islands (MTA)		$ 35,577
Puerto Rico Highway and Transportation Authority (PRHTA)		6,035
Puerto Rico Tourism Company		1,515
	Total	$ 43,127

Office of Management and Budget ("OMB") - Balance due from the OMB relates to $16.5 million incentives given by the Authority to certain cruise lines, which should be reimbursed by the OMB. The balance does not bear interest and has no formal repayment terms, since the terms and conditions have not been established. Authority's management is working with the government entity for the collection of this outstanding balance.

Maritime Transportation Authority of PR and Municipality Islands - Balance due from Maritime Transportation Authority of PR and Municipality Islands (MTA) of $35.6 million mainly relates to expenses incurred by the Authority, such as payroll, on behalf of the MTA from 2000 to 2006. The balance does not bear interest and has no formal repayment term, since the terms and conditions have not been established. Authority's management is working with the government entity for the collection of this outstanding balance.

Puerto Rico Highway and Transportation Authority ("PRHTA") - Balance due from PRHTA relates to $6 million mainly associated with the rental of a hangar, a warehouse and land for which there are written agreements. These balances do not bear interest and have no formal repayment terms, since the terms and conditions have not been established. Authority's management is working with the government entity for the collection of this outstanding balance.

Due to governmental entities as of June 30, 2013, consists of:

	2013 (In thousands)
Commonwealth of Puerto Rico	$ 25,804
Due to governmental entities:	
Puerto Rico Electric Power Authority ("PREPA")	22,663
Puerto Rico Aqueduct and Sewer Authority ("PRASA")	8,981
State Insurance Fund Corporation ("SIFC")	2,686
Puerto Rico Highway and Transportation Authority	1,832
Others	38
	$ 36,200

7. DUE FROM/DUE TO GOVERNMENTAL ENTITIES (Continued)

Commonwealth of Puerto Rico - Balance due to the Commonwealth of Puerto Rico consists mainly of public insurance amounting to $19 million, income tax withheld amounting to $390 thousand owed to the Treasury Department, and a payment plan amounting to $4.2 million to the Puerto Rico Retirement System ("PRRS") for employer contributions not paid prior to fiscal year 2013 and $1.8 million in employer contributions to the PRRS pertaining to fiscal year 2012. These balances owed to the Treasury Department do not bear interest and have no formal repayment terms. The amount due to the PRRS do not bear interest and is payable in monthly payments of $200 thousand for 30 months.

Due to other governmental entities balances consist mainly of utilities or services provided by such entities.

The non-current due to Commonwealth of Puerto Rico and due to governmental entities activity for the year ended June 30, 2013, was as follows (in thousands):

	June 30, 2012	Charges	Payments	June 30, 2013
Due to Commonwealth of PR	$ 26,606	$ 15,159	$ (15,961)	$ 25,804
Due to governmental entities	21,961	19,903	(5,664)	36,200
	$ 48,567	$ 35,062	$ (21,625)	$ 62,004

8. UNEARNED REVENUES

The Authority entered into an agreement with Puerto Rico Industrial Development Company (PRIDCO) in December 1989 for a tract of land at the Rafael Hernández Airport in Aguadilla, in which PRIDCO constructed some facilities and leased them to a tenant. Under the agreement, the Authority is the ultimate owner of the improvements. Accordingly, the Authority capitalized $3.2 million in 1997 and recognized unearned revenue, which is amortized through the term of the lease.

Unearned revenues balance at June 30, 2013, consists of:

	2013 (In thousands)
Carrying amount of unamortized portion of construction costs, amortized by equivalent credits to the minimum fixed rental through December 2019	$ 1,858
Less: current portion	(68)
Unearned revenues, long-term	$ 1,790

9. LOAN AND TRUST AGREEMENT (THE PRIFA BONDS)

On December 28, 2011, the Authority entered into a refinancing transaction in the amount of $678,451,920, by issuing bonds through the Puerto Rico Infrastructure Finance Authority ("PRIFA") as conduit. The issuance was structured as follows:

Series	Amount (In Thousands)
PRIFA Series 2011 A	$340,000
PRIFA Series 2011 B	202,066
PRIFA Series 2011 C	136,385
	$678,451

The proceeds of these bonds (the PRIFA Bonds) were provided to the Authority pursuant to a Loan and Trust Agreement (the Loan Agreement) between the Authority, PRIFA and the trustee of the PRIFA Bonds (the Trustee). Pursuant to the terms of the Loan Agreement, the Authority has unconditionally agreed to repay the loan in the amounts and at times necessary to pay the principal of, premium, if any, and interests on the PRIFA Bonds when due. Therefore, the Authority has recognized a mirror effect of the PRIFA Bonds in its own debt as loans payable. The proceeds from the PRIFA Bonds were used for the most part to repay and cancel certain loans obligations and swap agreements existing then.

A refunding loss of $61.8 million resulted from this transaction, attributed to the write-off of the then existing deferred outflow for the same amount associated with a swap agreement cancellation. The notional amount of the swap agreement cancelled ($396 million) exceeded the outstanding principal balance of a hedged Wells Fargo loan being cancelled ($363.9 million); therefore, the proportion of that excess amount (unhedging portion) applied to the resulting refunding loss was recognized as a realized loss of approximately $5 million, which was charged to the result of operations for fiscal year 2012. The rest of the refunding loss ($56.8 million) was deferred and is amortized into interest expense over the life of the PRIFA Bonds based on the effective interest method. As of June 30, 2013, the unamortized deferred loss on refunding balance was $25.9 million.

The PRIFA Series 2011 A Bonds were issued as fixed rate bonds carrying interest at 2.990%, payable on each June 15 and December 15, commencing on June 15, 2012. This series matured on June 15, 2013. The PRIFA Series 2011 B Bonds were also issued as fixed rate bonds and mature at different repayment periods from 2014 to 2026, with each maturity period carrying its own fixed interest rates ranging from 3.00% to 6.00%, payable in each June 15 and December 15, commencing on June 15, 2012. The PRIFA Series 2011 C Bonds (two series) were issued initially in a Term Rate Mode bearing interest at 2.75% and 3.00% (the initial term rates), convertible at June 14, 2013 and December 14, 2013, proportionally, to another term rate period or to a fixed term mode. Interest is payable each June 15 and December 15, commencing on June 15, 2012. The Series C Bonds are subject to redemption from sinking funds installment payments beginning on 2014 through 2026; however, under certain circumstances, one of the Series C segments amounting to $39.6 million might be subject to a mandatory repurchase through one of the GDB Letters of Credit described in the paragraph below.

9. LOAN AND TRUST AGREEMENT (THE PRIFA BONDS) (Continued)

The Loan Agreement is payable solely from revenues of the Authority, such as all rates, rents, fees, charges and other income and receipts. The Loan Agreement is also secured by drawings from two irrevocable transferable direct-pay letters of credit issued by GDB (collectively referred as the GDB Letters of Credit). One letter of credit is for the maximum amount of $543.1 million to cover ultimately the PRIFA Series 2011 A and B Bonds, while the second letter of credit is for the maximum amount of $138.3 million to cover ultimately the PRIFA Series 2011 C Bonds. These letters of credit carry an annual fee of 1% on its outstanding amounts, payable semiannually, commencing on December 15, 2011. The Authority has recognized $6.5 million as fees related to these letters of credit for the year ended June 30, 2013. Such amount is included as part of interest expense in the accompanying statement of revenues, expenses and changes in net position.

The PRIFA Bonds are subject to extraordinary redemption at the option of the Authority, in whole or in part, on or at any time prior to December 15, 2014, from any available moneys received by the Authority in consideration of the Authority's entering into a service concession arrangement or other long-term lease or use agreement with respect to the Luis Muñoz Marin International Airport (LMMIA), at a redemption price equal to 100% of the principal thereof, plus accrued interest to the redemption date, without premium. If the Authority elects to redeem the PRIFA Bonds pursuant to this extraordinary redemption provision, such will be redeemed in the following order (see Note 20):

- *First,* to the redemption of the PRIFA Series A Bonds, in an amount up to $176,700,000.
- *Second,* to the redemption of the PRIFA Series B Bonds, in an amount up to$143,285,000.
- *Third,* to the redemption of the remaining PRIFA Series A Bond.
- *Fourth,* to the redemption of the PRIFA Series C Bonds.
- *Fifth* to the redemption of the remaining PRIFA Series B Bonds.

During fiscal year 2013, the Authority used $266.9 million from the proceeds of the APP Agreement (described in Note 20) and drew $74.6 million from the GDB Letters of Credit for the full redemption of PRIFA Series A Bonds. In addition, $96.8 million from the GDB Letters of Credit were also drawn for the mandatory partial redemption of PRIFA Bonds Series C. By having drawn on the GDB Letters of Credit, new notes payable to GDB were issued and included in the accompanying statement of net position.

9. LOAN AND TRUST AGREEMENT (THE PRIFA BONDS) (Continued)

Principal repayment under the Loan Agreement for the next five years and thereafter, are as follows, without considering the extraordinary redemption options referred to above (in thousands):

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	$ -	$ 11,514	$ 11,514
2015	665	11,488	12,153
2016	2,000	11,396	13,396
2017	2,460	11,322	13,782
2018	1,365	11,258	12,623
2019 through 2023	37,375	54,209	91,584
2024 through 2027	188,565	22,362	210,927
	232,430	$ 133,549	$ 365,979
Add: unamortized premium	8,459		
Less: unamortized deferred loss on refunding	(25,997)		
	$ 214,892		

At June 30, 2013, the PRIFA bonds outstanding consisted as follows:

Series	Amount (In thousands)
PRIFA Series 2011B	$ 192,830
PRIFA Series 2011C-1	39,600
	$ 232,430

10. NOTES PAYABLE

Notes payable as of June 30, 2013 consist of (in thousands):

Description	2013 Amount
Borrowings under line of credit agreement with GDB, bearing interest at prime rate plus 150 basis points (4.75% at June 30, 2013), due in December 2013; used for mandatory tender of PRIFA Series A Bonds. (see Note 9)	$ 74,589
Borrowings under line of credit agreement with GDB, bearing interest at prime rate plus 150 basis points (4.75% at June 30, 2013), due in September 2013; used for mandatory tender of PRIFA Series C Bonds. (see Note 9)	96,800
Borrowing under line of credit agreement with GDB, bearing interest at 90 days LIBOR rate plus 50 basis points with a minimum rate of 6%, due in June 2023. Collateralized by the San Juan Water Front (SJWF) Project.	44,000
Promissory note payable to Carnival Corporation, bearing interest at 7.50%, due through May 2024.	9,706
Promissory note payable to Royal Caribbean Cruises, bearing interest at 7.00%, due through June 2014. Collateralized by Pier 3 improvements.	4,629
Promissory note payable to International Shipping, bearing and interest at 6.00%, due through December 2017. Collateralized by rent income from International Shipping.	3,343
Promissory note payable to Imperial Credit Corp. for insurance premium financed, bearing interest at 4.39%, due through September 2013.	895
Total notes payable	233,962
Less current portion	(178,178)
Long-term portion	$ 55,784

10. NOTES PAYABLE (Continued)

Wells Fargo

On August 5, 2009, the Authority signed an Amended and Restated Promissory Note with Wells Fargo to extend the date of repayment of a $71.8 million loan to July 30, 2026. GDB agreed to issue a letter of credit in favor of Wachovia to obtain the extension. As of June 30, 2012, such note had an outstanding balance of $67.4 million, which was fully repaid, during fiscal year 2013, with the proceeds received by the Authority in consideration of the Authority's entering into the lease and use agreements with respect to LMMIA, as described in Note 20.

Government Development Bank (GDB)

On June 17, 2013, the Authority entered into lines of credit with the GDB amounting to $74.6 million and $96.8 million, upon the drawings of the GDB letters of Credit described in Note 9, for the purpose of fully redeeming the PRIFA Bonds Series A and partially redeeming the PRIFA Bonds Series C, respectively. These credit lines bear interest at prime rate plus 150 basis points, with a minimum rate of 6.00%, maturing on September 15, 2013 the one related to PRIFA Bonds Series C, and December 15, 2013 the other one related with PRIFA Bonds Series A. As of June 30, 2013, such notes had a combined outstanding balance of $171.4 million. Refer to subsequent events related to these lines of credit on Note 21.

On September 14, 2007, the Authority entered into a $72.3 million line of credit with GDB for payments to construction suppliers aggregating to $71.8 million and to pay $2.1 million of a legal case settlement with Royal Caribbean (known collectively as the emergency loan). Borrowings under this line of credit bears interest at 6% through 2012 and were originally due at June 30, 2011. This line of credit had an outstanding balance of $55.3 million at June 30, 2012. Such balance was fully repaid, during fiscal year 2013, with the proceeds received by the Authority in consideration of the Authority's entering into the lease and use agreements with respect to LMMIA, as described in Note 20.

On July 1, 2008, the Authority entered into a $180 million line of credit for the development of the San Juan Water Front (SJWF) project (now Bahía Urbana) authorized by an executive order signed on February 20, 2008. Borrowings under this line of credit bear interest at 90 day Libor plus 50 basis points with a minimum rate of 6%, due through June 20, 2023. This line of credit is collateralized with SJWF project. At June 30, 2013, $44 million were outstanding.

On June 30, 2010, the Authority entered into a loan agreement with the GDB amounting to $25 million for the purpose of partially pre-paying the principal amount of the loan with Wells Fargo from $411.7 to $386.7 million (known as the reduction loan). This facility bears interest at 150 basis points over the Libor rate, with a minimum rate of 6.00% and a maximum rate of 12%, maturing in February 2012. As of June 30, 2012, such note had an outstanding balance of $26 million, which was fully repaid, during fiscal year 2013, with the proceeds received by the Authority in consideration of the Authority's entering into the lease and use agreements with respect to LMMIA, as described in Note 20.

10. NOTES PAYABLE (Continued)

Government Development Bank (GDB) (Continued)

During November 2011, pursuant the objectives of the LMMIA Project, the Authority entered into certain expropriations proceedings through the Puerto Rico First Instance Court (the "Court"), to acquire certain properties and concessions owned by third parties within the LMMIA complex. In connection with such proceedings, on December 27, 2011, the Authority obtained a $30 million non-revolving credit facility with the GDB, out of which $25.4 million were consigned with the Court to start the expropriation process (this facility is known as the Caribbean Airport Facilities or CAF loan). The advance matured on December 31, 2012, and as of June 30, 2012, had an outstanding balance of $25.4 million. This non-revolving facility was fully repaid, during fiscal year 2013, with the proceeds received by the Authority in consideration of the Authority's entering into the lease and use agreements with respect to LMMIA, as described in Note 20.

On June 14, 2012, the Authority entered into a $19.5 million line of credit for the payment of the outstanding balance owed to the Treasury Department of Puerto Rico of $27.3 million. Borrowings under this line of credit bears interest at 150 basis points over the Libor rate, with a minimum rate of 6.00%, maturing in June 30, 2013. This debt had an outstanding balance of $19.2 million at June 30,2012, and was fully repaid, during fiscal year 2013, with the proceeds received by the Authority in consideration of the Authority's entering into the lease and use agreements with respect to LMMIA, as described in Note 20.

Carnival Cruise Lines

On June 7, 2001, the Authority entered into a Master Development Agreement with Carnival Corporation for the performance of certain improvements to the Terminal 4 of the Port of San Juan. Total financed costs amounted to approximately $13.5 million, and will be payable to Carnival by 240 monthly deductions of $108,735 (including principal and interest at 7.50%) from the tariffs payable from Carnival to the Authority, commencing in May 2004, until May 2024. As of June 30, 2013, such note had an outstanding balance of $9.7 million.

Royal Caribbean Cruises

During 2003, the Authority entered into an Agreement with Royal Caribbean Cruises for the performance of certain improvements to the Terminal 3 of the Port of San Juan. Total financed costs amounted to approximately $16.3 million. On July 11, 2011, the Authority amended this Agreement. As of June 30, 2013, the underlying note payable had an outstanding balance of approximately $4.6 million, bearing interest at 7% and payable in 12 initial monthly installments of $70,000, commencing on July 31, 2011; followed by 6 consecutive monthly installments of $200,000, including interest; and ending with 18 consecutive monthly installments of $385,766, plus interest until June 30, 2014. The note is collateralized by the Pier 3 improvements.

10. NOTES PAYABLE (Continued)

International Shipping

During November 2011, the Authority entered into an Agreement with International Shipping for the performance of certain improvements to piers M, N and O. Total financed costs amounted approximately $5.4 million, bearing an interest of 6% and payable to International Shipping by 7 monthly payments of $36,000, comencing on December 31st, 2011; followed by 70 consecutive monthly payments of $71,000 and a final payment of $9,908. Payment will be made through the rent income from International Shipping. As of June 30, 2013, the outstanding balance of the note was $3.3 million.

Imperial Credit Corp.

This note payable is related to the financing of certain Authority's insurance policies. The note payable has an interest rate of 4.39%, and requires monthly payments of $300.6 thousand through September 20, 2013. As of June 30, 2013, the note payable had an outstanding balance of $895 thousand.

Summarized Notes Payables Activity

The summarized notes payable activity for the fiscal year ended June 30, 2013, was as follows (in thousands):

	June 30, 2012	Borrowings	Payments	June 30, 2013
Notes payable	$ 258,845	$ 177,279	$ (202,162)	$ 233,962

Principal repayments on notes payable for the next five years and thereafter, are as follows (in thousands):

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	$ 178,178	$ 7,402	$ 185,580
2015	1,351	3,442	4,793
2016	1,445	3,349	4,794
2017	1,545	3,249	4,794
2018	1,223	3,147	4,370
2019 through 2023	49,067	4,097	53,164
2024 through 2028	1,153	43	1,196
	$ 233,962	$ 24,729	$ 258,691

11. REVENUE BONDS PAYABLE

The Authority had issued bonds at various times for the purpose of financing the construction of certain facilities and improvements for the airports and maritime facilities. These bonds had been refinanced with Revenue Refunding Bonds.

On February 27, 2013, the Authority used some of the proceeds from the lease and use agreements with respect to the LMMIA, described in Note 20, to fully repay the outstanding balance of these bonds payable.

The revenue bonds payable activity for the year ended June 30, 2013 was as follows (in thousands):

Description	June 30, 2012	Addition	Payments / Amortization	June 30, 2013
Term Revenue Bonds (Series E), 6.50% interest. Interest payable on June 15 of each year and principal due at maturity on June 15, 2028	$ 46,326	$ -	$ (46,326)	$ -
Less: Unamortized deferred loss on refunding	(1,110)		1,110	-
Net bonds payable	$ 45,216		$ (45,216)	$ -

The Authority allocates interest expense to different activities for which the related debt is incurred. Total interest incurred on bonds payable for the year ended June 30, 2013, amounted to approximately $2 million.

12. OTHER POST-EMPLOYMENT BENEFITS OBLIGATION

The Authority follows GASB Statement No. 45, "Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions" ("GASB No. 45"). This Statement establishes the standards for the measurement, recognition, and disclosure of Other Post-employment Benefits ("OPEB") expense/expenditures and related liabilities (assets), disclosures, and, if applicable, required supplementary information ("RSI") in the financial reports of state and local governmental employers.

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB No. 45 requires state and local governments' financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and whether and to what extent progress is being made in funding the Plans.

12. OTHER POST-EMPLOYMENT BENEFITS OBLIGATION (Continued)

Plan Description

The Authority agreed to provide medical prescription, dental and vision medical insurance coverage to eligible retirees, its spouses and dependents, for a period of four and five years, for union and non-union personnel, respectively (the "Plan").

The Plan can be amended by action of the Authority subject to applicable collective bargaining and employment agreements. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy

The obligations of the employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer vary depending on the applicable agreement. There is no participants' contribution. The Authority currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Authority.

Annual OPEB cost and net OPEB obligation

The Authority's annual OPEB expense is calculated based on the Annual Required Contribution of the employer ("ARC"). The Authority engaged an actuary to calculate the ARC and related information per the provisions of GASB No. 45 for employers with more than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the Authority's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the Plan and the change in the Authority's net OPEB obligation to the Plan at June 30, 2013 (in thousands):

	June 30, 2013 (In thousands)
Annual required contribution ("ARC")	$ 3,158
Interest on the net OPEB obligation	351
Adjustments to the ARC	(507)
Annual OPEB cost	3,002
Authority's contribution	(2,365)
Increase in net OPEB obligation	637
Net OPEB obligation, beginning of fiscal year	5,844
Net OPEB obligation, end of fiscal year	$ 6,481

12. OTHER POST-EMPLOYMENT BENEFITS OBLIGATION (Continued)

As of June 30, 2013, the actuarial accrued liability for benefits amounted to $26.4 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was $26.9 million during the year ended June 30, 2013, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 98.1%.

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 cost trend. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continuous revisions as actual results are compared with past experience and new estimates are made about the future.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the Substantive Plan (the Plan as understood by the employer and plan members) 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.

The valuation date was July 1, 2012, 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 6% 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 No. 45. The healthcare trend rates are based on the actuarial knowledge of the general healthcare environment and the specific coverage offered by the Authority.

13. TERMINATION BENEFITS

During the fiscal year ended June 30, 2012, the Legislature of the Commonwealth of Puerto Rico approved a one-time retirement incentive plan for all regular employees of Central Government Agencies and certain Public Corporations, known as Act #70 of July 2, 2010. The program included early retirement incentives for certain eligible employees. Under the plan, employees could select one of three options as follows:

Article 4(a) provides economic incentive based on the following parameters:

Years of Services in Public Sector	Incentive Gross Amount
Up to 1 year	1 month of salary
From 1 year and 1 day up to 3 years	3 months of salary
From 3 years and 1 day and up	6 months of salary

13. TERMINATION BENEFITS (Continued)

Article 4(b) provides, employees meeting certain years of service criteria (between 15 and 29 years) and opting for early retirement, to receive a higher pension benefit rate than they would otherwise be entitled to receive based on their current years of service, but such pension rate is lower than what they would have been entitled to if they had waited to meet the full vesting requirements. Annuity pension payments are based on the following parameters:

Credited Years of Service	Pension Payment (As a % of salary)
15	37.5%
16	40.0%
17	42.5%
18	45.0%
19	47.5%
20 to 29	50.0%

The Authority will be responsible for making the applicable employer contributions to the Employees Retirement System, as well as making the payments to cover the annuity payments to the employees opting for the early retirement window, until both; the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments.

Employees selecting options 4(a) or (b) will be entitled to receive full payment of healthcare plan benefits for a period of up to 12 months or the date that the employee is eligible for a healthcare plan benefit offered by another employer, whichever occurs first.

Article 4(c) provides eligible employees that have 30 years of credited services contributing to the Commonwealth of Puerto Rico Retirement System and request to start receiving their pension benefits, will be entitled to receive the economic incentive disposed on article 4(a) but not entitled to the incentives provided on article 4(b). Employees that have the required retirement age but have not achieved the years of credited services contributing to the Commonwealth of Puerto Rico Retirement System will be entitled to an economic incentive of up to 6 months of salary to cover for the years of service not credited.

At June 30, 2013, the present value of future incentive payments reported as a liability amounted to approximately $25 million. During the fiscal year ended June 30, 2013, a total of 17 employees (65 employees for 2012) opted for the early retirement incentives. Total expense recorded for the year ended June 30, 2013, for future incentive payments amounted to $6.3 million, presented as early termination expenses in the statement of revenues, expenses and changes in net position. The total aggregate liability of the program as of June 30, 2013 amounted to $25 million, of which $2.5 million should be funded during the next fiscal year. The long-term portion of the early termination obligation amounted to $22.5 million. Such amounts are disclosed respectively, as short-term and long-term liability in the accompanying statement of net position.

14. RETIREMENT PLAN

Defined Benefit Pension Plan

The Employee's Retirement System ("Retirement System" or "ERS") of the Commonwealth is a defined benefit pension plan administered by the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 447 on May 15, 1951. The ERS began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The ERS is a pension trust fund of the Commonwealth. The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The ERS consists of different benefit structures pursuant to Act No. 447 of 1951, as amended, including a cost-sharing multi-employer contributory defined benefit program and a cash balance program, similar to a cash balance plan. The Retirement System is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities (Commonwealth Agencies, Municipalities, and Public Corporations, including the Retirement System) are covered by the Retirement System.

All regular, appointed, and temporary employees of the Commonwealth at the date of employment become plan members of the Retirement System as a condition to their employment. No benefits are payable if the participant receives a refund of accumulated contributions.

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

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, are entitled to an annual benefit payment monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than $300 per month. Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined; otherwise, they will receive 75% of the average compensation, as defined.

14. RETIREMENT PLAN (Continued)

Commonwealth legislation requires employees hired on or before April 1, 1990 to contribute 5.775% for the first $6,600 of their annual gross salary and 8.275% for the salary in excess of $6,600. For employees hired on or after April 1, 1990 the required contribution is 8.275% of gross salary. The Authority's contribution is 11.275% of gross salary. Total employee contributions during the fiscal year ended June 30, 2013 amounted to $2.4 million. Total payroll subjected to retirement contributions amounted to $21.5 million for the year ended June 30, 2013. Those amounts are the compensation paid by the Authority to active employees covered by the System, which is the basis for the contributions. The pension expenses incurred by the Authority for the year ended June 30, 2013, amounted to approximately $6.3 million, which represented 100% of required contributions.

Act number 1 of February 16, 1990 made certain amendments applicable to new participants joining the System effective on April 1, 1990. Changes mainly consisted of an increase of the retirement age to 65 years, the elimination of the Merit Annuity and a reduction of the percentage for disability and death benefits.

The amount of the total pension benefits obligation is based on a standardized measurement established by accounting principles generally accepted in the United States of America that, with some exceptions, must be used by a public employee retirement system. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effects of projected salary increases.

The most recent actuarial valuation is as of June 30, 2012. The significant actuarial assumptions used to determine the standardized measure of the pension benefits obligation are summarized below:

• Investments rate of return	6.0% a year
• Payroll growth	3.0% per year
• Mortality	RP 2000 Mortality Rates
• Disability Group	Adjusted 1987 Commissioners Disability Table
• Retirement age	Graded scale of retirement ages
• Proportion of participants with spouse	70% of participants assumed to be married, with wives assumed to be four years younger than husbands
• Number of employees electing Higher contributions	15% of retiring employees assumed to pay retroactive contributions

Defined Contribution Plan

On September 24, 1999, the legislature of the Commonwealth of Puerto Rico enacted Act No. 305, which amended Act No. 447. The Act was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the prior year as of December 31, 1999, elected either to stay in that defined benefit plan or transfer to the new program. Employees joining the Authority on or after January 1, 2001, were only allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 to 60 years for those employees who joined the current plan on or after April 1, 1990.

14. RETIREMENT PLAN (Continued)

Defined Contribution Plan (Continued)

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the prior defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump sum to the beneficiaries. Participants have the option of a lump-sum payment or purchase of an annuity contract in case of permanent disability.

The annuity will be based on a formula that takes into account each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) and investment income as defined in the Plan. Total employee contributions during the fiscal year 2013 to the System 2000 amounted to approximately $1.2 million. Total covered payroll under System 2000 for fiscal year 2013 amounted to approximately $14.3 million. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The Authorithy's required contribution under System 2000 is 9.275% of the employees salary. The Authority's contributions under this Plan, for the year ended June 30, 2013, amounted to approximately $1.3 million.

Act No. 3 of April 4, 2013

Furthermore, on April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, effective on July 1, 2013, which presented a comprehensive reform to the different retirement structures administered by the ERS, including but not limited to the following:

- *For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen and thereafter, all future benefits are accruing under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.*
- *Increases the minimum pension for current retirees from $400 to $500 per month.*
- *The retirement age for Act No. 447 participants was increased gradually from age 60 to age 65.*
- *The retirement age for current System 2000 participants was increased gradually from age 60 to age 65.*
- *Eliminated the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.*
- *The retirement age for new employees increased was increased to age 67, except for new Commonwealth and municipal police officers, firefighters and custody officers, whose retirement age will be 58.*

14. RETIREMENT PLAN (Continued)

Act No. 3 of April 4, 2013 (Continued)

- *The employees' contribution rate will increase from 8.275% to 10%.*
- *For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.*
- *Eliminated or reduced various retirement benefits previously granted by special laws including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from $600 to $200 and was eliminated for future retirees. The summer bonus was eliminated.*
- *Disability benefits were eliminated and substituted for a mandatory disability insurance policy.*
- *Survivor benefits were modified.*

Additional information on the Retirement System and all subsequent amendments is provided in its financial statements, a copy of which can be obtained from the Retirement System Administration, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

Other Retirement Benefit

The Authority has certain collective bargaining agreements that provide all union employees who work for the Authority upon retirement with a lump-sum bonus payable at the retirement date of $900 per year of service up to a maximum of $27,000. In addition, non-union employees have similar benefits under the same conditions granted to labor union personnel.

The Plan can be amended by action of the Authority subject to applicable collective bargaining and employment agreements. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy

The obligations of the employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. There is no participants' contribution. The Authority currently contributes enough money to the Plan to satisfy current obligations. The costs of administering the Plan are paid by the Authority.

Annual pension cost and net pension obligation/ (asset)

The Authority's annual pension expense is calculated based on the ARC. The Authority engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement No. 27 "Accounting for Pensions by State and Local Governmental Employers" ("GASB No. 27") for employers with more than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

14. RETIREMENT PLAN (Continued)

The following table shows the Authority's annual pension cost for the year ended June 30, 2013 and the amount actually contributed at June 30, 2013 (in thousands):

Annual Pension Cost	$	492
Actual Funding Contribution	$	511

As of June 30, 2013, the actuarial accrued liability for benefits amounted to $4.2 million, all of which was unfunded.

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 and mortality. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continuous revisions as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the Substantive Plan (the Plan as understood by the employer and plan members) 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.

The valuation date was July 1, 2012 and the Projected Unit Credit Cost Method was used. The actuarial projections 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 5% 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 No. 27.

15. COMMITMENTS AND CONTINGENCIES

Construction

As of June 30, 2013, the Authority had commitments for approximately $13.2 million, related to construction contracts.

Litigation

The Authority is defendant or co-defendant in various lawsuits as a result of the normal course of operations and also for alleged damages in cases principally related to its concessionaries. As of June 30, 2013, the Authority has reserves amounting to approximately $21.5 million to cover the aggregate exposure assessment. In the opinion of the Authority's management, based on legal advice, any liability in excess of insurance coverage and/or of the recorded reserves that may arise from final judgments would not affect significantly the Authority's financial position or result of operations.

Human Resources

The Authority is defendant in various separate class action suits brought by employees which are requesting the payment of overtime, accrued compensated abscences, fringe benefits and increase in salaries. Due to the complexity of some of the claims, the total amount to be paid, if any, by the Authority can't be determined, and as a result were not accrued as of June 30, 2013.

Environmental Remediation

On May 23, 2002, the Authority, as well as other oil companies (the members), was contacted by the United States Environmental Protection Agency ("EPA") regarding certain alleged environmental conditions at the LMMIA related to the Hydrant Fuel System ("HFS"). The Authority and the other members entered into an Administrative Order Consent ("AOC") with EPA to perform a subsurface investigation and certain other tasks in connection with the HFS, with the exception of the assessment of the HFS which will be undertaken by the Authority. In March 2003, the Authority and the other members entered into a Joint Defense, Participation and Cost Sharing Agreement to jointly conduct the subsurface investigation established in the AOC, constitute a Steering Committee and share the underlying costs. The Steering Committee established a budget for the sampling stage of the works for which the Authority is responsible for $3 million, which is included as part of the accounts payable and accrued expenses in the accompanying statement of net position as of June 30, 2013. The budget established by the Steering Committee covers only the sampling stage of the works in which they are currently on. Subsequent remediation and responsibility actions will be renegotiated in the future.

15. COMMITMENTS AND CONTINGENCIES (Continued)

Tenant Lease Agreements

The Authority entered in two lease agreements with a tenant for a tract of land at LMMIA. The lease agreements are for twenty-five (25) years with options to renew for two (2) additional five (5) year terms. One of the agreements was effective in September 1988 and the other in June 1995. Under the terms of the Agreements, the Authority will charge a fixed monthly rent, plus an additional rent based on sales volume. The Authority also agreed to grant rental credits to reimburse the lessee for the permanent improvements to the leased property. The title to such improvements will revert to the Authority at no further cost at the end of the lease term or at a prior date in case of default. The rental credit to be granted is limited to the amount invested by the lessee, which is required to submit evidence of the amount invested, in the leased property. Also, as of June 30, 2013, the tenant and the Authority are under litigation of certain aspects of the lease agreements, as described in the ensuing paragraph.

Pursuant to the objectives of the LMMIA Project (see Note 20), during December 2011, the Authority entered into certain expropriations proceedings through the Puerto Rico First Instance Court (the "Court"), to acquire certain properties and concessions owned by third parties within the LMMIA complex. In connection with such proceedings, on December 27, 2011, the Authority obtained a $30 million non-revolving credit facility with the GDB, out of which $25.4 million were consigned with the Court to start the expropriation process. The consigned amount was based on the Authority's determination of the properties' fair value, and it is included as part of the other asset in the accompanying statement of net position. The counterparties have the right to contest the amount deposited, pursuant to the presentation of acceptable evidence indicating a higher fair value. As of the date of issuance of the financial statements, it is uncertain if the final settlement will be for the consigned amount, or for a higher consideration.

AMR Bankruptcy

On November 28, 2011, AMR Corp. ("AMR"), the parent company of American Airlines, filed for bankruptcy under Chapter 11 of the US Bankruptcy Law. The Authority derived over 20% of its rental revenues and landing and other fees from AMR during the fiscal year 2012. Prior to the closing of lease and use agreements with respect to the LMMIA, as described in Note 20, the Authority's collection of revenues could have been affected if AMR's bankruptcy proceedings caused delays or suspension of payments, or if AMR's operations were modified as part of the underlying corporate reorganization. However, pursuant to the lease and use agreement closed on February 27, 2013, referred to in Note 2 above, this potential risk has been transferred to Aerostar, which will be managing and monitoring such risk as part of the lease and use agreements.

15. COMMITMENTS AND CONTINGENCIES (Continued)

Trocadero-Diverplex Federal Funds Finding

During the 1980's, a water taxi terminal station was constructed in Hato Rey, as part of a water transportation system running from Hato Rey to Old San Juan. This project, also known as the "Aqua Express Project", was funded with approximately $30 million of federal financial assistance from the Federal Transit Administration (FTA) channeled through the Department of Transportation and Public Works (DTOP), as grantee, and various other governmental entities as participants in the project, including the Authority, the Maritime Transportation Authority of Puerto Rico (MTA) and the Puerto Rico Highways and Tranportation Authority (PRHTA). During the early years of the 2000 decade, the water transportation service through Aqua Express was suspended principally due to high sedimentation on the maritime channel of the system and frequent technical problems with the water vessels of the system. During 2011, in an attempt to find an alternate productive use to the water terminal area that was otherwise being wasted, the Commonwealth administration then announced the conversion of the area into a restaurant and shopping center complex to be known as Trocadero-Diverplex, where at the present time several businesses operate.

The FTA learned about the new utilization of the federally funded water terminal area and confirmed that these changes were not consulted with them, which might expose the DTOP to a potential exposure of having to return the $30 million funding to the FTA, unless FTA and the DTOP can find a way to alleviate this apparent violation. The FTA has already frozen other $30 million in federal funding that could have been used for improvements to existing transportation systems elsewhere in Puerto Rico. The FTA has continued with its investigation of all the events and activities surrounding the change in the original purpose of the water terminal area and the DTOP, along with MTA and PRHTA, are evaluating who would bear the ultimate responsibility or how to share it in the eventuality of having to return the funds to FTA. The Authority's management has not considered necessary, at the moment, to recognize any reserve to cover for this potential exposure.

Federal Funds Pass through Grants

During July 2007, the Commonwealth of Puerto Rico approved Joint Resolution No. 116, which authorized the Secretary of Treasury to transfer $9 million to the MTA for financing the acquisition of ferry boats. MTA used these funds to finance the acquisition of a ferry boat with a capacity of 600 passengers and a total cost of approximately $10.6 million. During fiscal years 2009 and 2010, MTA requested federal assistance from the FTA, through the Authority as grantee, to finance the same 600 passenger ferry boat. Approval from FTA was obtained, and the Authority received $6.8 million in federal assistance, and passed through to MTA. The excess funds between the federal assistance and the Commonwealth appropriation received by MTA were used for operational purposes, which was not an authorized use under the federal award, nor under the Joint Resolution No. 116. Therefore, the FTA has frozen $15,314,596 until this matter is resolved. MTA's management and the Authority are in conversation with FTA to determine the course of action to solve this situation. At June 30, 2013, the Authority has an accrual of $6.8 million, included as accounts payable and accrued expenses in the accompanying statement of net position, for the likely payment of funds to FTA.

16. PASSENGER FACILITY CHARGE

Pursuant to the Aviation Safety and Capacity Act of 1990 (the Act), airports may collect a Passenger Facility Charge (PFC) of up to $4.50 per ticket, out of which $0.11 belong to the airline companies for administrative expenses and $4.39 to the Authority. Under the Act, PFC revenues are restricted to be used for financing eligible airport-related projects that preserve or enhance safety, capacity or security of the air transportation system, subject to the approval of the Secretary of Transportation of the United States. The PFC income for the period from July 1, 2012 through February 27, 2013, amounted to approximately $10.5 million. As of June 30, 2013, the Authority has unexpended resources amounting to approximately $7.4 million, which are restricted for PFC projects. PFC revenues are recognized as collected and are included in non-operating revenues. As part of the service concession arrangement for the LMMIA facilities signed with Aerostar (described in Note 20), after February 27, 2013, the PFC revenues are received and administered by Aerostar.

Under the provisions of the Act, the Authority is required to provide an annual independent audit of the PFC revenues, which expresses an opinion of the fairness and reasonableness of the Authority's procedures for receiving, holding and using PFC revenue. In addition, auditors are required to report whether the quarterly reports that must be filed by the Authority fairly represent the net transactions within the PFC accounts. As of June 30, 2013, none of these special audits and reports have been performed, therefore, the Authority cannot determine if there exists an exposure for any noncompliance event.

17. RENTAL INCOME

The Authority leases its property to commercial airlines, car rental companies, concessionaires and to several fixed base operators who service the airline industry, the TSA, and other Federal and Commonwealth agencies.

Minimum future rentals to be received on non-cancelable operating leases are approximately as follows (in thousands):

Year Ending June 30,	Amount (in thousands)
2014	$ 15,763
2015	14,953
2016	14,612
2017	14,112
	$ 59,440

The Authority also has several leases that require the lessees to remit a percentage of their revenues or fuel consumption as their rental charges. Rental income under these leases is not included in future minimum rental amounts above. The aforementioned rentals already consider the effect of having entered into the lease and use agreements with respect to the LMMIA described in Note 20.

18. FEDERAL ASSISTANCE PROGRAMS

The Authority participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* or to compliance audits by grantor agencies. The resolution of certain previously identified findings disclosed in notes 15 and 16 have not been resolved.

Federal financial assistance and Commonwealth of Puerto Rico appropriations for the year ended June 30, 2013, consist of grants and donations as follows (in thousands):

Federal financial assistance:	2013
Federal grants received from:	
Federal Aviation Administration	$ 20,144
Federal Transit Administration	1,740
Department of Commerce	1,828
Total grants	23,712
Less: pass - through grant program payments	(3,568)
	$ 20,144
Commonwealth of Puerto Rico appropriations	$ 6,942
Puerto Rico Tourism Company Contribution	4,000
Total	$ 10,942

From the pass-through grants program, payments of approximately $1.7 million are included as grant subsidies and awards. The remaining balance amounting $1.8 million is included as part of capital assets additions.

19. OPERATING REVENUES

Operating revenues for the fiscal year ended June 30, 2013, consist of (in thousands):

	(In thousands)
Maritime operations:	
Wharfage, dockage and port services	$ 30,981
Tourist ship fees	14,280
Equipment and property rental	13,091
Demurrage, utilities and other	2,167
Engagement security fee	23,883
Recovery from provision for doubtful accounts	1,543
	85,945
Airport operations:	
Landing fees	17,185
Passenger facilities fees	18,116
Space rentals	35,173
Utilities, gas sales and other	402
Less: provision for doubtful accounts	(6,447)
	64,429
Total revenues	150,374
Less: discounts and incentives	(10,206)
Total net operating revenues	$ 140,168

20. LEASE AND USE AGREEMENTS - LMMIA

The Puerto Rico Public-Private Partnerships Authority (the "PPP") was created by the Public-Partnership Act for the purpose of implementing the Commonwealth's public policy of favoring strategic alliances with the private sector. Among the priority projects was the establishment of a public-private partnership for the *Luis Muñoz Marín International Airport* (the "LMMIA Project"). On February 27, 2013, the Federal Aviation Administration (FAA) approved the closing of the Lease and Use Agreements (the APP Agreements) entered into on July 27, 2012 between the Authority and Aerostar Airport Holdings, LLC (Aerostar) with respect to the LMMIA Project. Aerostar is a partnership formed by between Grupo Aeropuertuario de Sureste S.A.B de C.V. (ASUR), a New York Stock Exchange-listed Mexican airport management firm, and Highstar Capital L.P., a fourth-generation infrastructure investor and private equity funds manager. The Authority's objectives for entering into the APP agreements are discussed in Note 3.

20. LEASE AND USE AGREEMENTS - LMMIA (Continued)

The APP Agreements awarded Aerostar the right to operate, manage, maintain, develop and rehabilitate the LMMIA during a term of 40 years, subject to extension conditions as defined, in exchange for an upfront payment of a leasehold fee of $615 million to the Authority. In addition, upon the closing of the APP Agreements, the Authority will receive from Aerostar annual rental payments for each of the first five full reporting years of $2.5 million; then from the sixth full reporting year through and including the thirtieth reporting year, the Authority will receive annual rental payments equal to 5% of the gross airport revenue earned by Aerostar in such years; and finally from the thirty-first reporting year and each succeeding year, the Authority will receive annual rental payments equal to 10% of the gross airport revenue earned by Aerostar in such years. Aerostar also funded with a $6 million deposit a separate escrow account called the *Puerto Rico Air Travel Promotion and Support Fund*, with the purpose of compensating airlines that increase their services to the LMMIA over certain established thresholds during the first three years of the APP Agreements. Under the APP Agreements, the Authority is responsible for certain capital improvements pursuant to the Airline Capital Improvement Program. The present value of these capital improvements was estimated at $3.068 million at the transaction date. Pursuant to the adoption of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* the Authority recognized at February 27, 2013, the date of the closing of the APP Agreements, a resulting deferred inflow of resources amounting to $622.5 million and a liability of $3.068 million for the present value of the capital improvement commitments of the Authority; in exchange for the receipt of the $615 million upfront leasehold fee and the receivable of the annual payments of $2.5 million to be received from Aerostar for the first 5 years since the closing, with a present value estimate of $10.5 million. Since the closing date through June 30, 2013, approximately $5.8 million of the deferred inflow of resources have been amortized into revenue, recognized within operating revenues-airport in the accompanying statement of revenue, expenses and changes in net position. As of June 30, 2013, the Authority has satisfied approximately $2.2 million of its capital improvement commitments, leaving a remaining obligation of approximately $313,000, recognized within accounts payable and accrued expenses in the accompanying statement of net position.

The right awarded to Aerostar to operate, manage and rehabilitate the LMMIA (following certain Operating Standards established by the FAA and the Authority) is accompanied with the assignment of all the revenues from the LMMIA facilities through the different lease agreements with airport concessionaries, including food and beverage providers, retailers, ground transportation providers, and other airport users, formerly belonging to the Authority. Aerostar will also be able to charge a maximum level of fees to the airlines at LMMIA, as established in the APP Agreements.

The APP Agreements also provide for a series of capital improvement expenditures on the LMMIA from Aerostar over the term of the APP Agreements, with certain required initial projects and general accelerated upgrades, as defined.

20. LEASE AND USE AGREEMENTS - LMMIA (Continued)

The Authority is required to provide police and fire services to the LMMIA in exchange for an annual compensation of $2.8 million, to be adjusted thereafter based on inflation. The APP Agreements also established certain compensation events, the occurrence of which from either party would trigger a compensation amount or activity from the defaulting party to the affected party, as defined. Finally, the Authority will be responsible to Aerostar, at the termination of the APP Agreements, for any capital related improvements not fully reimbursed to Aerostar from the Passenger Facility Charge (PFC) program or other airline charges.

The LMMIA facilities leased to the Puerto Rico Air National Guard are excluded from the APP Agreements and upon the satisfaction of certain conditions, as defined, Aerostar will have option and negotiation rights for the use of such areas, potentially in exchange for additional leasehold fees and annual rental payments. The hotel property within the LMMIA and the cargo facilities leased to CAF and the ongoing related litigation, remain under the responsibility of the Authority, although the properties are included in the APP Agreements. If the litigation is resolved, Aerostar will have option and negotiation rights for the use of such areas, potentially in exchange for additional leasehold fees and annual rental payments.

Upon the closing of the APP Agreements and for the following months through June 30, 2013, the Authority used $525 million of the $615 million upfront leasehold fee received to repay debt obligations to lenders and suppliers, most of which are described in Notes 9 and 10; and to cover certain related transaction costs. The rest of the remaining upfront leasehold fee ($90 million) was used to establish the following supporting funds:

- A fund of $50 million for the early retirement of certain Authority's employees. At June 30, 2013, $50 million remain in this early retirement fund.
- A fund of $25 million for the development of the Authority's regional airports. At June 30, 2013, $25 million remain in the regional airports development fund.
- A fund of $15 million for the guaranty to cover the Authority's obligations in case of losses sustained on the APP Agreements. At June 30, 2013, $15 million remain in this guaranty fund.

21. SUBSEQUENT EVENTS

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through March 24, 2014, the date in which the basic financial statements were available to be issued.

The following subsequent events were determined to be disclosed in this note.

In December 2013, the line of credit of $74.6 million payable to GDB, used for the mandatory tender of the PRIFA Series A Bonds, was converted into a five (5) years term loan. The term loan is to be repaid by the Authority in monthly principal payments of approximately $1.24 million, plus interest at the rate of 150 basis points over the prevailing prime rate, but never to be less than 6%. In December 2013, the line of credit of $96.8 million payable to GDB, used for the mandatory partial tender of the PRIFA Series C Bonds, was converted into a five (5) years term loan. The term loan is to be repaid by the Authority in monthly principal payments of approximately $1.61 million, plus interest at the rate of 150 basis points over the prevailing prime rate, but never to be less than 6%.

The balance of $39.6 million of PRIFA Series C, which was due on December 15, 2013, was repaid through the use of drawing of the corresponding GDB Letters of Credit described in note 10; and at the same time a new obligation was established for the Authrority to repay GDB for the triggering of such applicable GDB Letters of Credit. During March 2014, this new obligation was converted into a five (5) years term loan. The term loan is to be repaid by the Authority in monthly principal payments of approximately $660 thousands, plus interest at the rate of 150 basis points over the prevailing prime rate, but never to be less than 6%.