Audited Financial Statements, Required Supplementary Information and supplemental schedules

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Years Ended June 30, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

Building a better
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(A Component Unit of the Commonwealth of Puerto Rico)

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Years Ended June 30, 2013 and 2012

Contents

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Report of Independent Auditors

Hon. Miguel Torres Díaz, Secretary
Department of Transportation and Public Works
Commonwealth of Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the Puerto Rico Highways and Transportation Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collective 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 conformity with United States generally accepted accounting principles; 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 audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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.

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 2012, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Adoption of GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*

As discussed in Note 8 and 21 to the financial statements, the Authority adopted GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for periods beginning after December 15, 2011. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 19 and the schedule of funding progress for retiree health plan on page 80 be presented to supplement the basic financial statements. Such information, although not a required 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, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Authority's basic financial statements. The schedule of revenues and expenses by segment is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Ernst & Young LLP

April 29, 2014

Stamp No. E104876
affixed to
original of
this report.

The following discussion and analysis of the financial performance and activity of the Puerto Rico Highways and Transportation Authority (the Authority) provides an introduction and understanding of the basic financial statements of the Authority for the fiscal years ended June 30, 2013 and 2012. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follows this section.

June 30, 2013 and 2012

The Authority's net position totaled $3,245.4 million and $3,385.8 million at June 30, 2013 and 2012, respectively. Net position decreased by $139.5 million in 2013, as compared to a decrease of approximately $357.1 million in 2012.

The Authority's net capital assets, including assets under service concession agreements, totaled $11,159.7 million and $11,201.0 million at June 30, 2013 and 2012, respectively. Net capital assets decreased by 0.37% at June 30, 2013, when compared with the balance at June 30, 2012, and increased by .2% at June 30, 2012, when compared with the balance at June 30, 2011 of $11,169.3 million.

Financial Statements

The basic financial statements provide information about the Authority's business-type activities. The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

Overview of the Financial Statements for Business-Type Activities

The financial statements consist of the: (1) statements of net position, (2) statements of revenues, expenses, and changes in net position, (3) statements of cash flows, and (4) notes to the financial statements. The financial statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with U.S. generally accepted accounting principles.

Statements of Net Position

The statement of net position reports all financial and capital resources of the Authority. The statement is presented in the format where assets plus deferred outflow of resources equal liabilities plus deferred inflow of resources plus net position. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash within one year) and noncurrent. The focus of the statement of net position is to show a picture of the liquidity and financial health of the Authority as of the end of the year.

The Authority's net position is reported in the following categories:

- *Net Investment in Capital Assets* – This component of net position consists of all capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Although the Authority's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from toll operations, vehicle license fees, certain investment income, gasoline and petroleum taxes allocated annually by the Commonwealth of Puerto Rico, since the capital assets themselves cannot be used to liquidate liabilities.

- *Restricted for Debt Service* – This component of net position consists of restricted assets for the principal and interest payments of the bonds payable. This restriction is imposed by the bondholders through debt covenants.

- *Restricted for Construction* – This component of net position consists of restricted assets for the specific purpose of paying for construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

- *Unrestricted* – This component consists of net position that does not meet the definition of net investment in capital assets or restricted for debt service or for construction.

Statements of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position includes operating revenues, which consist of toll, train fares, impact fee and other, and operating expenses, such as costs of operating toll roads, the mass transportation system, administrative expenses, and depreciation on capital assets; and "non-operating" revenue and expenses, such as gasoline, diesel, oil and petroleum taxes, vehicle license fee, interest and investment income, and interest expense. The statement also includes capital contributions. The focus of the statement of revenues, expenses, and changes in net position is the change in net position. This is similar to net income or loss, and portrays the results of operations of the Authority for the entire operating period.

Statements of Cash Flows

The statement of cash flows discloses net cash provided by or used by operating activities, investing activities, noncapital financing activities, and from capital and related financing activities. This statement also portrays the financial health of the Authority in that current cash flows are sufficient to pay current liabilities.

Notes to Financial Statements

The notes to financial statements are an integral part of the basic financial statements and describe the significant accounting policies, related-party transactions, deposits and investments, capital assets, bonds payable, long-term liabilities, retirement plans, derivative financial instruments, and the commitments and contingencies. The reader is encouraged to review the notes in conjunction with the management discussion and analysis and the financial statements.

Financial Analysis of the Authority's Business-Type Activities

Statements of Net Position

The following table reflects a condensed summary of assets, liabilities, and net position of the Authority as of June 30, 2013, 2012 and 2011:

	June 30		
	2013	**2012**	**2011**
		(as restated)	*(as restated)*
Assets			
Current assets	**$ 46,387,073**	$ 63,085,325	42,126,457
Restricted assets	**755,784,499**	774,552,419	841,396,278
Capital assets, net	**10,989,776,673**	11,040,166,343	11,097,113,203
Highways and bridge under concession agreement, net	**169,964,172**	160,820,065	72,270,000
Other assets	**77,706,575**	83,882,693	112,483,903
Deferred outflow of resources	**10,656,454**	25,463,629	63,299,248
Total assets and deferred outflow of resources	**$ 12,050,275,446**	$ 12,147,970,474	12,228,689,089
Liabilities			
Current liabilities	**$ 581,978,156**	$ 499,944,746	583,929,310
Long-term liabilities, net	**7,057,168,149**	7,077,239,554	7,829,544,001
Total liabilities	**7,639,146,305**	7,577,184,300	8,413,473,311
Deferred inflow of resources	**1,165,674,255**	1,184,937,000	72,270,000
Net position			
Net investment in capital assets	**2,956,277,114**	2,863,500,577	3,262,710,495
Restricted for debt service	**459,244,329**	552,636,977	520,346,513
Restricted for construction	**41,792,974**	64,889,718	65,696,842
Unrestricted	**(211,919,531)**	(95,178,098)	(105,808,072)
Total net position	**3,245,394,886**	3,385,849,174	3,742,945,778
Total liabilities,deferred inflow of resources and net position	**$ 12,050,215,446**	$ 12,147,970,474	$ 12,228,689,089

June 30, 2013, 2012 and 2011

Current assets decreased by approximately 26.5% to $46.3 million in 2013, increased by 49.8% to $63.1 million in 2012 and increased by 14.5% to $42.1 million in 2011. For fiscal year 2013, the change in current assets is primarily due to a decrease by $12.1 million in accounts receivable related with the Department of Transportation and Public Works (DTPW) and a decrease in other assets of approximately $8.0 million related with the cash in excess received in 2012 belonging to interest payments. For fiscal year 2012, the change in current assets is primarily due to an increase in accounts receivable of approximately $13 million due to transfers of funds and operational expenses paid related to the Maritime Transportation Authority (MTA) and an increase of $9.4 million for other assets. In fiscal year 2011, the change in current assets is primarily due to an increase in accounts receivable of approximately $3.9 million due to transfers of funds and operational expenses paid related to the MTA.

The restricted assets decreased by 2.3% to $755.7 million in 2013, decreased by 8.0% to $774.6 million in 2012 and increased by .40% to $841.3 million in 2011. During fiscal year 2013, the Authority's cash and cash equivalents and investments with trustee decreased by approximately $15.0 million mainly due to the repayment of bonds payable related to current year maturities and the advance repayment of Grant Anticipation Revenue Bonds Series 2004. For fiscal year 2012, the Authority entered into a toll roads concession and lease agreement. As result of the transaction, cash and equivalents and investments with trustee decreased by approximately $170.0 million mainly due to the repayment of debt service funds of the bonds payable related to the toll roads. In addition, the transaction resulted in an increase of approximately $99.0 million in cash and cash equivalents in order to meet cash collateral requirements as a result of the toll roads concession and lease agreement. The net effect results in the decrease of restricted assets. In fiscal year 2011, the increase consisted of an increase in cash and cash equivalents, and cash and investments with trustee of approximately $11.9 million.

For fiscal year 2013, capital assets decreased by 0.46% to $10,989.8 million mainly due to the increase of $427 million in roads, bridges and equipment offset by a net decrease in construction in progress of $40.0 million and an increase in accumulated depreciation of approximately of $423 million; fiscal year 2012, capital assets decreased by .01% to $11,040.1 million mainly due to a transfer of highway and bridge under service concession agreement by $84.9 million as a result of a toll roads service concession agreement offset by an increase in construction in progress of approximately $473.1 million and an increase in accumulated depreciation of approximately $429.9 million; for fiscal year 2011, capital assets decreased by .44% to $11,097.1 million mainly due to a net decrease in construction in progress of approximately $106.3 million and an increase in accumulated depreciation of approximately $408.7 million. Capital assets are funded mainly with the proceeds of bonds and notes and with capital contributions from the Federal Highways Administration (FHWA). Total capital contributions from FHWA during fiscal years 2013, 2012 and 2011 used to fund capital assets amounted to approximately $12.0 million each year.

For fiscal year 2013, highways and bridge under service concession agreement assets increased by 5.7% to $169.9 million mainly due to the recognition of $11.3 million in capital improvements made to the Toll Roads PR-5 and PR-22 offset by an increase in accumulated depreciation of the Bridge by $2.2 million. Also as of June 30, 2013, the Authority recognized the Teodoro Moscoso Bridge (the Bridge), a toll bridge at fair value of $109.5 million which was constructed under a service concession agreement with Autopistas de Puerto Rico y Compañía S.E. (Autopistas). Thus, the beginning net position balance was adjusted by $39.4 million to recognize the first eighteen (18) years of operation; fiscal year 2012, increased by 122% to $160.8 million mainly due to a reclassification entry from capital assets to recognize the toll road service concession agreement with Autopistas Metropolitanas Puerto Rico, LLC (the Concessionaire), in which the Authority granted to the Concessionaire the right to operate PR-5 and PR-22 highways (the Toll Roads) for a period of 40 years.

For fiscal year 2013, other non-current assets decreased by 7.3% to $77.7 million due to a decrease in bond issuance cost of $6.1 million related to bonds repayment and the current year amortization. For fiscal year 2012, other non-current assets decreased by 25.4% to $83.9 million due to a decrease in revenue bond issuance costs of $28.4 million related to bonds repaid with cash received as a result of the toll roads concession and lease agreement transaction. For fiscal year 2011, other non-current assets decreased by 4.1% to $112.5 million due to a decrease in revenue bond issuance costs of $4.1 million related to the current year amortization.

For fiscal year 2013, the deferred unrealized loss decreased by 58.2% to $10.7 million due to a decrease in deferred unrealized losses on derivative instruments in 2013 of $14.8 million. For fiscal year 2012, deferred unrealized loss decreased by 60.0% to $25.5 million due to a decrease in deferred unrealized losses on derivative instruments in 2012 of $37.8 million. For fiscal year 2011, the deferred unrealized loss was recorded by the amount of $63.3 million to record this loss in value.

For the years ended June 30, 2013, 2012 and 2011, the current liabilities increased by 16.4% to $581.9 million in 2013, decreased by 14.3% to $499.9 million in 2012 and increased by 6.5% to $583.9 million in 2011. For fiscal year 2013, the increase was mainly due to the increase of $97.6 million of interest payable and an increase of $14.9 million of bonds payable offset by a decrease of $11.3 million of accounts payable and accounts subcontractor payable. In 2012, the drivers of the decrease was mainly due to the net effect of a decrease in accrued interest payable of $90 million and an increase in accounts and subcontractors payable of $48.8 million. In 2011, the increase was mainly due to the net effect of an increase in accrued interest payable and current portion of bonds payable and a decrease in accounts payable and accrued liabilities.

For fiscal year 2013, net long-term liabilities decreased by .01% to $7,057.2 million mainly due to the net effect of an increase of the legal reserve of $68.3 million related with property expropriations; increase of line of credits of $163.1 million offset by a decrease of fair value of derivative instruments of $82.3 million and a decrease in bonds payable of $175.1 million. For fiscal year 2012, net long-term liabilities decreased by 9.6% to $7,077.2 million mainly due to a decrease in bonds payable of $1,450.9 million, as a result of toll roads concession and lease agreement transaction and a decrease in fair value of derivative instruments of $127.2 million offset by an increase of line of credit of $587.6 million. For fiscal year 2011, net long-term liabilities, net, increased by 3.5% to $7,829.5 million due principally to a net effect of an increase non-revolving lines of credit and a decrease in bonds payable.

For fiscal year 2013, the deferred inflow of resources decreased by 1.6% to $1,165.6 million due to the net effect of the recognition of $11.3 million in capital improvements made to the Toll Roads PR-5 and PR-22 offset by the current year amortization of $28.4 million of the unearned service concession agreement revenue of the toll roads concession. For fiscal year 2012, the deferred inflow of resources was recorded by $1,136.1 million as a result of the unearned revenue of toll roads concession and lease agreement transaction offset by the current year amortization of $21.3 million.

For fiscal years 2013, 2012 and 2011 the net position decreased by 4.1 % to $3,245.4 million, decreased by 9.5% to $3,385.8 million, and decreased by 9.6% to $3,742.9 million, respectively, mainly due to a reduction in the amounts invested in capital assets and unrestricted net position.

Condensed Statements of Revenues, Expenses and Changes in Net Position

The following table reflects a condensed summary of the revenues, expenses, and changes in net position for the years ended on June 30, 2013, 2012 and 2011.

	June 30		
	2013	**2012**	**2011**
Total operating revenues	**$ 184,877,794**	$ 201,578,228	$ 230,106,473
Total operating expenses	**314,377,045**	275,136,952	334,654,082
Depreciation and amortization	**438,151,665**	438,215,062	426,231,251
Operating loss	**(567,650,916)**	(511,773,786)	(530,778,860)
Non-operating revenues	**292,597,032**	292,590,181	304,445,431
Non-operating expenses	**(294,330,807)**	(444,430,852)	(365,683,858)
Loss before capital grants	**(569,384,692)**	(663,614,457)	(592,017,287)
Capital contributions	**428,930,404**	306,517,853	182,656,688
Change in net position	**(140,454,288)**	(357,096,604)	(409,360,599)
Net position at beginning of year	**3,385,849,174**	3,742,945,778	4,152,306,377
Net position at end of year	**$ 3,245,394,886**	$ 3,385,849,174	$ 3,742,945,778

Years Ended June 30, 2013, 2011 and 2011

Operating revenues, which consisted of toll fares, train fares and other revenues decreased by 8.0% to $184.8 million, decreased by 11.0% to $204.7 million and increased by 2.5% to $230.1 million in 2013, 2012 and 2011, respectively. During fiscal year 2013, the decrease was mainly due to the net effect of an increase of $7.1 million of revenue related with toll service concession agreements and other income of $2.2 million and, a decrease of $9.6 million in toll revenues. During fiscal year 2012, the decrease was mainly due to the net effect of a decrease in toll revenues of $63.0 million related with the initiation of the service concession agreement of the Toll Roads PR-5 and PR-22 and an increase of revenues related with the toll roads concession and lease agreement of $30.2 million. During fiscal year 2011, the increase is due to higher retail sales of automobile and light trucks which increased toll revenues.

Operating expenses increased by 14.3% to $314.3 million in 2013, decreased by 16.9% to $278.3 million in 2012, increased by 27.9% to $334.6 million in 2011. For 2013, the increase of $55.6 million in operating expenses is the net effect of more expenses related the impairment of capital projects of $33.6 million and increase in bad debt expense of $16.4 million offset by a decrease of integrated transportation system expense of $15.0 million. For 2012, the decrease of $56.4 million in operating expenses is the net effect of less expenses related with the early retirement and economic incentives for voluntary employment termination offered to eligible employees of $67.8 million, a decrease in legal claims of $39.4 million, and an increase of $39.6 million in project expenses. For 2011, the increase is mainly due to a program that provides benefits for early retirement and economic incentives for voluntary employment termination to eligible employees with a financial impact of $77.1 million.

Non-operating revenues, which consist principally of gasoline, oil, diesel and petroleum taxes, and vehicle license fees allocated by the Commonwealth of Puerto Rico to the Authority, remained unchanged in 2013 and reflected a decrease 4.0% and 3.9%, in 2012 and 2011, respectively. During fiscal years 2012 and 2011 the decrease was mainly due to less gasoline, oil, diesel and petroleum taxes collected due to the general economic conditions in Puerto Rico.

Non-operating expenses, which consist principally of interest expense on bonds and lines of credit and the change of fair value upon hedge termination decreased by 33.8% to $294.3 million, by 21.5% to $444.4 million and by 12.0% to $365.6 million in 2013, 2012 and 2011, respectively. For 2013, the decrease was due to the net effect of an increase of interest income of $24 million related with a GIC agreement termination income offset by an increase in fair value upon hedge termination of $230.6 million, and an increase in interest expense on bond and line of credit of $18 million. For 2012, the increase was due to the net effect of a decrease in fair value upon hedge termination of $165.0 million offset by a gain on extinguishment of debt of $83.0 million related to the partial repayment of Series N LIBOR bonds payable. For 2011, this increase is due to the net effect of an increase in interest expense on swap agreements of $4.9 million and a decrease in fair value upon hedge termination of $35 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, 2012 and 2011, the Authority had invested approximately $10,989.8 million, $11,040.4 million, and $11,040.1 million, respectively, in capital assets (net of related depreciation) including roads, bridges, transportation equipment, buildings, land and equipment and construction in progress.

At the end of fiscal year 2005, the Authority started operating the mass rail transportation system for the San Juan metropolitan area known as "Tren Urbano". The Authority incurred approximately $2.42 billion in costs, of which $685.7 million was paid with federal funds. The Tren Urbano in San Juan consists of approximately 17km. of track running from Bayamón to Santurce. Maintenance services are partially funded with capital contributions from the Federal Transit Administration (FTA). Total capital contributions received from FTA during fiscal years 2013, 2012 and 2011 and used for maintenance services amounted to $12 million each year.

The Authority extended the original five-year contract for the operation and maintenance of the Tren Urbano with a private company, for five (5) additional years ending on June 5, 2015. Under this agreement, the private company is responsible for operating and maintaining Tren Urbano, and is entitled to receive for such services an annual base compensation, subject to inflation adjustment for changes in cost of labor and materials. The base compensation does not include the costs of insurance and electricity, which are paid by the Authority.

On September 22, 2011, the Authority entered into a toll road concession and lease agreement with a private company named "Autopistas Metropolitanas Puerto Rico, LLC" (the Concessionaire), in which the Authority granted to the Concessionaire the right to finance, operate and maintain the PR-22 and PR-5 highways (the Concessioned Toll Roads) for a period of 40 years. During the 40-year term, the Concessionaire will have the right to charge and collect the tolls imposed on the Concessioned Toll Roads. The Authority received an upfront concession fee of $1.136 billion, from which approximately $873.1 million was used to redeem and defease bonds issued and outstanding associated with the Leased Toll Roads.

On December 20, 1992, the Authority and Autopistas entered into a service concession agreement (the Concession Agreement), amended in 1992, 2004 and 2009, for the design, construction, operation and maintenance of the Teodoro Moscoso Bridge (the Bridge), a toll bridge, which traverses the San José Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Bridge and commenced operating the Bridge on February 23, 1994.

The initial term of this agreement was 35 years, expiring on April 3, 2027. On September 9, 2009, the agreement was amended to extend its term to 50 years (2044). As of June 30 2013, the Authority recognized the Bridge at fair value, equivalent to what the Authority might have paid to have the Bridge constructed (replacement cost) at valuation date. The replacement cost was determined to be $109.5 million depreciated over an estimated useful life of 50 years and a deferred inflow of resources of $109.5 million that will be amortized and recognized as revenue over the term of the agreement (50 years). The asset balance related to the Bridge was adjusted to recognize the first 17 years of operation and the remaining amortization will be amortized by 33 years. Refer to Notes 8 and 21 for change in accounting principle's retroactive application.

Debt Administration

As of June 30, 2013, 2012 and 2011, the principal amount of the Highways and Senior Transportation, and Grant Anticipation Revenues Bonds outstanding, net of unamortized discounts and net losses on advance refundings which approximated $4,732.8 million, $4,893.0 million and $6,386.9 million, respectively, were insured and rated Baa3 by Moody's Investors Service (Moody's), and BBB by Standard & Poor's (S&P) for the Senior Bonds and BBB+ for the other bonds. The remaining uninsured bonds are rated Baal by Moody's and A by S&P, except for the Subordinated Transportation Revenue Bonds, which are rated Aaa and A, respectively.

The Authority's bond sales must be approved by the Secretary of Transportation and Public Works, who exercises the powers of the Governing Board of the Authority in coordination with the Government Development Bank (GDB) for Puerto Rico, the Fiscal Agent of the Commonwealth of Puerto Rico. The Authority must comply with certain rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission relating to such sales.

In connection with the issuance of the CPI and LIBOR Bonds, the Authority has entered into interest-rate swap agreements. In general, the swap agreements provide that, subject to the terms thereof, the Authority will pay to the swap provider a fixed rate and the swap provider will pay the Authority a floating rate based on the CPI or LIBOR Rate, based on a notional amount equal to the principal amount of the CPI and LIBOR Bonds outstanding. The purpose of the swap agreement is generally to convert the Authority's floating rate obligations with respect to the CPI and LIBOR Bonds to fixed rate obligations.

On June 24, 2013, the Authority paid $86.0 million aggregate principal amount of the outstanding balance of the Grant Anticipation Revenue Bonds, Series 2004 under its Resolution 04-18, adopted by the Authority on April 7, 2004.

ECONOMIC FACTORS AND FISCAL YEAR 2014 BUDGET

Interrelation between the Puerto Rican and U.S. Economies

The economy of Puerto Rico must be analyzed as a region of the United States (U.S.) economy, since it is part of the U.S. monetary and banking system and it is located within its customs and territorial boundaries. The main driver of the Puerto Rican economy is a huge external sector closely tied to the flow of merchandise, tourists, and capital between Puerto Rico and the U.S. Thus, historically, the real growth rate of the Puerto Rican economy has followed that of the U.S. economy, except in periods of energy crisis, when the rise in oil prices exerted a more profound negative effect on the level of economic activity in Puerto Rico than in the United States.

Behavior of the U.S. Economy during and after the Great Recession

According to the National Bureau of Economic Research (NBER), the U.S. economy entered into a recessionary period in December 2007, which turned into a deep recession in the third quarter of 2008, concurrently with a U.S. and global financial and housing market crises. The 2007-2010 U.S. recession has been the longest and deepest since the Great Depression of the thirties. In fiscal year 2009, real Gross National Product (GNP) dropped by -2.92% in the United States, suffering a loss of -3.82 million payroll workers and a rise in the unemployment rate to an average of -7.6%. Although the NBER declared that the Great Recession was officially over as of June 2009, the U.S. economy posted a meager increase of 0.39% in real GNP in fiscal year 2010, experiencing an additional loss of 4.23 million workers, while the unemployment rate climbed to 9.75%. Thus, in a short span of two fiscal years, payroll employment declined from 137.78 million payroll workers in FY2008 to 129.73 million workers in FY2010, a significant 8.05 million job losses. After FY2010, the U.S economy started to expand at a moderate pace as compared to previous recoveries, when real GNP advanced by 2.57% in FY2011 and 2.54% in FY2012. Then the recovery lost steam in FY2013, when the U.S. GNP growth rate dropped to 1.86%. In spite of the U.S. moderate recovery, in the period of fiscal years 2011 to 2013, the U.S. economy recovered 5.06 million jobs, or about half the number of jobs lost during the Great Recession, and the unemployment rate dropped to 7.77% in FY2013. In the first semester of FY2014, the U.S. economy continued to recover 2.61 million additional payroll jobs, almost erasing the 8.05 million jobs lost from FY2008 to FY2010. In December 2013, total payroll jobs reached 138.3 million, close to the pre-recession level of December 2007 (139.2 million), and the unemployment rate had declined to 6.7%. According to the latest forecast of IHS Global Insight (February 2013), U.S. real GNP will increase its growth pace to 2.72% in FY2014.

Impact of the Great Recession and the Energy Crisis on the Puerto Rican Economy

The impact of the Great Recession, coupled with extremely high petroleum product prices, has been significantly more severe on the Puerto Rican economy as compared to the U.S. economy. First, the recession in Puerto Rico started earlier, with a meager growth rate of 0.49% in real GNP during FY2006. Then, real GNP dropped by -1.21% in FY2007, followed by steep declines of -3.83% and -3.57% in fiscal years 2009 and 2010. In fiscal years 2011 and 2012, the Puerto Rican economy experienced a relative improvement, when posting a decline of -1.60% in FY2011 and a positive, although insignificant, advance of 0.1% in FY2012. However, recessionary conditions in Puerto Rico remained in place during FY2013, when the U.S. economic growth faltered, mainly due to a contraction in federal and state government spending, and the energy crisis intensified. According to the latest projections of the Puerto Rico Planning Board, Puerto Rico real GNP declined by -0.03%, in FY2013.

The energy crisis was ignited again in fiscal year 2011, when the U.S. average refiners' acquisition cost increased by 23.0% and the average retail price of gasoline in Puerto Rico rose by 18.7%, advancing from $2.55 to $3.03 per gallon. Furthermore, the overbuilding in the housing and business sectors continued to exert a negative impact on the construction industry. According to the Census of Population and Housing, the number of vacant housing units rose from 157,151 units in April 2000 to 260,415 units in April 2010, posting an increase of 103,264 vacant units, equivalent to +65.7%. Cement consumption contracted again by -5.0% in fiscal year 2011, declining to a level of 18.5 million bags, the lowest level since fiscal year 1983, while payroll construction employment dropped by -20.1%. The average payroll employment in the construction sector in fiscal year 2011 (31,800 workers) was 46.7% of the pre-recession level in fiscal year 2005 (68,200 workers). And finally, the serious fiscal crisis of the Central Government of Puerto Rico developed prior to 2009, continued to restrain government current consumption by -4.8% in fiscal year 2011, due to the strict measures that had to be implemented to resolve the fiscal crisis. However, according to the Planning Board estimates, in fiscal year 2011 public investment in construction increased by 8.2%, the first increase since fiscal year 2004.

Fiscal Year 2012: Main Economic Indicators of the Puerto Rican Economy

In fiscal year 2012, the Puerto Rican economy started to show some signs of recovery. Cement consumption increased for the first time since fiscal year 2003, reaching 19.89 million bags, thus posting an advance of 1.35 million bags or 7.3%. Automobile and light truck retail sales continued the upward movement that started in fiscal year 2010, reaching 96,463 units in fiscal year 2012, posting an increase of 5,941 units or 6.6%. However, according to the Household Survey, total employment (1,035.5 thou.) declined by -1.1%, although the unemployment rate dropped from 16.2% in FY2011 to 15.2% in FY2012, due to the fall in the labor force participation rate. Instead of a decline, payroll employment, based on establishment data, recorded an increase of 7,600 jobs, equivalent to 0.8%, the first increase since FY2005. In spite of those signs of recovery, real GNP, according to the official figures of the Planning Board, remained virtually stagnant in FY2012.

Behavior of Authority's Recurrent Revenues in FY2012

The moderate improvement in some macroeconomic indicators in fiscal year 2012 was not sufficient to offset the negative impact of higher gasoline prices on Authority's revenues derived from the gasoline and petroleum product taxes. Average retail gasoline prices increased by 15.1% in FY2012 following another hefty increase of 18.7% in FY2011. The change in the payment method of one of the main importers of gasoline, which became a bonded taxpayer, thus starting to pay petroleum taxes with a one-month delay, also caused a decline of -$4.3 million in cash revenues of the gasoline and petroleum product taxes. As a consequence of those negative factors, revenues from the gasoline excise tax of 16 cents per gallon measured at 60 degree Fahrenheit, dropped from $169.46 million in FY2011 to $159.75 million in FY2012. Revenues from the $3.00 per barrel, also measured at 60 degrees Fahrenheit, declined from $94.38 million in FY2011 to $90.61 in FY2012.

The Public-Private Alliance (PPA) agreement, signed by the Authority, Autopistas Metropolitanas de Puerto Rico, LLC (Metropistas), a consortium formed by Abertis Infrastructure and Goldman Sachs Infrastructure Partners II, LP, to transfer the operation and income of toll plazas of PR-5 and PR-22, starting on September 22, 2011, significantly reduced revenues from toll receipts of the Authority in fiscal year 2012. Toll revenues were also negatively affected by a significant substitution of traffic from conventional lanes to auto-express lanes in toll plazas retained by the Authority, since toll fares of auto-express lanes are five cents less than toll fares of conventional lanes. As a result of the PPA with Metropistas and the lower toll fares of express lanes, revenues from Authority's toll plazas experienced a significant decline from $212.17 million in FY2011 to $137.40 million in FY2012. Notwithstanding, this reduction in toll revenues was compensated by fund reductions in debt service payments and operation costs. Finally, the smaller category of recurrent revenues, diesel oil tax and vehicle license fees did not record any major change, slightly increasing from $40.60 million in FY2011 to $42.24 million in FY2012.

Total recurrent revenues of the Authority declined from $516.61 million in FY2011 to $430.00 million in FY2012, mainly caused by the PPA concession of PR22 and PR-5 and the contraction in gasoline and petroleum product taxes due to the significant price increases two years in a row, and the institutional factor of a change of a major petroleum company to a bonded taxpayer delaying by one month the cash payment of those taxes. In view of the changes in the structure of recurrent revenues, mainly caused by the PPA agreement with Metropistas, recurrent revenue figures of FY2011 and FY2012 are not strictly comparable.

Fiscal Year 2013: Main Economic Indicators of the Puerto Rican Economy

As stated above, real GNP of the Puerto Rican economy remained stagnant in FY2013 (-0.03). The main indicators of economic activity demonstrated a mixed behavior. Cement construction, after a moderate rise in FY2012, dropped from 19.89 million bags in FY2012 to 17.50 million bags in FY2013. The construction industry is still affected by an excess supply of vacant housing units within an environment of declining population. The tourist industry continued its upward trend, although at a lower growth rate. Registration in tourist hotels increased from 2.10 million guests in FY2012 to 2.19 million guests in FY2013, recording an increase of 4.6%. Sales of automobiles and light trucks continued to advance in FY2013, from 96,463 units in FY2012 to 101,675 units in FY2013, an increase equivalent to 5.4%. However, this percentage increase was lower than the one recorded in FY2012 (6.6%). According to the Household Survey, total employment declined at a lower rate in FY2013 (-0.6%) than in FY2012 (-1.1%). However due to the decline in the labor force (-2.0%), mainly caused by a drop in the participation rate (-1.5%), the unemployment rate decreased from 15.2% in FY2012 to 14.0% in FY2013. Gasoline prices experienced a slight decline in FY2013 (-0.9%), after two years of double-digit growth. This stabilization of the energy crisis was the best indicator contributing to stop the decline in Authority's revenues from the gasoline excise tax and the petroleum product tax.

Behavior of Authority's Recurrent Revenues in FY2013

The stabilization of retail gasoline prices contributed to increase the gasoline excise tax revenues from $159.75 million in FY2012 to $161.47 million in FY2013. However, revenues from the petroleum product excise tax experienced a minor decrease, falling from $90.61 million in FY2012 to $89.40 million in FY2013. Total revenues from taxes on gasoline and petroleum products remained stable despite a negative macroeconomic environment, amounting to $250.36 million in FY2012 and $250.87 million in FY2013.

Revenues from toll plazas declined from $137.1 million in FY2012 to $121.0 million in FY2013. However, we must stress that this decline was caused by the decline in revenues from Expressways PR-22 and PR-5, which amounted to $20.89 million in the period from July 1, 2011 to September 21, 2011, prior to the start of operations of Metropistas, while in FY2013 the Authority did not receive any revenues from those Expressways. The other minor sources of Authority revenues remained relatively stable around a $40 million level. Thus, the decline in total revenues from $430.0 million in FY2012 to $412.3 million in FY2013 can be also attributed to the loss of $20.89 million from revenues generated by the toll plazas of PR-22 and PR-5, which were transferred to Metropistas on September 22, 2011.

Following is a summary table of non-operating revenues by type:

	2013	2012
Gasoline tax	**$ 161,470,652**	$ 159,746,529
Diesel tax	**7,549,135**	9,485,894
Oil and petroleum tax	**89,403,741**	90,609,132
Vehicle license fee	**32,842,394**	32,748,626
Other revenues	**1,331,109**	–
	$ 292,597,031	$ 292,590,181

Outlook for Fiscal Year 2014

The Authority will continue to face a negative macroeconomic environment in fiscal year 2014. However, the impact of the energy crisis of retail gasoline prices is expected to remain stable at levels comparable to FY2013. In spite of the increase in the petroleum product taxes in July 2013, which affected the cost of gasoline in almost 15 cents per gallon, measured at 60 degrees Fahrenheit, after September 2013, a decline in the international gasoline prices offset the tax increase. According to the survey conducted by DACO, the average retail gasoline price in the month of November ($3.36 per ambient gallon) was even lower than the average price in July 2013. On the other hand, the retail price of gasoline in the first semester of FY2014 (July-December) averaged $3.53 per ambient gallon, posting only a minor increase of 3.8 cents per gallon or 1.1% over the same period of FY2013, which is extremely low when compared with the 18.7% and 15.1% increases in fiscal years 2011 and 2012.

Finally, the extraordinary legislative action taken by the Central Government in June 2013 to provide new sources of revenues to the Authority has been historically the most important public policy decision to strengthen its financial situation. First, Act No. 31, approved on June 23, 2013, increased the petroleum product tax from $3.00 to $9.25 per barrel, measured at 60 degrees Fahrenheit, and provided increases every four years based on the U.S. CPI plus 1.50 percentage points. This legislation will increase revenues of the petroleum product tax by no less than $160 million in FY2014. Also, the Act. No. 31 increased $20 million of the cigarette excise tax. Second, Act No. 30, also approved on June 25, 2013, transferred to the Authority the General Fund's motor license fees, increasing the Authority's revenues by around $80 million in FY2014. In addition to those legislative measures, on September 2013, the Authority eliminated the 5 cents per fare discount applicable to express in lanes of toll plazas. Additional income will also be generated in FY2014 by a full year operation of Rio Grande Plazas of Expressway PR-66 and the new exclusive lane of PR-22 in the Section of Bayamón-Dorado.

In summary, notwithstanding an adverse macroeconomic environment, recurrent revenues of the Authority in FY2014 are expected to increase by around $250 million or 60.68% in FY2014.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our bondholders, patrons, and other interest parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have question or need additional financial information, contact the Puerto Rico Highways and Transportation Authority, Finance Area, P.O. Box 42007, San Juan, Puerto Rico 00940-2007.

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Net Position

	June 30 2013	June 30 2012 (as restated)
Assets		
Current assets:		
Cash and cash equivalents	**$ 23,303,547**	$ 24,786,228
Accounts receivable, net	**15,665,258**	23,439,316
Prepaid expenses and other assets	**7,418,268**	14,859,781
Total current assets	**46,387,073**	63,085,325
Current restricted assets:		
Cash and cash equivalents	**130,120,338**	130,018,205
Cash and cash equivalents and investments with trustee	**595,350,464**	610,378,810
Receivables:		
U.S. federal government	**29,618,824**	33,828,284
Accrued interest and other	**634,873**	327,120
Total current restricted assets	**755,724,499**	774,552,419
Non-current assets:		
Capital assets, net	**10,989,776,673**	11,040,166,343
Highways and bridge under concession agreement, net	**169,964,172**	160,820,065
Revenue bonds issuance cost, net of accumulated amortization of $45,378,188 and $44,027,091 in 2013 and 2012, respectively	**77,706,577**	83,882,693
Total assets	**12,039,558,993**	12,122,506,845
Deferred Outflow of Resources		
Deferred unrealized loss on derivative instruments	**10,656,453**	25,463,629
Total assets and deferred outflow of resources	**$ 12,050,215,446**	$ 12,147,970,474

(Continued)

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Net Position (continued)

	June 30	
	2013	**2012** *(as restated)*
Liabilities		
Current liabilities:		
Checks issued over bank balance	**$ 10,977,989**	$ 6,916,240
Accounts payable	**65,672,477**	41,423,887
Accrued and other liabilities	**20,694,036**	29,374,872
Total current liabilities	**97,344,502**	77,714,999
Current liabilities payable from restricted assets:		
Accounts and subcontractors payable	**128,071,458**	178,269,023
Accrued interest payable	**254,687,195**	157,025,724
Current portion of bonds payable	**101,875,000**	86,935,000
Total current liabilities payable from restricted assets	**484,633,653**	422,229,747
Noncurrent liabilities:		
Accrued legal claims	**139,667,708**	70,872,402
Accrued vacations and sick leave	**10,799,142**	11,656,498
Fair value of derivative instruments	**142,417,741**	224,777,280
Voluntary termination incentive plan liability	**88,201,828**	81,902,218
Nonrevolving lines of credit	**2,045,129,887**	1,881,963,283
Bonds payable, net	**4,630,951,844**	4,806,067,873
Total noncurrent liabilities	**7,057,168,150**	7,077,239,554
Total liabilities	**7,639,146,305**	7,577,184,300
Deferred inflow of resources:		
Deferred inflow of resources concession agreements	**1,165,674,255**	1,184,937,000
Net position:		
Net investment in capital assets	**2,956,277,114**	2,863,500,577
Restricted for debt service	**459,244,329**	552,636,977
Restricted for construction	**41,792,974**	64,889,718
Unrestricted	**(211,919,531)**	(95,178,098)
Total net position	**3,245,394,886**	3,385,849,174
Total liabilities, deferred inflow of resources and net position	**$ 12,050,215,446**	$ 12,147,970,474

See accompanying notes.

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Revenues, Expenses and Changes in Net Position

	Year Ended June 30 2013	Year Ended June 30 2012 *(as restated)*
Operating revenues:		
Toll and train fares	**$ 135,613,733**	$ 145,215,486
Other income	**6,796,550**	23,938,604
Concession service	**42,467,512**	32,424,138
Total operating revenues	**184,877,795**	201,578,228
Operating expenses:		
Salaries and related benefits	**27,399,603**	30,807,519
Post-employment benefits	**14,360,263**	11,456,174
Toll highways administration and maintenance	**46,621,095**	41,312,346
Train operating and maintenance costs	**56,425,240**	54,461,637
Integrated transportation system	**11,731,867**	26,727,607
Repairs and maintenance of roads and bridges	**106,937,515**	67,595,035
Utilities	**15,293,398**	10,978,694
Other	**35,608,066**	31,797,940
Total operating expenses	**314,377,047**	275,136,952
Operating loss before depreciation and amortization	**(129,499,251)**	(73,558,724)
Depreciation and amortization	**438,151,665**	438,215,062
Operating loss	**(567,650,916)**	(511,773,786)
Non-operating revenues (expenses):		
Gasoline, diesel, oil and petroleum tax revenues	**258,423,528**	259,841,555
Vehicle license fee	**32,842,394**	32,748,626
Other revenues	**1,331,109**	–
Interest on bonds and lines of credit	**(402,293,448)**	(386,418,320)
Investment income:		
Interest and other investment income	**42,424,826**	24,056,543
Increase (decrease) in fair value upon hedge termination	**65,537,816**	(165,066,348)
Gain on extinguishment of debt	**–**	82,997,273
Total non-operating expenses, net	**(1,733,775)**	(151,840,671)
Loss before capital contributions	**(569,384,692)**	(663,614,457)
Capital contributions	**428,930,404**	306,517,853
Change in net position	**(140,454,288)**	(357,096,604)
Net position at beginning of year, *as restated*	**3,385,849,174**	3,742,945,778
Net position at end of year	**$ 3,245,394,886**	$ 3,385,849,174

See accompanying notes.

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Cash Flows

	Year Ended June 30 2013	2012 *(as restated)*
Operating activities		
Receipts from toll and train fares	**$ 135,613,733**	$ 145,215,486
Receipts from other sources	**58,154,485**	34,328,857
Payments to employees and related benefits	**(36,317,614)**	(23,116,383)
Payments to suppliers for goods and services	**(181,928,975)**	(236,583,297)
Net cash flows used in operating activities	**(24,478,371)**	(80,155,337)
Noncapital financing activities		
Net change in checks issued over bank balance	**4,061,749**	(1,527,109)
Net cash flows provided by (used in) noncapital financing activities	**4,061,749**	(1,527,109)
Capital and related financing activities		
Receipts from government grants	**433,139,865**	297,533,658
Acquisition and construction of capital assets, net of capitalized interest	**(440,927,550)**	(384,413,250)
Receipts from gasoline, petroleum and vehicle license fees	**292,597,032**	294,536,853
Net advances from lines of credit	**163,166,603**	587,656,259
Advance from concession agreement	**–**	1,136,160,000
Payment of bonds	**(185,425,000)**	(1,003,122,486)
Interest paid	**(306,646,525)**	(453,433,345)
Net cash flows (used in) provided by capital and related financing activities	**(44,095,575)**	474,917,689
Investing activities		
Payments for cash and investments with Trustee	**(477,043,177)**	(1,286,804,988)
Deposits to cash and investments with Trustee	**488,586,780**	321,580,269
Investment and interest income received	**51,588,046**	664,830,850
Net cash flows provided by (used in) investing activities	**63,131,649**	(300,393,869)
Net (decrease) increase in cash and cash equivalents	**(1,380,548)**	92,841,374
Cash and cash equivalents at beginning of year	**154,804,433**	61,963,059
Cash and cash equivalents at end of year	**$ 153,423,885**	$ 154,804,433

(Continued)

Statements of Cash Flows (continued)

	Year Ended June 30 2013	2012 (as restated)
Reconciliation to cash and cash equivalents presented in the statements of net assets		
Cash and cash equivalents	**$ 23,303,547**	$ 24,786,228
Cash and cash equivalents - restricted	**130,120,338**	130,018,205
Total	**$ 153,423,885**	$ 154,804,433
Reconciliation of operating loss to net cash flows used in operating activities		
Operating loss	**$ (567,650,916)**	$ (511,773,786)
Adjustments to reconcile operating loss to net cash flows used in operating activities:		
Depreciation and amortization	**438,151,665**	436,025,062
Provisions for doubtful accounts - governmental entity	**18,432,013**	137,944
Net change in operating assets and liabilities:		
Accounts receivable	**(10,657,955)**	(19,212,717)
Prepaid expenses and other assets	**7,441,514**	4,024,080
Accounts payable	**24,248,588**	5,087,664
Accrued liabilities	**(8,680,837)**	(1,117,784)
Accrued legal claims	**68,795,306**	1,158,526
Accrued vacations and sick leave	**(857,359)**	745,491
Accrued voluntary incentive plan liability	**6,299,610**	4,770,183
Net cash flows used in operating activities	**$ (24,478,371)**	$ (80,155,337)
Supplemental cash flows information		
Noncash transactions:		
Capital appreciation bonds	**$ 6,091,971**	$ 5,021,358
Change in fair value of derivative instruments	**$ (3,595,354)**	$ (822,866)
Increase (decrease) in fair value upon hedge termination	**$ 65,537,816**	$ (165,066,348)
Deferred inflow of resources concession agreements	**$ 19,262,745**	$ 23,493,000

See accompanying notes.

1. Organization

Puerto Rico Highways and Transportation Authority (the Authority) is a public corporation and instrumentality of the Commonwealth of Puerto Rico, created by Act No. 74 of June 23, 1965, as amended, to design, construct and administer toll roads and highways, and other facilities for the movement of persons, vehicles and vessels, and for the planning, promotion and feasibility of mass transportation systems. The Authority is a component unit of the Commonwealth of Puerto Rico and accordingly is included in the basic financial statements of the Commonwealth of Puerto Rico. The powers normally exercised by a Board of Directors are vested with the Secretary of the Department of Transportation and Public Works (DTPW). The Authority is exempt from the payment of any taxes on its revenues and properties.

2. Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

The accounting policies of the Authority conform to generally accepted accounting principles in the United States of America, as promulgated in pronouncements of the Governmental Accounting Standards Board (GASB) and the pronouncements of the Financial Accounting Standards Board (FASB), which are not in conflict with GASB pronouncements, as permitted by GASB Statement No. 62, *Codification of Accounting and Financial Reporting Contained in pre-November 30, 1989 FASB and AICPA Pronouncements.*

The Authority's operations are accounted for as a proprietary fund (enterprise fund) using the flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the Authority's operations are included on the statement of net position. Revenue is recognized in the period in which it is earned and expenses are recognized in the period in which incurred.

The Authority accounts for its operations and financings in a manner similar to private business enterprises; the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Authority considers as cash and cash equivalents all highly liquid investments with original maturities at the date of purchase of three months or less.

Investments

The Authority follows the provisions of GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement requires investments to be reported on the statement of net position at fair value and investment income, including changes in the fair value of investments, to be reported as non-operating income in the statement of revenues, expenses and changes in net position. Fair values have been determined using quoted market values at June 30, 2013 and 2012.

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 collectibility of accounts receivable and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

Capital Assets

Cost basis – Capital assets are recorded at historical cost or fair value when estimates are required. The cost of property and equipment includes costs for infrastructure assets (rights-of-way and bridge substructures and highways and bridges), toll facilities, equipment and other related costs (including software), buildings and furniture and equipment. Highways and bridge substructures include road sub-base, grading, land clearing, embankments, and other related costs. Costs for infrastructure assets include construction costs, design and engineering fees and administrative and general expenses paid from construction monies.

2. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Capitalization policy – Infrastructure capital assets (road, bridges, highways, transportation equipment, etc.) are defined by the Authority as assets with an initial, individual cost of more than $500,000 and an estimated useful life of more than one year. Other capital assets, such as equipment, vehicles, etc. are defined by the Authority as assets with an initial individual cost of more than $100 and an estimated life of more than three years.

Costs to acquire additional capital assets, which replace existing assets or otherwise extend their useful lives, are generally capitalized.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are expensed as incurred.

Interest cost is capitalized as part of the historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Interest earned on proceeds of tax-exempt borrowings arrangements restricted for the acquisition of qualifying assets is offset against interest cost to determine the net amount to be capitalized. Interest cost is not capitalized on costs paid with the proceeds of grants or donations restricted solely for construction.

Depreciation of capital assets – Depreciation is provided using the straight-line method over an estimated useful life of 40 years for roads and highways, 50 years for bridges and transportation system (including transportation equipment and facilities) and 10 years for equipment, vehicles and other. Depreciation and amortization for the years ended June 30, 2013 and 2012, amounted to approximately $438.1 million and $441.5 million, respectively.

Impairment of capital assets – The Authority has implemented GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The objective of GASB 42 is to establish accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries.

2. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage among others.

The Authority evaluated its capital assets as required by GASB 42 and an impairment of $33.6 million was identified in the construction in progress account during the year ended June 30, 2013 and it was recorded in the repairs and maintenance line item of these financial statements.

Service Concession Arrangements

The Authority follows the provisions of GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* to account for and report service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The term public-private partnership is used to refer to a variety of service arrangements, management arrangements, and SCAs.

The statements establishes that if the facility associated with an SCA is a new facility purchased or constructed by the operator, or an existing facility that has been improved by the operator, the transferor should report (a) the new facility or the improvement as a capital asset at fair value when it is placed in operation, (b) any contractual obligations as liabilities, and (c) a corresponding deferred inflow of resources equal to the difference between (a) and (b). Further, the corresponding deferred inflow of resources should be reduced and revenue should be recognized in a systematic and rational manner over the term of the arrangement, beginning when the facility is placed into operation.

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. Because of uncertainties inherent in the estimation process, management's estimate of the liability for claims and judgments may change in the future.

2. Summary of Significant Accounting Policies (continued)

Vacation and Sick Leave

Employees earn annual vacation leave at the rate of 30 days per year up to a maximum permissible accumulation of 30 days for union employees and 60 days for management personnel. Employees accumulate sick leave at the rate of 18 days per year. Sick leave is only payable if the regular employee resigns and has more than 10 years of employment, or retires and takes a pension. Maximum permissible accumulation for sick leave is 90 days for all employees, and the excess is paid within the next year. The Authority records as a liability and as an expense the vested accumulated vacation and sick leave as benefits accrue to employees.

The cost of vacation and sick leave expected to be paid in the next twelve months is classified as current and accrued liabilities while amounts expected to be paid after twelve months are classified as noncurrent liabilities.

Unamortized Gains/Losses on Advance Refunding

Gains/losses resulting from current or advance refunding of debt are deferred and amortized over the shorter of the life of the new debt and the remaining life of old debt. The amount deferred is reported as a reduction of the debt and the amount amortized is reported as a component of interest expense.

2. Summary of Significant Accounting Policies (continued)

Bond Premiums (Discounts) and Bond Issuance Costs

Bond premiums (discounts) are presented in the accompanying statement of net position as an increase/reduction of the face amount of bonds payable. Bond issuance costs are presented as a deferred asset in the accompanying statement of net position. The premiums (discounts) and issuance costs are amortized over the life of the bonds using the effective interest method.

Amortization related to bond premiums (discounts) were approximately $(1.8) million and $23.4 million for the years ended June 30, 2013 and 2012, respectively, and are included as a component of interest expense in the accompanying statements of revenues, expenses and changes in net position.

Depreciation and amortization expense in the accompanying statement of revenues, expenses and changes in net position includes amortization of bond issuance costs for the years ended June 30, 2013 and 2012 of approximately $6.1 million and $11.4 million, respectively.

Net Position

Net positions are classified in the following four components in the accompanying statement of net position:

Net Investment in Capital Assets – This component of net position consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any 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 also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflow of resources at year end, the portion of the debt or deferred inflow of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, 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.

2. Summary of Significant Accounting Policies (continued)

Net Position (continued)

Restricted for Debt Service – Net position restricted for debt service consists of restricted assets for payment of principal and interest related to bonds payable. This restriction is imposed by the bondholders through debt covenants.

Restricted for Construction – Net position restricted for construction consists of restricted assets for the specific purpose of financing the construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

Unrestricted – Unrestricted net position consists of net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investments in capital assets or the restricted component of net position.

Revenue Recognition

The Authority distinguishes operating revenues and expenses from non-operating items. Revenues associated with toll and train fares are recorded as operating revenues when cash is received, except for prepaid amounts which are recognized when earned. Expenses related to the administration and maintenance of toll highways and transportation system, repair and maintenance of roads and bridges, and administrative expenses are recorded as operating expenses. All other revenues and expenses are considered non-operating.

Non-operating revenues consist principally of gasoline, diesel, oil and petroleum taxes and vehicle license fees which are allocated to the Authority by the Commonwealth of Puerto Rico as approved by law to finance the acquisition and construction of capital assets and for the payment of the related debt. These taxes and fees are recorded as non-operating revenues when the Puerto Rico Treasury Department collects such taxes and informs the Authority.

2. Summary of Significant Accounting Policies (continued)

Contributions

Contributions are funds assigned by the federal and local governments, agencies and/or private companies such as Federal Highway Administration (FHWA) and Federal Transit Administration (FTA) to the Authority for the exclusive purpose of the construction of specific projects or infrastructure repairs and maintenance. Capital contributions of the Authority are reported as contributions as required by GASB Statement No 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Financial Instruments

The Authority uses derivative financial instruments to manage the economic impact of fluctuations in interest rates. Effective July 1, 2009, the Authority implemented the provisions of GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments*, in accounting for its derivative financial instruments, which requires derivative instruments to be reported at fair value in the statement of net position.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 revenue and expenses during the period. Actual results could differ from those estimates.

The implementation of GASB No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, involved the use of assumptions and estimates in the determination of the cost of general infrastructure assets, such as roads, highways, bridges and land. The cost of such assets was estimated based on current costs for similar assets deflated using the general price index through the estimated average age of the assets.

Reclassification

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statements presentation. Such reclassifications had no effect on net income as previously reported.

2. Summary of Significant Accounting Policies (continued)

Risk Financing

The Authority carries commercial insurance to cover casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage for the years ended June 30, 2013 and 2012.

New Accounting Pronouncements

GASB has issued the following statements that the Authority has not yet adopted:

GASB Statement Number		Adoption Required in Fiscal Year
65	Items Previously Reported as Assets and Liabilities	2014
66	Technical corrections -2012- an amendment of GASB Statement No. 10 and No. 62	2014
67	Financial Reporting of Pension Plans–an amendment of GASB Statement No. 25	2014
68	Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27	2015
69	Government Combinations and Disposals of Government Operations	2015
70	Accounting and Financial Reporting for Nonexchange Financial Guarantees	2015
71	Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68	2015

The impact of these statements has not yet been determined by the Authority.

2. Summary of Significant Accounting Policies (continued)

Effects of New Accounting Standards

Statement No. 61, *Accounting and Financial Reporting Entity: Omnibus-an amendment of GASB Statement No.14 and No. 34* was effective for fiscal year 2013 had no impact on the basic financial statements of the Authority.

GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The Statement provides guidance on whether the transferor or the operator should report the capital asset in its financial statements, when to recognize up-front payments from an operator as revenue, and how to record any obligations of the transferor to the operator. The Statement also provides guidance for governments that are operators in a SCA. The requirements for this Statement are effective for financial statements for periods beginning after December 15, 2011. In general, its provisions are required to be applied retroactively for all periods presented. The Authority adopted the provisions of the GASB Statement No. 60 for the year ended on June 30, 2013. Refer to Notes 8 and 21 for additional disclosure related to the effect of adoption of GASB No. 60.

GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement*s. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The Authority has adopted the provisions of the GASB Statement No.62 for the year ended June 30, 2013. Such adoption had no significant impact on the basic financial statements of the Authority.

2. Summary of Significant Accounting Policies (continued)

Effects of New Accounting Standards

GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, issued on June 2011, changed the structure of government balance sheet. Deferred outflows of resources should be reported in a separate section following assets using the new term and, deferred inflows of resources should be reported in a separate section following liabilities. As a result, assets plus deferred outflows of resources less liabilities and deferred inflows of resources equals to net position. GASB No. 63 indicates that the net position, rather that net assets, should be reported in three components: net investment in capital assets, restricted and unrestricted. GASB No. 63 is effective for financial statements periods beginning after December 15, 2011. The Authority adopted the provisions of the GASB Statement No. 63 for the year ended on June 30, 2013. The adoption of this Statement had no impact on the Authority's basic financial statements other than updating statement categories and titles.

GASB No.64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, issued on June 2011, improves financial reporting for state and local governments by clarifying whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. As a result of a swap counterparty, or a swap counterparty's credit support provider, committing or experiencing either acts of default or termination events, some governments have replaced their swap counterparty and credit support providers. When these swap agreements have been hedging derivative instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Those provisions require a government to cease hedge accounting upon the termination of a hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income. This Statement clarifies the existing requirements for the termination of hedge accounting. This Statement applies to all state and local governments and amends Statement 53, paragraphs 22 and 82. The hedging derivative instrument is terminated unless an effective hedging relationship continues as provided in this subparagraph. An effective hedging relationship continues when all of the following criteria are met: 1) collectability of swap payments is considered to be probable; 2) the swap counterparty of the interest rate swap or commodity swap, or the swap counterparty's credit support provider, is replaced with an assignment or in-substance assignment; 3) the government enters into the assignment or in-substance assignment in response to the swap counterparty, or the swap counterparty's credit support provider, either committing or experiencing an act of default or a termination event as both are described in the swap agreement. The adoption of this Statement had no impact on the Authority's basic financial statements.

3. Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2013 and 2012, consisted of:

	2013	2012
Cash on hand and in banks	**$ 8,713,117**	$ 7,097,644
Repurchase agreements	**14,590,430**	17,688,584
Total	**$ 23,303,547**	$ 24,786,228

Cash and cash equivalents includes overnight deposits acquired under repurchase agreements with the Economic Development Bank (EDB) and the Government Development Bank (GDB) in the amounts of $14.6 million and $17.7 million at June 30, 2013 and 2012, respectively. These deposits are non-collateralized and, therefore, are subject to custodian credit risk.

4. Accounts Receivable, Net

Accounts receivable at June 30, 2013 and 2012, consisted of:

	2013	2012
Government agencies and other	**$ 48,188,827**	$ 42,810,655
Rent receivables	**3,624,092**	4,350,253
Repairs to highways recoverable from users	**1,521,987**	1,475,660
Other	**12,195,865**	6,326,248
Total	**65,530,771**	54,962,816
Less allowance for doubtful accounts	**(49,865,513)**	(31,523,500)
	$ 15,665,258	$ 23,439,316

5. Restricted Cash, Cash Equivalents, and Investments with Trustee

Restricted cash, cash equivalents and investments with trustee at June 30, 2013 and 2012, consisted of:

	2013	2012
Cash on hand and in banks	**$ 447,842**	$ 387,032
Cash held by:		
Puerto Rico Treasury Department	**24,279,653**	21,052,856
Swap Collateral Deposit	**41,543,078**	68,116,015
Government Development Bank	**48,830,637**	37,571,610
Puerto Rico State Infrastructure Bank	**15,019,129**	2,890,692
Total	**$ 130,120,338**	$ 130,018,205
Cash equivalents and investments with trustee:		
Cash equivalents	**$ 118,380,849**	$ 92,988,722
Guaranteed investment contracts	**219,057,320**	240,019,365
US Government securities	**21,672,000**	39,723,679
Mortgage backed securities	**236,240,295**	237,647,044
Total	**$ 595,350,464**	$ 610,378,810

At June 30, 2013, the above amounts were restricted to comply with long-term principal and interest debt service requirements or for construction of transportation facilities. These restricted assets are held by the Fiscal Agent under the Bonds Resolutions in the following funds and accounts:

1968 Reserve Account – Reserve for payment of principal of and interest on Highway Revenue Bonds in the event moneys in Bond Service Account or Redemption Account under Resolution 68-18 are insufficient for such purpose.

1968 Bond Service Account and Redemption Account (Sinking Fund under Resolution 68-18) –Current year requirements for principal and interest on Highway Revenue Bonds.

5. Restricted Cash, Cash Equivalents, and Investments with Trustee (continued)

1998 Senior Reserve Account – Reserve for payment of principal and interest on Senior Transportation Revenue Bonds in the event moneys in Senior Bond Service Account or Senior Bond Redemption Account under Resolution 98-06 are insufficient for such purpose.

1998 Senior Bond Service Account and Senior Bond Redemption Account (Senior Bond Sinking Fund under Resolution 98-06) – Current year requirements for principal and interest on Senior Transportation Revenue Bonds.

1998 Subordinated Reserve Fund – Reserve for payment of principal of and interest on Subordinated Transportation Revenue Bonds in the event moneys in Subordinated Bond Service Account or Subordinated Bond Redemption Account under Resolution 98-06 are insufficient for such purpose.

1998 Subordinated Bond Service Account and Subordinated Bond Redemption Account (Subordinated Bond Sinking Fund under Resolution 98-06) – Current year requirements for principal of and interest on Subordinated Transportation Revenue Bonds.

1998 Construction Fund – Special fund created by the Resolution 98-06. The proceeds of any Transportation Revenue Bonds issued for the purpose of paying the cost of acquiring or constructing transportation facilities, together with the money received from any other source for such purpose, except proceeds which are (i) applied to the repayment of advances, (ii) deposited in the 1998 Senior Bond Reserve Account or 1998 Subordinated Bond Reserve Fund, (iii) deposited in the 1998 Senior or Subordinated Bond Service Account as capitalized interest or (iv) used for the payment of financing expenses, shall be deposited in the 1998 Construction Fund and held by the Fiscal Agent in trust.

2004 Grant Anticipation Bond Reserve Account – Reserve for payment of principal and interest on 2004 Grant Anticipation Bonds in the event insufficient funds for such purpose are available in the Bond Payment Fund.

5. Restricted Cash, Cash Equivalents, and Investments with Trustee (continued)

At June 30, 2013 and 2012, amounts held by Trustee in the above accounts amounts to (in thousands):

	2013	2012
1968 Reserve Account	**$ 74,357**	$ 72,804
1968 Sinking Fund	**48,318**	49,289
1998 Senior Reserve Account	**245,182**	245,117
1998 Senior Sinking Fund	**156,737**	150,502
1998 Subordinated Reserved Fund	**26,512**	26,513
1998 Subordinated Sinking Fund	**17,588**	17,366
1998 Construction Fund	**14,843**	35,605
2004 Grant Anticipation Reserve Account	**11,813**	13,182
Total	**$ 595,350**	$ 610,378

6. Deposits and Investments

The following paragraphs disclose essential risk information about deposits and investments as required by Governmental Accounting Standard Board Statement No. 40, *Deposits and Investments Risk Disclosures*:

> 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. Resolutions 68-18, 98-06 and 04-18 (the Bond Resolutions) require that moneys in the debt service funds be held by Bank of New York (the Fiscal Agent) in trust and applied as provided in the Bond Resolutions.

6. Deposits and Investments (continued)

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

Custodian 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 returned. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. Deposits maintained in GDB or EDB are exempt from collateral requirement established by the Commonwealth and thus represents custodial credit risk because in the event of GDB's or EDB's failure, the Authority may not be able to recover the deposits.

All moneys deposited with the Trustee or any other depository institution hereunder in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency are continuously secured by lodging with a bank or trust company approved by the Authority and by the Trustee as custodian, or, if then permitted by law, by setting aside under control of the trust department of the bank holding such deposit, as collateral security, Government Obligations or other marketable securities.

6. Deposits and Investments (continued)

Custodian Credit Risk - Deposits (continued)

At June 30, 2013 and 2012, the Authority was exposed to the following custodial credit risk arising from the balance of deposits maintained in governmental and commercial banks as follows:

	2013			
	Non-restricted		**Restricted**	
	Book Balance	**Bank Balance**	**Book Balance**	**Bank Balance**
Commercial banks	**$ 2,966,274**	**$ 5,040,363**	**$ 447,842**	**$ 447,842**
Governmental banks	**20,337,273**	**22,166,243**	**129,672,496**	**129,932,496**
	$23,303,547	**$27,206,606**	**$130,120,338**	**$ 130,380,338**

	2012			
	Non-restricted		**Restricted**	
	Book Balance	**Bank Balance**	**Book Balance**	**Bank Balance**
Commercial banks	$19,518,845	$26,071,826	$ 387,032	$ 380,691
Governmental banks	5,267,383	14,535,422	129,631,173	129,785,172
	$24,786,228	$40,607,248	$130,018,205	$130,165,863

Custodian Credit Risk - Investments

For an investment, custodial credit risk is the risk that in event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority invests in prime investments with a minimum quality rating of Aa1 (Moody’s) or AA+(Standard and Poor’s). In addition, investment in bond sinking funds are limited to investments 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 the Bond Resolutions.

6. Deposits and Investments (continued)

Custodian Credit Risk - Investments (continued)

The Authority maintains funds and accounts under the Bonds Resolutions that are held by a trustee. As of June 30, 2013 and 2012, the total account balance amounted to approximately $595.3 million and $610.4 million, respectively. These accounts invest on different types of short-term and long-term securities, including Guaranteed Investment Contracts (GICs). Under these GICs, the financial institution guarantees the Authority a fixed rate of return. As established in the contract, the financial institution has invested such funds in predetermined securities such as cash, U.S. Treasury and U.S. Government Agency securities. These securities are pledged and serve as collateral for the account balance. The fair value of the GICs is determined based on the fair value of the underlying investments based on quoted market prices and then adjusted to contract value. As of June 30, 2013 and 2012, the contract value, which represents amounts deposited plus interest credited less withdrawals, is equal to the fair value.

Providers of guaranteed investment contracts as of June 30, 2013 and 2012, are as follows:

	2013	2012
Société Générale	$ –	$ 64,834,253
Wells Fargo	**37,359,190**	14,427,410
Bank of America	**71,759,778**	46,883,778
FSA Capital Management Service	**44,674,424**	44,674,424
Citigroup Financial Product, Inc.	**13,445,477**	13,444,462
Wachovia Bank NA	**26,512,201**	26,512,201
Westdeutsche Landesbank	**25,306,250**	29,242,837
Total	**$ 219,057,320**	$ 240,019,365

6. Deposits and Investments (continued)

Interest-Rate Risk

Interest-rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes to market interest rate. Maturities of cash and cash equivalents and investments with Trustee at June 30, 2013 and 2012, are as follows:

	2013		
	Maturing From/To		**Fair Value**
Cash equivalents	**N/A**	**$**	**118,380,849**
Guaranteed investment contracts	**07/01/13-07/31/39**		**219,057,320**
US Government and agencies securities	**07/01/13-01/21/21**		**21,672,000**
Mortgage backed securities	**07/01/13-01/30/24**		**236,240,295**
Total		**$**	**595,350,464**

	2012		
	Maturing From/To		**Fair Value**
Cash equivalents	N/A	$	92,988,722
Guaranteed investment contracts	07/01/12-07/31/38		240,019,365
US Government and agencies securities	07/01/12-01/21/20		39,723,679
Mortgage backed securities	07/01/12-01/30/23		237,647,044
Total		$	610,378,810

7. Capital Assets, Net

The following schedule summarizes the capital assets, net, held by the Authority as of June 30, 2013 and 2012:

	Balance at June 30, 2012	Increases	Decreases	Balance at June 30, 2013
Assets not being depreciated				
Land	$ 1,894,798,789	**$ 2,007,325**	**$ (2,853)**	**$ 1,896,803,261**
Construction in progress	547,566,041	**380,893,104**	**(437,660,882)**	**$ 490,798,263**
Total	2,442,364,830	**382,900,429**	**(437,663,735)**	**2,387,601,524**
Assets being depreciated				
Transportation system	2,419,375,826	**–**	**–**	**2,419,375,826**
Roads	12,021,019,718	**382,427,614**	**(164,300)**	**12,403,283,032**
Bridges	3,436,668,681	**11,339,810**	**–**	**3,448,008,491**
Building	–	**22,500,000**	**–**	**22,500,000**
Equipment, vehicles and other	124,383,267	**18,178,978**	**(7,212,380)**	**135,349,865**
Total	18,001,447,492	**434,446,402**	**(7,376,680)**	**18,428,517,214**
Less accumulated depreciation	(9,403,645,979)	**(429,265,677)**	**6,569,591**	**(9,826,342,065)**
Total assets being depreciated	8,597,801,513	**5,180,725**	**(807,089)**	**8,602,175,149**
Total capital assets, net	$ 11,040,166,343	**$ 388,081,154**	**$ (438,470,824)**	**$ 10,989,776,673**

7. Capital Assets, Net (continued)

	Balance at June 30, 2011	Increases	Decreases	Balance at June 30, 2012
Assets not being depreciated				
Land	$ 1,879,139,949	$ 15,658,840	$ –	$ 1,894,798,789
Construction in progress	552,989,111	473,080,809	(478,503,879)	547,566,041
Total	2,432,129,060	488,739,649	(478,503,879)	2,442,364,830
Assets being depreciated				
Transportation system	2,419,375,826	–	–	2,419,375,826
Roads	11,958,229,032	373,059,338	(310,268,652)	12,021,019,718
Bridges	3,387,529,716	49,138,965	–	3,436,668,681
Equipment, vehicles and other	99,840,740	25,976,279	(1,433,752)	124,383,267
Total	17,864,975,314	448,174,582	(311,702,404)	18,001,447,492
Less accumulated depreciation	(9,199,991,171)	(429,961,026)	226,306,218	(9,403,645,979)
Total assets being depreciated	8,664,984,143	18,213,556	(85,396,186)	8,597,801,513
Total capital assets, net	$ 11,097,113,203	$ 506,953,205	$ (563,900,065)	$ 11,040,166,343

Interest expense incurred during the years ended June 30, 2013 and 2012, amounted to approximately $402.3 million and $386.4 million, respectively, of which approximately $6.6 million and $10.3 million, respectively, were capitalized as part of construction in progress in the accompanying statements of net position.

On July 17, 2012, the Authority exchanged a land parcel belonging to the Authority for a building with a fair value of $22.5 million belonging to DTPW. This resulted in a gain and payable to DTPW of $7.5 million which was netted against DTPW account receivable balance as of June 30, 2013.

8. Highways and Bridge Under Service Concession Agreement

Toll Roads Service Concession Agreement (PR-5 and PR-22)

On September 22, 2011, the Authority entered into a toll road service concession agreement with Autopistas Metropolitanas Puerto Rico, LLC (the Concessionaire), in which the Authority granted to the Concessionaire the right to operate PR-5 and PR-22 highways (the Toll Roads) for a period of 40 year (the Concession Agreement). During the 40-year term, the Concessionaire will have the right to charge and collect the tolls imposed on the Toll Roads. The Authority received an upfront concession fee payment of $1.136 billion, from which approximately $1.003 billion was used to redeem or defeased bonds issued and outstanding associated with the Toll Roads.

In 2012, the Authority recorded a deferred inflow resources of concession agreement of $1.136 billion that will be amortized and recognized as revenue over the 40-year term of the agreement. In 2012, the Authority recognized $21.0 million of revenue related to this transaction and will recognize $28.4 million for each subsequent year through 2052. The Toll Roads (capital assets) will continue to be reported in the statements of net position as a separate item as highways and bridge under service concession agreement. Toll Roads amounted to approximately $90.3 million, net of accumulated depreciation. Toll Roads should not be depreciated until the end of the agreement starting on September 22, 2011 since the concession agreement requires the Concessionaire to return the Toll Roads to the Authority in its original or an enhanced condition.

During fiscal year 2012, and prior to the retroactive restatement, the Authority accounted for the Concession Agreement as an operating lease, accordingly it recorded depreciation on the capital asset of $5.4 million for the period between September 1, 2011 (date of the agreement) and year end, June 30, 2012. Capital assets under operating lease were presented separately in the Statement of Net Assets. In addition the upfront payment was accounted for as net deferred revenue on the Authority’s books as of June 30, 2012.

The Authority reclassified the net deferred revenue previously recorded as of June 30, 2012, to a deferred inflow of resources in the amount of $1.114 billion for the up-front payment received on September 22, 2011 which is the gross amount of $1.136 billion received on September 22, 2011 net of recognized revenue from the date of September 22, 2011 through June 30, 2012 of $21.3 million and will continue to recognize revenue on a straight line basis for the remainder of the 40 years of the agreement in the amount of $28.4 million per year, which began in the fiscal year ended June 30, 2012. The Authority reported the capital asset as “Highways under service concession agreement” in their Statement of Net Position as of June 30, 2012 in the amount of $90.7 million after reversal of previously recorded accumulated depreciation of $5.4 million as described further below. Refer to Note 21 for change in accounting principle’s retroactive application.

8. Highways and Bridge Under Service Concession Agreement (continued)

Bridge Service Concession Agreement

On December 20, 1992, the Authority and Autopistas de Puerto Rico y Compañía S.E. (Autopistas) entered into a service concession agreement amended in 2004 and 2009, for the design, construction, operation and maintenance of the Teodoro Moscoso Bridge (the Bridge), a toll bridge, which traverses the San José Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Bridge and commenced operating the Bridge on February 23, 1994 (valuation date). The initial term of this agreement was 35 years, expiring on April 3, 2027. On September 9, 2009, the agreement was amended to extend its term to 50 years (2044). GASB No. 60 establishes that in the first period that this statement is applied, changes resulting from the implementation of this statement should be treated as an adjustment of prior periods, and the financial statements presented for the periods affected should be restated. As of June 30 2013, the Authority recognized the Bridge at fair value, equivalent to what the Authority might have paid to have the Bridge constructed (replacement cost) at valuation date. The replacement cost was determined to be $109.5 million depreciated over an estimated useful life of 50 years and a deferred inflow of resources of $109.5 million that will be amortized and recognized as revenue over the term of the agreement (50 years). The asset balance related to the Bridge was adjusted to recognize the first 17 years of operation and the remaining amortization will be amortized by 33 years.

The highways and bridge under service concession agreement, net at June 30, 2013 and 2012, consisted of:

	2013	2012 *(as restated)*
Toll Roads Concession	**$ 90,740,065**	$ 90,740,065
Toll Roads Concession Improvements	**11,334,107**	–
Bridge Concession	**67,890,000**	70,080,000
Total	**$ 169,964,172**	$ 160,820,065

The deferred inflows of resources at June 30, 2013 and 2012, consisted of:

	2013	2012 *(as restated)*
Toll Roads Concession	**$ 1,097,784,255**	$ 1,114,857,000
Bridge Concession	**67,890,000**	70,080,000
Total	**$ 1,165,674,255**	$ 1,184,937,000

9. Bonds Payable

The bond resolutions authorize the issuance of revenue bonds to obtain funds to pay the construction and related costs of transportation facilities. Bonds outstanding under the bond resolutions at June 30, 2013 and 2012, consisted of:

	2013	2012
RESOLUTION 68-18		
Serial bonds, maturing through 2034 with interest ranging from 3.30% to 6.50%	**$ 474,640,000**	$ 492,270,000
Term bonds, maturing through 2039 with interest ranging from 4.00% to 6.00%	**419,810,000**	424,610,000
Capital appreciation bonds, maturing through 2026 with interest ranging from 4.36% to 4.58%	**22,349,012**	21,361,626
Subtotal	**916,799,012**	938,241,626
RESOLUTION 98-06		
Serial bonds, maturing through 2037 with interest ranging from 2.25% to 5.75%	**1,466,125,000**	1,540,280,000
Term bonds, maturing through 2046 with interest ranging from 2.25% to 5.75%	**2,045,010,000**	2,045,010,000
Capital appreciation bonds, maturing through 2026 with interest ranging from 4.47% to 5.08%	**107,964,001**	102,859,416
LIBOR based interest rate bonds maturing through 2045	**700,000**	700,000
Consumer Price Index based interest rate bonds maturing through 2028	**57,965,000**	57,965,000
Subtotal	**3,677,764,001**	3,746,814,416
RESOLUTION 04-18		
Serial bonds, maturing through 2021 with interest ranging from 2.25% to 5.00%	**–**	93,640,000
Total bonds outstanding	**4,594,563,013**	4,778,696,042
Add: Net unamortized premium	**285,168,010**	283,349,451
Less: Unamortized loss on advance refundings	**(146,904,179)**	(169,042,620)
Net bonds payable	**4,732,826,844**	4,893,002,873
Less: Current portion	**(101,875,000)**	(86,935,000)
Long-term portion	**$ 4,630,951,844**	$ 4,806,067,873

9. Bonds Payable (continued)

The bonds are secured by a pledge of the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes, a maximum of $11.0 million monthly (but not more than $120.0 million annually) derived from excise taxes over crude oil and its derivatives, $15 per vehicle per year from motor vehicle license fees, the proceeds of any other taxes, fees or charges which the Legislature of Puerto Rico may allocate to the Authority in the future and which the Authority may pledge, proceeds of any tolls or other charges which the Authority may impose for the use of any of its traffic facilities and certain investment earnings.

The proceeds of the gasoline tax, the gas oil and diesel oil tax, the crude oil tax and the motor vehicle license fees allocated to the Authority are taxes and revenues available under the Constitution of the Commonwealth of Puerto Rico for the payment of principal and interest of bonds. Accordingly, if needed, they are subject to being applied first to the payment of debt service on the public debt of the Commonwealth, but such taxes and license fees are to be used for such payments only if and to the extent that all other available revenues of the Commonwealth under the Constitution are insufficient for such purpose. The Commonwealth has never applied these revenues for such payments.

The Bond Resolutions further provides that receipts of pledged revenues be deposited in certain accounts with the Fiscal Agent for the payment of interest and principal of the bonds outstanding.

Nothing in the Bond Resolutions is to be construed as preventing the Authority from financing any facilities authorized by the Act that created the Authority, as amended, through the issuance of bonds or other obligations, which are not secured under the provisions of the Bond Resolutions.

9. Bonds Payable (continued)

A summary rollforward of bonds payable at June 30, 2013 and 2012, are as follows:

	Balance at June 30, 2012	Issuance/ Accretions	Payments/ Amortization	Balance at June 30, 2013	Current Portion
Serial bonds					
Resolution 68-18	$ 492,270,000	$ –	$ (17,630,000)	$ 474,640,000	$ (23,975,000)
Resolution 98-06	1,540,280,000	–	(74,155,000)	1,466,125,000	(77,900,000)
Resolution 04-18	93,640,000	–	(93,640,000)	–	–
Total	2,126,190,000	–	(185,425,000)	1,940,765,000	(101,875,000)
Term bonds					
Resolution 68-18	424,610,000	–	(4,800,000)	419,810,000	–
Resolution 98-06	2,045,010,000	–	–	2,045,010,000	–
Total	2,469,620,000	–	(4,800,000)	2,464,820,000	–
CPI based interest-rate bonds					
Resolution 98-06	57,965,000	–	–	57,965,000	–
LIBOR based interest-rate bonds					
Resolution 98-06	700,000	–	–	700,000	–
Capital appreciation bonds					
Resolution 68-18	21,361,626	987,386	–	22,349,012	–
Resolution 98-06	102,859,416	5,104,585	–	107,964,001	–
Total	124,221,042	6,091,971	–	130,313,013	–
Total bonds outstanding	$ 4,778,696,042	$ 6,091,971	$ (190,225,000)	$ 4,594,563,013	$ (101,875,000)

9. Bonds Payable (continued)

	Balance at June 30, 2011	Issuance/ Accretions	Payments/ Amortization	Balance at June 30, 2012	Current Portion
Serial bonds					
Resolution 68-18	$ 777,265,000	$ –	$ (284,995,000)	$ 492,270,000	$ (14,495,000)
Resolution 98-06	1,800,800,000	–	(260,820,000)	1,540,280,000	(64,900,000)
Resolution 04-18	100,880,000	–	(7,240,000)	93,640,000	(7,540,000)
Total	2,678,945,000	–	(553,055,000)	2,126,190,000	(86,935,000)
Term bonds					
Resolution 68-18	562,130,000	–	(137,520,000)	424,610,000	–
Resolution 98-06	2,354,075,000	–	(309,065,000)	2,045,010,000	–
Total	2,916,205,000	–	(446,585,000)	2,469,620,000	–
CPI based interest-rate bonds					
Resolution 98-06	57,965,000	–	–	57,965,000	–
LIBOR based interest-rate bonds					
Resolution 98-06	389,060,000	–	(388,360,000)	700,000	–
Capital appreciation bonds					
Resolution 68-18	24,985,519	158,585	(3,782,478)	21,361,626	–
Resolution 98-06	97,996,643	4,862,773	–	102,859,416	–
Total	122,982,162	5,021,358	(3,782,478)	124,221,042	–
Total bonds outstanding	$ 6,165,157,162	$ 5,021,358	$ (1,391,782,478)	$ 4,778,696,042	$ (86,935,000)

The LIBOR based interest-rate bonds consisted of $389.0 million of the 2007 Revenue Refunding Bonds Series N, from which approximately $388.4 million were repurchased by the Authority through a “non-revolving” line of credit provided by Government Development Bank in the amount of $294.6 million approximately. This transaction resulted in a gain of $83.0 million for the year ended June 30, 2012. The repurchase portion of the 2007 Revenue Refunding Bonds Series N is held by the Authority; therefore, there is no outstanding balance at year end.

The Series N LIBOR Bonds bear interest from their date of delivery at a per annum rate for each period equal to (a) 67% of the Three-Month LIBOR Rate for such period plus (b) a per annum spread equal to 0.53%. In each case the LIBOR-based interest rate cannot exceed the maximum rate permitted under Puerto Rico law (currently 12%).

9. Bonds Payable (continued)

The Series 2008A LIBOR bonds (Bond Anticipation Note) matured in August 2009 and bore interest at the index of one-month LIBOR plus a spread of 225 base points not to exceed 12%. The maturity date was subsequently extended.

Interest on the Consumer Price Index (CPI) Bonds will be payable on the first business day of each month commencing on July 2, 2007. The CPI Rate, which will be reset monthly, is an interest rate based on changes in the CPI and cannot exceed the maximum rate permitted under the Puerto Rico law (currently 12%).

In connection with the issuance of the CPI, LIBOR bonds and USD SIFMA index based interest-rate bonds, the Authority has entered into interest-rate swap agreements. In general, the swap agreements provide that, subject to the terms thereof, the Authority will pay to the swap provider a fixed rate and the swap provider will pay to the Authority a floating rate based on the CPI or LIBOR rate, based on a notional amount equal to the principal amount of the CPI and LIBOR bonds outstanding. The purpose of the swap agreement is generally to convert the Authority's floating rate obligations with respect to the CPI and LIBOR bonds to fixed rate obligations. Refer to Note 19 for subsequent events related to derivatives.

On July 1, 2010, the Authority issued $253,670,000 of Highway Revenue Refunding Bonds (Series AA) and $44,275,000 of Transportation Revenue Refunding Bonds (Series H) to convert the interest rate mode from a term rate to a fixed rate. The Series AA which consists of $188,395,000 aggregate principal amount of Series AA-1 Bonds and $65,275,000 aggregate principal amount of Series AA-2 Bonds, bear interest at a fixed rate of 4.95% and 5.30%, respectively, and are due on July 1, 2026 and 2035, respectively. The Series H bears interest at a fixed rate of 5.45% and is due on July 1, 2035.

9. Bonds Payable (continued)

On June 24, 2013, the Authority paid $86 million aggregate principal amount of the outstanding balance of the Grant Anticipation Revenue Bonds, Series 2004 under its Resolution 04-18, adopted by the Authority on April 7, 2004. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2004 bonds. The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of $1.1 million. The difference, reported in the accompanying financial statements as a reduction from bonds payable, is charged through the year using straight line method.

Debt Maturities

The outstanding bonds as of June 30, 2013, require future payments of principal and interest as follows:

Fiscal years ended June 30,	Principal	Interest	Total
2014	$ 101,875,000	$ 245,570,336	$ 347,445,336
2015	130,497,458	254,251,013	384,748,471
2016	109,877,823	249,101,857	358,979,679
2017	113,373,285	245,105,284	358,478,569
2018	117,288,085	240,673,972	357,962,057
2019-2023	666,386,569	1,050,528,060	1,716,914,629
2024-2028	805,129,795	874,397,773	1,679,527,567
2029-2033	918,070,000	645,226,379	1,563,296,379
2034-2038	1,076,360,000	388,666,967	1,465,026,967
2039-2043	503,815,000	137,620,416	641,435,416
2044-2047	51,890,000	18,182,549	70,072,549
Total	$ 4,594,563,013	$ 4,349,324,605	$ 8,943,887,618

For variable interest-rate bonds included above, the debt service requirements and net swap payments were computed assuming current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary. Refer Note 19 for swaps cancellation disclosure.

9. Bonds Payable (continued)

Debt Refunding

The outstanding balances as of June 30, 2013 and 2012, of the bond issues defeased by the Authority are as follows:

	2013	2012
Series Y	**$ 437,680,000**	$ 437,680,000
Series D	**–**	559,540,000
Series K	**487,655,000**	487,655,000
Series G	**385,435,000**	386,205,000
Series J	**284,120,000**	284,120,000
Series H	**12,375,000**	43,930,000
Series E	**–**	12,005,000
Series L	**860,000**	1,690,000
Series M	**2,940,000**	2,940,000
Series I	**1,935,000**	2,335,000
Series AA	**194,380,000**	276,110,000
Series BB	**22,500,000**	22,570,000
Series CC	**9,895,000**	10,915,000
Series W	**61,075,000**	90,905,000
Series X	**49,890,000**	54,375,000
Series Z	**28,800,000**	28,800,000
Series 2004	**86,100,000**	–
Total outstanding defeased bond issued	**$ 2,065,640,000**	$ 2,701,775,000

10. Derivatives

In connection with the issuance of the CPI and LIBOR Bonds, the Authority has entered into interest-rate swap agreements. In general, the swap agreements provides that, subject to the terms thereof, the Authority will pay to the swap provider a fixed rate and the swap provider will pay to the Authority a floating rate based on the CPI or LIBOR Rate, based on a notional amount equal to the principal amount of the CPI and LIBOR Bonds outstanding. The purpose of the swap agreement is generally to convert the Authority's floating rate obligations with respect to the CPI and LIBOR Bonds to fixed rate obligations.

The Authority entered into pay fixed, receive variable interest-rate swap agreements in the following bonds: $389.0 million LIBOR based interest-rate bonds, $200.0 million USD SIFMA Swap Index based interest rate bonds, and $58.0 million CPI based interest-rate bonds. The counterparties are Citibank, N.A, (Citibank), Morgan Stanley Capital Services, Inc. (Morgan) and UBS Financial Services (UBS).

On September 22, 2011, the Authority repurchased approximately $388.4 million the LIBOR based interest-rate bonds of the 2007 Revenue Refunding Bonds Series N. Given this transaction, the Citibank derivative instrument hedging was terminated and the changes in fair value are recorded in the accompanying statement of revenues, expenses and changes in net position.

Based on the provision of GASB No. 53, the Authority has established a derivative liability and corresponding deferred unrealized loss on derivative instruments as of June 30, 2013 and 2012 of approximately $142.4 million and $10.6 million in 2013 and $224.8 million and $25.5 million in 2012, respectively.

10. Derivatives (continued)

Terms and Fair Values

Changes in fair value are recorded in the accompanying statement of net position in the deferred unrealized loss unless a termination event occurred.

The credit ratings of the counterparties, terms and fair value of the outstanding swaps as of June 30, 2013 and 2012, are as follows:

Counter Party	Rating (1)	Objective	Notional Amount	Effective Date	Fixed Rate	Variable Rate	Maturity Date	2013 Fair Value	2012 Fair Value
Cash Flow Hedges:									
Morgan	A2/A/A	Hedge of changes in cash flows on the Series N bonds	$ 57,965,000	3/6/2007	4.050% - 4.060%	Consumer price index rate plus a spread of 1.12%	7/1/2027 - 7/1/2028	**$ (2,240,507)**	$ (2,435,659)
Morgan	A2/A/A	Hedge of changes in cash flows on the Series A bonds	150,000,000	5/27/2008	4.371%	USD SIFMA swap index less a spread of .5%	7/1/2028	**(28,986,262)**	(41,539,498)
UBS	Aa3/A+/A+	Hedge of changes in cash flows on the Series A bonds	50,000,000	5/27/2008	4.371%	USD SIFMA swap index less a spread of .5%	7/1/2028	**(9,647,893)**	(13,921,829)
Investment Derivative Instruments:									
Citibank	A3/A/A+	Hedge of changes in cash flows on the Series N bonds	233,440,000	3/6/2007	4.106%	67% of LIBOR interest rate plus a spread of .53%	7/1/2045	**(61,888,570)**	(102,062,136)
Citibank	A3/A/A+	Hedge of changes in cash flows on the Series N bonds	155,620,000	3/6/2007	4.107%	67% of LIBOR interest rate plus a spread of .53%	7/1/2041	**(39,654,509)**	(64,818,158)
			$ 647,025,000					**$ (142,417,741)**	**$ (224,777,280)**

10. Derivatives (continued)

Terms and Fair Values (continued)

During fiscal years 2013 and 2012, the derivatives hedging instruments generated a gain of approximately $65.5 million and a loss of approximately $199.3 million, respectively, due to the increase and decrease in the fair value upon hedge termination. These decreases in value have been recorded as a loss in the accompanying statements of revenues, expenses and changes in net position.

The notional amounts of the swaps match the principal amount of the associated debt. The swap agreements contain scheduled reductions to outstanding notional amounts that follow scheduled reductions in the associated debt.

Fair Values

The fair value estimates reflected on the statement of net position are based on pertinent information available to management at the statement of net position date. Relevant market interest rates as of June 30, 2013, valuation date of the swaps, were lower than market interest rate on the effective date of the swaps. Consequently, as of the valuation date, the swaps had a negative fair value. The fair values listed in the above table represent the theoretical cost of terminating the swaps. The fair values were estimated using present value models that take into consideration several factors, including volatility. The fair values presented have not been settled for purposes of these financial statements since June 30, 2013, and current estimates of fair value may differ significantly from the amounts presented herein.

As of June 30, 2013 and 2012, the swaps had a negative fair value reported as a liability of approximately $142.4 million and $224.8 million, respectively. The negative fair value of the swaps may be countered by reduction in future net interest payments required on the variable-rate bonds, creating higher synthetic rates. Refer to Note 19 for subsequent events related to swaps cancellation.

Credit risk – Because all of the Authority's swaps rely upon the performance of the third parties who serve as swap counterparties, the Authority is exposed to credit risk, or the risk that the swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps, as shown in the columns labeled fair value in the table above. When the fair value is positive the counterparty owes the Authority, which creates a credit risk for the Authority. When the fair value is negative the Authority owes the counterparty and therefore the Authority does not possess credit risk. The Authority minimizes the credit risk in derivative instruments by entering into transactions with counterparties whose credit rating is acceptable under the investment policies of the Authority.

10. Derivatives (continued)

Fair Values (continued)

As of June 30, 2013, the Authority was not exposed to credit risk because the swaps had a negative fair value in the amount of the swaps' fair value. However, should interest rates change and the fair value of the swap become positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value.

Termination risk – The Authority's swap agreements do not contain any out-of-the-ordinary termination events that would expose it to significant termination risk. In keeping with market standards, the Authority or the counterparty may terminate each swap if the other party fails to perform under the terms of the contract. In addition, the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. If the swap is terminated, the variable-rate bond would no longer carry a fixed interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value. Refer to Note 19 for subsequent events related to swaps cancellation.

Rollover risk – the Authority is not exposed to rollover risk since the due date of the swaps is the same due date of the related bonds.

On November 16, 2010, the Authority amended the critical terms of the hedging swap with Morgan Stanley (with notional amount of $150.0 million) and the hedging swap with UBS (with notional amount of $50.0 million), which represents termination of hedging accounting, based on GASB No. 53. Since the fixed rate of the new swaps is higher than the current at-the-market rate for similar swaps, the swaps are considered off-market swaps. The fair value of the new swaps now represents an imputed debt since no cash was involved in the transaction. This imputed debt needs to be amortized over the life of the new swaps. As a result, the deferral amounts of $34.2 million, which equal the fair value of the old swaps at termination date, were reported as investment revenue (decrease in fair value upon hedge termination) in the Authority's statement of revenues, expenses and changes in net position for the years ended June 30, 2011. Amortization of the imputed debt amounting for the years ended June 30, 2013 and 2012 amounted to approximately $2.4 million and was included as interest expense in the accompanying statements of revenues, expenses and changes in net position.

10. Derivatives (continued)

Fair Values (continued)

The table that follows represents debt service payments on certain variable-rate bonds and the net payments on associated hedging derivative instruments as of June 30, 2013. Although interest rates on variable rate debt and the current reference rates of hedging derivative instruments change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rates of hedging derivative instruments on June 30, 2013, will remain the same for their term.

(In thousands)	**Variable-Rate Bonds**		**Hedging Derivatives Instruments, Net**	
Year Ending June 30,	**Principal**	**Interest**		**Total**
2014	$ –	$ 3,200	$ 7,512	$ 10,712
2015	–	3,200	7,512	10,712
2016	–	3,200	7,512	10,712
2017	–	3,200	7,512	10,712
2018	–	3,200	7,512	10,712
2019-2023	69,095	15,023	31,346	115,464
2024-2028	135,030	11,220	12,390	158,640
2029-2033	53,840	97	–	53,937
Total	$ 257,965	$ 42,340	$ 81,296	$ 381,601

11. Borrowings under Lines of Credit

At June 30, 2013 and 2012, lines of credit consist of the following:

Description	2013	2012
Non-revolving line of credit of up to $131,907,924 bearing interest at the Government Development Bank (GDB) cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2013 and 2012, respectively), which expired on January 31, 2014.	**$ 122,158,602**	$ 122,113,000
Non-revolving line of credit of up to $151,231,757 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2013 and 2012, respectively), which expired on January 31, 2014.	**140,052,283**	140,000,000
Non-revolving line of credit of up to $78,300,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2013 and 2012, respectively), which expired on January 31, 2014.	**78,339,046**	78,300,000
Non-revolving line of credit of up to $477,624,333 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 275 basis points (6.00% at June 30, 2013 and 2012, respectively), which expired on January 31, 2014.	**400,000,000**	400,000,000
Non-revolving line of credit of up to $129,265,495 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.0% and 4.75% at June 30, 2013 and 2012, respectively), which expired on January 31, 2014.	**111,000,000**	111,000,000
Non-revolving line of credit of up to $43,662,948 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.0 % and 4.75% at June 30, 2013 and 2012, respectively), which expired on January 31, 2014.	**37,900,000**	37,900,000

(continued)

11. Borrowings under Lines of Credit (continued)

Description	2013	2012
Revolving line of credit of up to $20,000,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transaction plus a margin of 125 basis points (6.00% at June 30, 2013 and 2012, respectively), which expired on January 31, 2014.	**16,422,152**	16,413,399
Non-revolving line of credit of up to $3,234,391 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2013 and 2012, respectively), which expired on January 31, 2014.	**2,686,850**	2,685,533
Non-revolving line of credit of up to $67,119,594 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2013 and 2012, respectively), which expired on January 31, 2014.	**62,027,260**	43,000,000
Non-revolving line of credit of up to $ 107,011,800 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2013), which expired on January 31, 2014.	**40,423,571**	65,297,028
Non-revolving line of credit of up to $206,213,757 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2013), which expired on August 27, 2013.	**206,213,757**	206,213,757
Non-revolving line of credit of up to $40,539,865 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2013 and 2012), respectively, which expired on August 27, 2013.	**40,539,865**	40,539,865

(continued)

11. Borrowings under Lines of Credit (continued)

Description	2013	2012
Non-revolving line of credit of up to $87,174,596 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2013 and 2012), respectively, which expired on August 27, 2013.	**87,174,596**	79,739,477
Non-revolving line of credit of up to $ 7,350,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2013), which expired on August 27, 2013.	**3,039,637**	460,048
Non-revolving line of credit of up to $16,252,489 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2013 and 2012), respectively, which expired on August 27, 2013.	**16,252,489**	16,252,489
Non-revolving line of credit of up to $24,000,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2013 and 2012), respectively, which expired on August 27, 2013.	**23,606,255**	11,865,634
Non-revolving line of credit of up to $21,791,245 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2013 and 2012), respectively, which expired on August 27, 2013.	**21,791,245**	21,791,245
Non-revolving line of credit of up to $ 428,826,447 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2013 and 2012), which expired on January 31, 2014.	**294,159,069**	294,629,534

(continued)

11. Borrowings under Lines of Credit (continued)

Description	2013	2012
Non-revolving line of credit of up to $185,281,724 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2013 and 2012), which expired on August 31, 2013.	**166,745,137**	165,500,128
Non-revolving line of credit of up to $ 49,325,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2013 and 2012), which expired on January 31, 2014.	**49,325,000**	28,262,146
Non-revolving line of credit of up to $ 12,440,091 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2013 and 2012), which expired on August 31, 2013.	**4,556,604**	–
Non-revolving line of credit of up to $94,400,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2013), which expired on January 31, 2014.	**92,086,490**	–
Non-revolving line of credit of up to $ 33,960,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2013), which expired on January 31, 2014.	**4,459,781**	–
Non-revolving line of credit of up to $ 33,189,996 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2013), which expired on January 31, 2014.	**24,170,199**	–
Total	**$2,045,129,887**	$1,881,963,283

12. Retirement Plan

Substantially all the Authority's employees participate in the Retirement System of the Commonwealth of Puerto Rico (the System), a cost-sharing multi-employer defined benefit pension plan. Payroll for employees covered by the System for the years ended June 30, 2013 and 2012, were approximately $72.1 million and $74.0 million, respectively.

All Authority's employees, who at the time of employment are 55 years old or less, are eligible to participate in the System. Employees who retire at or after age 55 with 25 years of credited service or age 58 with 10 years of credited service are entitled to a retirement benefit, payable each month for life, computed based on a benefit rate set forth by Commonwealth statute. The System also provides death and disability benefits established by Commonwealth statute. Commonwealth legislation requires employees to contribute 5.775% of the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. The Authority is required by the same statute to contribute 10.275% of the participant's gross salary.

On September 24, 1999, an amendment to Act No. 447 of May 1, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Employees joining the Authority on or after January 1, 2001, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 years for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a 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 current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age.

The annuity will be based on a formula which 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. 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.

12. Retirement Plan (continued)

Total employer contributions for the years ended June 30, 2013 and 2012, were approximately as follows:

	2013	2012
Traditional Plan	**$ 2,953,000**	$ 3,215,000
System 2000	**$ 3,161,200**	$ 3,029,000
Act No. 70	**$ 1,619,000**	$ 1,302,000

On April 4, 2013, by means of Act No. 3, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted for the purpose of establishing a new pension program effective July 1, 2013 for all active participants. Under the Act 3, all active participants at July 1, 2013 under Act No. 447 will join a "hybrid" program, a combination of defined benefits and defined contribution program.

All active participants under Act No. 447 will preserve benefits accrued as of June 30, 2013. The annuity for these participants will be computed based on the average compensation multiplied by the credited years of service as of June 30, 2013 and contributions made to the new defined contribution program after June 30, 2013. For participants under System 2000, all contributions made before June 30, 2013 will be transferred to the new defined contribution program.

To qualify for an annuity under the new "Hybrid Program", participants have to meet two conditions: five years of credited service and $10,000 or more in contributions made under this program. The annuity will be based on a distribution of all contributions made, divided by a factor of life expectancy of the participant at the age of retirement.

Effective July 1, 2013, all participants will contribute a minimum of 10% with no maximum restriction of their gross monthly salary to the program. Commencing fiscal year 2014, the Authority will pay contribution of 12.275% of the employee's gross monthly salary and will increase 1% per year until fiscal year 2016 and 1.25% per year until fiscal year 2021.

The new pension program also establishes a new age for retirement as follows:

12. Retirement Plan (continued)

For participants who entered the program before April 1, 1990 Act No. 447:

Age at June 30, 2013	Age under new program
57 years or more	59 years
56 years	60 years
55 years or less	61 years

For participants who entered the program after April 1, 1990 through December 31, 1999 (Act No. 1):

Age at June 30, 2013	Age under new program
65 years or less	65 years

For participants who entered the program after January 1, 2000 through June 30, 2013 (System 2000):

Age at June 30, 2013	Age under new program
59 years	61 years
58 years	62 years
57 years	63 years
56 years	64 years
55 years or less	65 years

For participants who entered in to the program after July 1, 2013 (Act No. 3) the retirement age will be sixty-seven (67) years.

Additional information on the Retirement System 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, Puerto Rico 00940.

The Authority has a labor union contract that provides all union employees who work for the Authority upon retirement with the following lump-sum bonus payable at the retirement date computed as follows:

Years of Service	**Amount**
10-15 years	$100 per year of service
16-30	$150 per year of service

In addition, management employees have similar benefits under the same conditions granted to labor union personnel, as detailed above.

13. Other Post-Employment Benefits

The Authority has implemented GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions* (GASB 45). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense/expenditures and related liabilities (assets), note 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 45 requires state and local government's 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 plan.

Plan Description

The Authority agreed to provide medical, pharmacy, dental and vision medical insurance coverage to eligible retirees, its spouses and dependents, for a period of two years after retirement as a single employer defined benefit Other Post-Employment Benefits Plan (the Plan) and the voluntary termination benefits as per Act No. 70. Under the Act No. 70, the Authority agreed to pay the pension benefit until the member reaches a specified age and/or service amount. 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 Plan members' employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement.

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.

13. Other Post-Employment Benefits (continued)

Annual OPEB Cost and Net OPEB (Asset) Obligation

The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Authority has engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement 45 for employers in the Plan 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 components of the Authority's annual OPEB cost for the years ended June 30, 2013 and 2012, the amount actually contributed to the plan, and the Authority's net OPEB obligation to the Plan at June 30:

	2013	2012
Annual required contribution (ARC)	**$ 4,650,460**	$ 4,508,967
Adjustment to annual required contribution	**88,576**	(12,851)
Annual OPEB cost (AOC)	**4,739,036**	4,496,116
Contribution made	**5,336,900**	6,202,800
(Decrease) increase in net OPEB obligation	**(597,864)**	(1,706,684)
Net OPEB (asset) obligation at beginning of year	**(1,452,244)**	254,440
Net OPEB (asset) obligation at end of year	**$ (2,050,108)**	$ (1,452,244)

The Authority's annual OPEB cost, percentage of annual OPEB cost contribution to the plan, and net OPEB (asset) obligation for the year ended June 30, 2013, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB (Asset)/Obligation
2013	$ 4,739,000	112.6%	$ (2,050,000)
2012	4,496,000	138.0%	(1,452,000)
2011	4,432,000	95.7%	254,000
2010	753,000	110.5%	65,000

13. Other Post-Employment Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

As of June 30, 2013 and 2012, the actuarial accrued liability for benefits was $48,781,000 and $49,487,000, respectively, all of which were unfunded. The covered payroll (annual payroll of active employees covered by the plan) were approximately $94,172,000 and $84,158,000 during the years ended June 30, 2013 and 2012, respectively, and the ratio of the unfunded actuarial accrued liability to the covered payroll were approximately 51.8% and 58.0% as of June 30, 2013 and 2012, respectively.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision 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 each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to the point. 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, 2010 and the *Projected Unit Credit Cost Method* was used. The actuarial assumptions were based on a set of assumptions modified to the Authority.

Turnover rates were taken from a standard actuary table, T-5. This table was chosen so as to match the Authority historical turnover experience. Retirement rates were also based on recent Authority experience, but are less reliable due to the size of the current retiree group and the relative newness of the program.

A discount rate of 4% was used. This rate is the best actuarial estimate of expected long-term experience and is in accordance with guidelines for selection of these rates under GASB 45. The healthcare trend rates are based on the actuarial knowledge of the general healthcare environment and the specific coverage offered by the Authority.

14. Voluntary Termination Benefits

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Authority. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 years to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee' salary, as defined. In this early retirement benefit program, the Authority will make the employee and the employer contributions to the Retirement System and pay the corresponding pension obligation until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. For eligible employees that choose the economic incentives and have at least 30 years of credited service in the Retirement System and the age for retirement or have the age for retirement, the Authority will make the employee and the employer contributions to the Retirement System for a five-year period.

Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Authority.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Authority's financial statements of a liability of $88.2 million and $81.0 million in the statements of net position as of June 30, 2013 and 2012, and a charge of $14.3 million and $11.5 million in the statements of revenues, expenses and changes in net position for the years ended June 30, 2013 and 2012, respectively. At June 30, 2013 and 2012, unpaid long-term benefits granted on this program was discounted between 2.9% and 1.73%, respectively, for early retirement benefits that will be provided to eligible employees that have completed between 15 years to 29 years of credited service in the Retirement System and between .80% and 1.52% and .51% and .71%, respectively, for employee and the employer contributions to the Retirement System to eligible employees that have 30 years of credited service in the Retirement System and the age for retirement or have the age for retirement.

15. Related Party Transactions

Operating administrative and general expenses during the fiscal years ended June 30, 2013 and 2012 included approximately $15.2 million and $10.8 million, respectively, of charges from Puerto Rico Electric Power Authority (PREPA), a component unit of the Commonwealth.

As of June 30, 2013 and 2012, the Authority had approximately $42.5 million and $33.4 million, respectively, of receivables from the Commonwealth and its component units, which were reported in accounts receivable in the accompanying basic financial statements.

Over the years, GDB, as fiscal agent and bank of the Commonwealth, had extended lines of credit to the Authority in order to finance capital improvement projects and operational deficits. As of June 30, 2013 and 2012, the Authority had an outstanding balance of approximately $2,045.1 million and $1,882.0 million, respectively, under these lines of credit.

As of June 30, 2013 and 2012, the Authority has amounts due to other governmental entities for operating leases and other agreements of approximately $38.8 million and $37.0 million, respectively.

16. Commitments and Contingent Liabilities

Construction

As of June 30, 2013 and 2012, the Authority had commitments of approximately $642.2 million and $734.0 million, respectively, related to construction contracts.

16. Commitments and Contingent Liabilities (continued)

Leases

The Authority has various non-cancelable operating leases for office space with the Puerto Rico Public Buildings Authority and Puerto Rico Port Authority, which are related parties, and other lessors. These leases have an initial term of three years or more, the latest of which expires in June 2090, and can be renewed at end of lease term for an additional year. The rental expense for the years ended June 30, 2013 and 2012, was approximately $1,734,897 and $1,262,819, respectively. Future rental payments as of June 30, 2013 under these leases are as follows:

Year ending June 30,	
2014	$ 2,118,000
2015	2,118,000
2016	2,118,000
2017	1,818,000
2018	1,818,000
2019-2023	5,615,000
Thereafter	1,525,000
	$ 17,130,000

Litigation

The Authority is defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. These are generally either fully or partially covered by insurance. The contractors are required, under the terms of the construction agreements, to carry adequate public liability insurance and to hold harmless the Authority from lawsuits brought on account of damages relating to the construction of the projects.

As of June 30, 2013 and 2012, the Authority, based on legal advice, has recorded a liability of approximately $139.2 million and $70.8 million, respectively, for probable losses on those claims not fully covered by insurance. In the opinion of legal counsel, any liability in excess of the recorded liability that may arise from such claims would not be significant to the Authority's financial position or results of operations.

16. Commitments and Contingent Liabilities (continued)

Special Facility Revenue Bonds

On December 20, 1992, the Authority and Autopistas de Puerto Rico y Compañía S.E. (Autopistas) entered into a service concession agreement (the Concession Agreement), amended in 1992, and again in 2004, for the design, construction, operation and maintenance of the Teodoro Moscoso Bridge (the Bridge), a toll bridge, which traverses the San José Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Bridge and commenced operating the Bridge on February 23, 1994. The initial term of this agreement is 35 years, expiring on April 3, 2027.On September 9, 2009, the agreement was amended to extend its term to 50 years (2044).

In March 1992, the Authority issued Special Facility Revenue Bonds, 1992 Series A, B and C amounting to approximately $117.0 million for the purpose of facilitating the construction of the Bridge. The proceeds from the sale of the bonds were transferred by the Authority to Autopistas, the borrower, pursuant to a loan agreement (the Loan Agreement) by and between Autopistas and the Authority.

On October 30, 2003, the Authority issued Special Facility Revenue Refunding Bonds, 2004 Series A amounting to approximately $153.0 million for the purpose of refunding the Authority's Special Facility Revenue Bonds, 1992 Series A, B, and C, which were issued to fund the construction of the Bridge, and to pay the cost of issuance of the bonds. The proceeds from the sale of the bonds were transferred by the Authority to Autopistas, pursuant to a new loan agreement by and between Autopistas and the Authority.

Under certain circumstances, the Concession Agreement may be terminated and the Authority is then obligated to assume all of the Autopistas's obligations to pay principal of, and interest on, the bonds outstanding, which pursuant to the Loan Agreement will be paid from the net revenues of the use and operation of the Bridge. The Authority does not currently expect the Concession Agreement to terminate. The outstanding bonds (including accrued interest) at June 30, 2013 and 2012, amounted to approximately $157 million and $159.0 million, respectively.

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.

17. Operation and Maintenance of Urban Train System

The Authority entered into a System and Test Track Turnkey Contract (STTT Contract) with Siemens Transportation Partnership Puerto Rico, S.E., Juan R. Requena y Asociados, and Alternate Concepts, Inc. (all together known as "Siemens") for the purpose of operating and maintaining the Tren Urbano. During 2005, the STTT Contract became effective upon the execution of the contract for an initial term of five years with an option by the Authority to extend the term for an additional five years. The compensation is based on a schedule included in the master agreement which approximates $4.0 million on a monthly basis. The total annual operation and maintenance cost, including cost of insurance and electricity, for fiscal year 2013 and 2012, was approximately $75.1 million and $76.4 million, respectively.

Costs incurred in connection with the integrated transportation system financed in part by the Authority during the years ended June 30, 2013 and 2012, amounted to approximately $11.1 million and $27.0 million, respectively.

As authorized by Resolution 2007-40, the Authority contracted the Metropolitan Bus Authority (AMA), a public corporation of the Commonwealth of Puerto Rico, to operate the service known as Metrobus II which consists of a feeder bus service of 21 AMA routes that were changed to service the Urban Train stations. This feeder bus service is considered a key strategy for increasing rail ridership.

Metrobus I service consists of two express routes, Metrobus Route I and Metrobus Expreso, which provides service between the University of Puerto Rico and Old San Juan. The Authority contracted First Transit to operate this service. The service is provided seven days a week using 24 buses owned by First Transit. The existing service agreement with First Transit expires on September 30, 2013.

18. Other Operational Income

Other income for the years ended June 30, 2013 and 2012, consisted of:

	2013	2012
Impact fee	**$ 2,277,449**	$ 1,696,195
Electronic toll label sales and fines fees	**18,581,019**	13,667,176
Metrobus fare fees	**880,755**	640,874
Bad debt recovery, rent and others	**16,479,217**	20,018,490
Total	**$ 38,218,440**	$ 36,022,735

19. Subsequent Events

The aforementioned lines of credit expiring on August 31, 2013 and January 31, 2014, were extended for one year as approved by GDB's Board of Directors.

On June 25, 2013, the Act No. 30 was created by the Commonwealth of Puerto Rico to assign the Authority all the revenues generated through with the vehicle license fee.

On June 25, 2013, the Act No. 31 was created by the Commonwealth of Puerto Rico to increase the petroleum tax revenues from $3.00 to $9.25 per petroleum barrel and the assignment of $20.0 million annually from cigarettes taxes.

On August 16, 2013, the Authority entered into a new agreement with GDB for the amount of $10.5 million to decrease the $33.9 million nonrevolving line of credit agreed on August 15, 2012, with the same loan terms and an extension in the maturity date until January 31, 2014.

On August 27, 2013, the Authority entered into a new agreement with GDB for the amount of $61.8 million which expired on February 28, 2014.

On August 29, 2013, the Authority issued 2013A Bond Anticipation Notes (the "Series A Notes") amounting to $400.0 million purchased by a financial institution for the repayment of various Authority's loans with GDB, including the corresponding fee and costs of issuance.

On October 8, 2013, the Authority entered into a new agreement with GDB for the amount of $2.8 million to increase the $24.0 million nonrevolving line of credit agreed on August 27, 2010, with the same loan terms and an extension in the maturity date until August 31, 2014.

19. Subsequent Events (continued)

On January 16, 2014, the Authority entered into a new agreement with GDB for the amount of $15.0 million which expires on June 30, 2015.

On February 4, 2014, Standard & Poor's Ratings Services ("S&P") lowered its rating on the general obligation bonds of the Commonwealth of Puerto Rico (the Commonwealth) from "BBB-" to "BB+," which is a non-investment grade rating. S&P also lowered its rating on the bonds of GDB to "BB," one notch below the Commonwealth's general obligation rating, and lowered its rating on the bonds of several other Commonwealth issuers. S&P kept all of these ratings on "CreditWatch" with negative implications, and noted that further downgrades are possible.

On February 5, 2014, the Authority entered into a new agreement with GDB for the amount of $40.0 million to increase the $107.0 million nonrevolving line of credit agreed on December 21, 2012, with the same loan terms and an extension in the maturity date until January 31, 2015.

On February 7, 2014, Moody's Investors Service ("Moody's") lowered its rating on the general obligation bonds of the Commonwealth two notches, from "Baa3" to "Ba2", which is a non-investment grade rating. Moody's also lowered its rating on the bonds of several other Commonwealth issuers to "Ba2," including GDB. Moody's maintained a "negative" outlook on all these bonds.

On February 10, 2014, Fitch Ratings ("Fitch") lowered its rating on the general obligation bonds of the Commonwealth by two notches from "BBB-" to "BB", which is a non -investment grade rating. Fitch also lowered its ratings on the bonds of several other Commonwealth issuers. Fitch removed the downgraded bonds from Rating Watch negative but maintained its rating outlook negative on these bonds.

The following table sets forth the ratings of the Authority after giving effect to the recent downgrades:

Highway Revenue Bonds	BB+Ba1
Transportation Revenue Bonds	BB+ Ba2
Subordinate Transportation Revenue Bonds	BB+ Baa3

19. Subsequent Events (continued)

These credit rating downgrades could result in the acceleration of certain Authority's obligations or the termination of certain credit and liquidity facilities that support certain Authority obligations. The downgrades also resulted in additional collateral postings and termination events under certain derivatives agreements.

The most significant of such maturing, accelerable or terminable obligations of the Authority are listed below.

- Bond anticipation notes in an aggregate principal amount of $400.0 million, which were directly purchased by a financial institution, and which matures on September 1, 2015. On February 12, 2014, the Authority amended the documents to its $400.0 million bond anticipation notes, limiting the holder's right to accelerate and waiving covenant defaults due to the downgrades. Principal set-asides will continue as originally scheduled.

- Variable rate demand obligations in an aggregate principal amount of approximately $200.0 million supported by a liquidity facility that expires on May 27, 2014, but that could be subject to acceleration as a result of the downgrade. The provider of the liquidity facility may cause the mandatory tender of the bonds and, thereafter, require the immediate repayment of the amounts disbursed under the liquidity facility.

In addition, the interest rates on certain bonds and notes will increase as a result of the credit downgrades, to rates ranging from 10% to 12.0%. In addition to the possible acceleration of debt instruments described above, the credit rating downgrades have triggered "additional termination events" under interest rate exchange ("swap") and other derivative agreements relating to outstanding bonds and notes of the Authority, making them now subject to termination at the option of the applicable counterparty.

As a result of the credit rating downgrades, the Authority has posted approximately $70 million in additional collateral, which was funded through GDB. In addition, as a result of the downgrades, almost all of the interest rate exchange agreements are now subject to termination at the option of the applicable counterparty. If any such agreements were to be terminated, the Authority, as applicable, would then be subject to variable rate interest risk on any corresponding variable rate indebtedness. Any collateral posted at the time of the terminations could be used to effectively offset a like-amount of liquidity needed to fund the termination payments.

Between February 19 and February 25, 2014, the Authority terminated all its outstanding swap agreements for a total termination payment of $112 million.

19. Subsequent Events (continued)

On March 12, 2014, the Act No. 74 of June 23, 1965 was amended to create in the Authority a Board of Directors composed by seven members which have the power to approve, amend and revoke any regulations to perform its duties and to control the capital and operational budget.

20. Fiscal Condition

The Authority faces a number of business challenges that have been exacerbated by the Commonwealth's economic recession and the fact that the Authority has not increased tolls to its customers at sufficient levels to offset the effects of its rising costs. Its principal challenges, some of which are interrelated, are: (i) reduction of operating costs; (ii) increase in the use of federal grants; and (iii) improving its liquidity. The Authority is committed to take all necessary measures to ensure it achieves a healthy financial condition.

21. Adoption of Accounting Principle

During the year ended July 1, 2012, the Authority adopted GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The adoption of the accounting principle is reported through retroactive application. This implementation resulted in an increase of the net position of $5.4 million as of June 30, 2012 related to the recognition of the deferred inflow of resources related with the service concession agreement of the Bridge and the book value of the Toll Roads under service concession agreement. We have restated the opening June 30, 2012 net position, appearing herein, from amounts previously reported to present retroactive application of the change in accounting principle. The table below summarizes the effect of the restatement on previously reported net position as of July 1, 2011 and June 30, 2012:

2011

Net position as of beginning of the year, July 1, 2011	$ 3,742,945,748
Effects of Adoption:	
Highways and bridge under service concession agreement, net	72,270,000
Deferred Inflow of resources service concession agreeement	(72,270,000)
Net position as of July 1,2011 Restated	$ 3,742,945,748

21. Adoption of Accounting Principle (continued)

	As reported	Effects of Adoption (Bridge)	Effects of Adoption (Highways)	Net Position
Net position as of beginning of the year, July 1, 2011	$ 3,742,945,748	$ –	$ –	$ 3,742,945,748
Effects of Adoption:				
Highways and bridge under service concession agreement, net	–	72,270,000	–	72,270,000
Deferred inflow of resources service concession agreeement	–	(72,270,000)	–	(72,270,000)
Net position as of July 1,2011, *restated*	$ 3,742,945,748	$ –	$ –	$ 3,742,945,748

2012

Net position as of end of the year, June 30, 2012	$ 3,380,408,073
Effects of Adoption in Statement of Net Position:	
Highways and bridge under service concession agreement, net	75,521,101
Deferred Inflow of resources service concession agreeement	(70,080,000)
Net position	5,441,101
Net position at beginning of year, July 1, 2012, *as restated*	$ 3,385,849,174

Net position as of end of the year, June 30, 2012	$ 3,380,408,073
Effects of Adoption in Statement of Revenues, Expenses and Changes in Net Position:	
Concession Service Revenue	2,190,000
Depreciation and amortization (Bridge)	3,251,101
Change in Net position	5,441,101
Net position at beginning of year, July 1, 2012, *as restated*	$ 3,385,849,174

The table below summarizes the effect of the adoption of GASB No.60 on the line items affected on previously reported financial statements:

Statement of Net Position as of June 30, 2012

	As reported	Effects of Adoption (Bridge)	Effects of Adoption (Highways)	As restated
Effects of Adoption:				
Highways and bridge under service concession agreement, net	$ 85,298,964	$ 70,080,000	$ 5,441,101	$ 160,820,065
Deferred Inflow of resources service concession agreeement	(1,114,857,000)	(70,080,000)	–	(1,184,937,000)
Net position	3,380,408,073		5,441,101	3,385,849,174

Statement of Revenues, Expenses and Changes in Net Position for the Year Ended June 30, 2012

	As reported	Effects of Adoption (Bridge)	Effects of Adoption (Highways)	As restated
Effects of Adoption:				
Concession Service Revenue	$ (30,234,138)	$ (2,190,000)	$ –	$ (32,424,138)
Depreciation and amortization (Bridge)	441,466,163	2,190,000	(5,441,101)	438,215,062

Required Supplementary Information

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Funding Progress for Retiree Health Plan

Year Ended June 30, 2013
(In thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAL Percentage of Covered Payroll [(b)-(a)]/(c)]
July 1, 2012	$ –	$ 48,781	$ 48,781	0.0%	$ 94,172	51.8%
July 1, 2010	–	49,487	49,487	0.0%	84,158	58.0%
June 30, 2009	–	7,185	7,185	0.0%	91,396	7.9%

Other Information (Unaudited)

Schedule of Revenues and Expenses by Segment (Unaudited)

Year Ended June 30, 2013
(In thousands)

	Toll	ATI	Non-Toll	Total
Operating revenues:				
Toll fares	$ 121,002	$ –	$ –	$ 121,002
Train fares	–	8,042	–	8,042
Other revenues	26,517	1,110	(2,387)	25,240
Concession agreement	30,594	–	–	30,594
Total operating revenues	178,113	9,152	(2,387)	184,878
Operating expenses:				
Salaries and related benefits	11,724	1,538	14,137	27,399
Post-employments benefits	2,544	155	11,661	14,360
Toll highways administration and maintenance	46,621	–	–	46,621
Train operating and maintenance costs	–	56,425	–	56,425
Integrated transportation system	–	11,732	–	11,732
Repairs and maintenance of roads and bridges	12,137	4,375	90,427	106,939
Utilities	4,161	11,132	–	15,293
Other	8,195	6,936	20,478	35,609
Total operating expenses	85,382	92,293	136,703	314,378
Operating loss before depreciation and amortization	92,731	(83,141)	(139,090)	(129,500)
Depreciation and amortization	60,921	48,388	328,841	438,150
Operating loss	31,810	(131,529)	(467,931)	(567,650)
Non-operating revenues (expenses):				
Gasoline, diesel, oil and petroleum tax revenues	–	–	258,424	258,424
Vehicle license fee	–	–	32,842	32,842
Other revenues	346	399	586	1,331
Interest on bonds and lines of credit	(104,596)	(120,688)	(177,009)	(402,293)
Investment income:				
Interest income	6,037	12,728	23,660	42,425
Decrease in fair value upon hedge termination	17,040	19,661	28,836	65,537
Gain on extinguishment of debt	–	–	–	–
Total non-operating expenses, net	(81,173)	(87,900)	167,339	(1,734)
Loss before capital contributions	(49,363)	(219,429)	(300,592)	(569,384)
Capital contributions	173,617	15,458	239,855	428,930
Change in net assets	$ 124,254	$ (203,971)	$ (60,737)	$ (140,454)

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