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Certified Public Accountants & Consultants

Puerto Rico Infrastructure Financing Authority

A Component Unit of the Commonwealth of Puerto Rico

Basic Financial Statements and Required Supplementary Information

June 30, 2007



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

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of Puerto Rico Infrastructure Financing Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Puerto Rico Infrastructure Financing Authority as of June 30, 2007, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Authority's basic financial statements. The supplemental schedules of Special Obligation Bonds, Series 2000 A and B, Schedule A, Special Tax Revenue Bonds, Series 2005 A, B and C, Schedule B, and Special Tax Revenue Bonds, Series 2006, Schedule C, as described in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These supplemental schedules are the responsibility of the Authority's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

San Juan, Puerto Rico
October 24, 2007.

A handwritten signature in cursive script that reads "RSM ROC & Company".

Stamp No. 2265594 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the original of this report.

PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY
A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO



MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007

This Management's Discussion and Analysis (MD&A) of Puerto Rico Infrastructure Financing Authority (the Authority) is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, (c) identify changes in the Authority's financial position, and (d) identify individual issues or concerns.

Since the MD&A is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the Authority's financial statements, which follow this section.

1) Financial highlights:

- The Authority's net assets increased by \$46,013,622 or 60% as of June 30, 2007. This change is mostly related to the increases on the contribution from the Commonwealth (2006) from \$70 millions to \$90 millions (2007). In addition during this fiscal year 2007 the Authority received an additional contribution of \$8.3 millions from the Department of Recreation and Sports. The financial position of the Authority improved during the year ended June 30, 2007 since the net assets increased.
- The Authority's net change from governmental activities increased by \$329,031,640 from (\$283,080,018) in June 30, 2006 to \$46,013,622 in June 30, 2007.
- The General Fund, the primary operating fund, and the Capital Projects Fund reflected on a modified accrual basis, an increase (decrease) in fund balance of (\$685,131) and \$369,465,355, respectively. Debt service and permanent funds reflected an increase of \$9,461,420 and \$6,430,682, respectively.

2) Overview of the financial statements:

The financial statements consist of two parts - management's discussion and analysis (this section) and the basic financial statements, including the notes to the basic financial statements. The basic financial statements include two kinds of statements that present different views of the Authority:

- The first two statements are government-wide financial statements that provide information about the Authority's overall financial position and results of operations. These statements, which are presented on an accrual basis of accounting, consist of the statement of net assets and the statement of activities.
- The remaining statements are fund financial statements of the Authority's four major governmental funds (general, capital projects, debt service, and permanent funds), for which activities are funded primarily from Commonwealth of Puerto Rico appropriations and investment income for which the Authority follows a modified accrual basis of accounting.
- The basic financial statements also include a section of notes to basic financial statements that explains some of the information in the government-wide and fund financial statements and provides more detailed data.

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The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of these statements.

The government-wide financial statements report information about the Authority as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the Authority's assets and liabilities. All the current year's revenue and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The fund financial statements provide more detailed information about the Authority's major funds and not the Authority as a whole. All the Authority's funds are governmental funds. These funds statements focus on how cash and other financial assets flowing into the funds have been used.

3) Financial analysis of the Authority as a whole (Government-wide financial analysis):

The government-wide financial statements were designed so that the user could determine whether the Authority is in a better or worse financial condition from the prior year. The beginning net asset components balances have been restated to conform to current year financial statements presentation.

	June 30, 2007	June 30, 2006	Increase (Decrease)
Current and other assets	\$ 2,214,714,845	\$ 1,814,556,237	\$ 400,158,608
Capital assets	1,228,506,764	1,053,078,652	175,428,112
Total assets	3,443,221,609	2,867,634,889	575,586,720
Current liabilities	185,321,600	177,876,094	7,445,506
Non-current liabilities	3,135,525,423	2,613,397,831	522,127,592
Total liabilities	3,320,847,023	2,791,273,925	529,573,098
Net assets:			
Invested in capital assets	1,228,506,764	1,053,078,652	175,428,112
Restricted	1,999,761,030	1,578,820,197	420,940,833
Unrestricted	(3,105,893,208)	(2,555,537,885)	(550,355,323)
Total net assets	\$ 122,374,586	\$ 76,360,964	\$ 46,013,622

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As can be seen from the table in the previous page, the Authority's total net assets as of June 30, 2007, increased by \$46,013,622 or 60%, when compared to total net assets as of June 30, 2006.

The assets increased by \$575,586,720 or 20% when it is compared with June 30, 2006. Current and other assets increased by \$400,158,608. This is related to an increase of \$469,770,000 in the bond issuance in September 28, 2006.

For the year ended June, 30, 2007, the increase of \$175,428,112 in capital assets is mostly attributed to the net change of the following project:

Description	Amount
Port of the Americas	\$ 60,114,576
Education	16,933,991
Aqueduct and Sewer Projects	34,693,829
Edifications	14,288,610
Recreational and Sports	31,854,659
Arts and Entertainment	12,212,722
Transportation	9,701,359
Less : Projects transferred	(4,458,972)
Plus : Increase in depreciable assets	<u>87,338</u>
 Change in Construction Work in Process	 <u>\$ 175,428,112</u>

The total liabilities of the Authority increased by \$529,573,098 or 18%. This is mainly related to an increase of \$469,770,000 in the Bond issuance in September 28, 2006.

The following schedule compare revenues and expenses of the Authority for the years ended June 30, 2007 and 2006:

	Year ended June 30, 2007	Year ended June 30, 2006	Increase (Decrease)
Revenues:			
Program revenues – operating grants, contributions and earnings (losses) on investments	\$ 173,986,055	\$ (112,158,618)	\$ 286,144,673
General revenues:			
Grants and contributions not restricted to specific programs	<u>4,634,352</u>	<u>4,000,000</u>	<u>634,352</u>
			Continues ...

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	June 30, 2007	June 30, 2006	Increase (Decrease)
Continued ...			
Investment earnings	14,062,110	4,943,912	9,118,198
	<u>192,682,517</u>	<u>(103,214,706)</u>	<u>295,897,223</u>
Expenses:			
Program activities-			
General government	5,509,680	3,520,467	1,989,213
Aqueduct and sewer	4,843,969	23,924,383	(19,080,414)
Ports	737,779	9,954,048	(9,216,269)
Environmental	-	28	(28)
Revolving fund	4,001,844	2,557,169	1,444,675
Transportation	6,658,816	8,793,807	(2,134,991)
Edifications	181,179	94,105	87,074
Education	-	440	(440)
Recreation and sports	836,490	4,769,040	(3,932,550)
Arts and entertainment	190,853	4,900	185,953
Interest on long-term debt	123,708,285	126,246,925	(2,538,640)
	<u>146,668,895</u>	<u>179,865,312</u>	<u>(33,196,417)</u>
Net change in net assets	<u>\$ 46,013,622</u>	<u>\$ (283,080,018)</u>	<u>\$ 329,093,640</u>

Revenues

Operating grants and contributions, and earnings on investments from governmental activities increased by \$295,897,223 during the year ended June 30, 2007 when it is compared with June 30, 2006, mainly due to the gain of \$9,118,198 in the fair market value of certain investments during the year ended June 30, 2007 in comparison with a loss in the fair market value of investment of \$256,355,777 during the year ended June 30, 2006.

Expenses

Net decrease in expenses of \$33,196,417 represents mainly a reduction of \$32,646,989 and \$2,538,640 in various assistant programs with other government agencies and interest in long-term debt, respectively.

The aqueduct and sewer program had a decrease of \$19,080,414 which is mostly related to the final completion of water and sewer projects.