

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

AUDITED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2008 AND 2007

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Puerto Rico Ports Authority

We have audited the accompanying statement of net assets of **Puerto Rico Ports Authority** (the Authority), a component unit of the Commonwealth of Puerto Rico, as of June 30, 2008, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of **Puerto Rico Ports Authority** as of and for the year ended June 30, 2007 were audited by other auditors whose report dated November 30, 2007, expressed an unqualified opinion on those statements. As discussed in Note 2 to the financial statements, the Authority has restated its 2007 financial statements during the current year to correct amounts reflected as capital assets and to correct the amount of interest capitalized into capital assets in prior years. The other auditors reported on the 2007 financial statements before the restatement.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Puerto Rico Ports Authority** as of June 30, 2008 and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 2 that were applied to restate the 2007 financial statements. In our opinion, such adjustments are appropriate and have been properly recorded.

As discussed in Note 3 to the financial statements, in 2008 the Authority changed its method of accounting for post employment benefits to conform to Governmental Accounting Standards Board (“GASB”) Statement No. 43, Financial Reporting for Post Employment Benefits Plans Other Than Pension Plans, and GASB Statement No. 45, Accounting and Financial Reporting for Employers for Post Employment Benefits Other Than Pensions.

The “Management Discussion and Analysis” information presented on pages 3 through 9 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this supplementary information and express no opinion on it.

HLB MORALES PADILLO & CO., PSC
CERTIFIED PUBLIC ACCOUNTANTS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008

Introduction

The following discussion and analysis of the financial performance and activity of the Puerto Rico Ports Authority is intended to provide an introduction to the financial statements of the Authority for the year ended June 30, 2008, with selected comparative information to the year ended June 30, 2007. This section has been prepared by management of the Authority and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Overview of 2008 Financial Results

The Authority's net assets totaled \$435 million in 2008, representing a \$74 Million increase over 2007, as restated. The increase was primarily due to the transfer from the federal government of 1,646 acres of the former U.S. Roosevelt Roads Naval Station in Ceiba, PR.

Gross operating revenues, net of discounts and incentives totaled \$154 million in 2008. Maritime operating revenues totaled \$79 million with an increase of \$1.5 million, due to higher revenues in the tourist ship fees and the property rentals charged at the various seaport facilities. Airport operating revenues totaled \$76.6 million, reflecting a decrease of \$3.4 million due to a decrease in landings and lower tariffs at the Luis Muñoz Marín International Airport (LMM).

Operating expenses totaled \$145 million in 2008, which was \$10 million higher than 2007. The increase was primarily due to a \$6.3 million adjustment in the provision for bad debts and \$1.5 million accrual of Other Post Employment Benefits (OPEB) according to the implementation of GASB 45. Other operating expenses, such as general and administrative, professional services and insurance remained the same compared to 2007 as part of management's strategy to control the operating expenses.

Non-operating revenues consist of passenger facility charges (PFC's), fuel flowage fees and penalties and other fees. Total non-operating revenues and expense decreased by \$1 million in 2008 as compared to 2007, primarily due to an increase in PFC's of \$1 million netted with the increase in interest expense of \$2.3 million.

Other Highlights

- ✓ The airport system enplaned approximately 5.8 million passengers during fiscal year 2008, with a net increase of 50,000 passengers. 88% of passengers enplaned at the LMM airport and the rest at regional airports such as Aguadilla and Ponce. 780 million tons of air cargo enplaned and deplaned at the Authority's airports for that same period. 68% of the tons enplaned and deplaned at LMM airport and the balance at Aguadilla and Ponce.
- ✓ On the maritime system, the Port of San Juan handled 9.4 million tons of cargo for the fiscal year 2008. The cruise ship passengers totaled 1.5 million, an increase of 122,000 passengers over fiscal year 2007.

- ✓ Throughout 2008, the Authority continued its capital improvement plan demonstrating its commitment to the growth and development of all seaport and airport properties. Capital expenditures totaled approximately \$97.4 million in 2008, while over \$130 million of capital construction costs was transferred to finished projects.
- ✓ As part of the ongoing aggressive plan to optimize and maximize the useful life of the LMM airport, the Authority, at a cost of \$83 million, inaugurated on February 2008 the reconstruction of runway 10-28.
- ✓ On February 2008, the US Navy transferred the Roosevelt Roads military base to the Authority. This transfer will consolidate the operations of Fajardo and Humacao regional airports. The airport has the 2nd largest runway in the Caribbean, after the Aguadilla airport and will become the 2nd cargo airport in Puerto Rico, along with Aguadilla.
- ✓ The Authority is completing the construction of Terminal A at a cost of approximately \$100 million. This new facility will add 7 gates to the LMM airport, which will improve the handling of passengers in the airport. The Terminal will have 20,000 square footage of commercial space for restaurants, duty free shops, and coffee shops, among others.
- ✓ The Authority is finalizing the construction of a new shopping center located in Terminal D of the LMM airport. This development will add 25,000 square footage of commercial space and will offer a mix of stores generally seen in other international airports in the US mainland.

Overview of the Financial Statements

Management's discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements, including the notes to the financial statements and other supplemental information, pursuant to the Trust Agreement. The basic financial statements, which are included in the Financial Section of this report, comprise the following: the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, the Statements of Cash Flow and the Notes to the Financial Statements.

Statements of Net Assets

The Statements of Net Assets present the financial position of the Authority at the end of the fiscal year and include all of its assets and liabilities. Net assets represent the difference between total assets and liabilities. A summarized comparison of the Authority's assets, liabilities, and net assets follows:

	2008	2007
ASSETS	<i>(In thousands)</i>	
Current assets	\$ 55,131	\$ 55,396
Noncurrent assets		
Capital assets, net	1,093,607	905,676
Other noncurrent assets	134,169	157,747
Total assets	\$ 1,282,907	\$ 1,118,819
LIABILITIES		
Current liabilities	325,047	269,602
Noncurrent liabilities		
Bonds and notes payable	517,694	427,169
Other noncurrent liabilities	5,190	61,473
Total liabilities	\$ 847,930	\$ 758,243
NET ASSETS		
Invested in capital assets, net of related debt	385,087	282,511
Restricted	45,841	61,445
Unrestricted	4,048	16,621
Total net assets	\$ 434,976	\$ 360,577

The Authority's financial position improved at June 30th, 2008 with assets of \$1.3 billion and liabilities of \$848 million. Capital assets increased by \$188 million from 2007. This amount includes construction in progress and completed projects.

Net assets totaled approximately \$435 million at June 30th, 2008, and increase of approximately \$74 million. Invested in capital assets net of related debt, which totaled \$385 million at June 30th, 2008, represents the largest of the three components of the Authority's net assets and comprises investment in capital assets (e.g., land, buildings, piers, improvements, roads, parking areas, among others), less the related outstanding indebtedness used to acquire those capital assets.

Statements of Revenues, Expenses and Changes in Net Assets

The change in net assets is an indicator of whether the overall fiscal condition of an organization has improved or worsened during the year. Following is a summary of the Statements of Revenues, Expenses and Changes in Net Assets:

	2008	2007
	<i>(In thousands)</i>	
Gross operating revenues, net of discounts	\$ 153,792	\$ 155,369
Operating expenses	(144,641)	\$ (135,082)
Depreciation and amortization	(43,162)	(40,338)
Income from operations	(34,011)	\$ (20,051)
Net non-operating revenues	9,889	10,906
Capital contributions, net of transfers	98,524	14,413
Increase in net assets	\$ 74,401	\$ 5,268

Additional information regarding the operating results can be found in the Notes to the Financial Statements and in the Supplemental section of this report.

Revenues

A summary of gross operating revenues follows:

	2008	2007
	<i>(In thousands)</i>	
Maritime operations:		
Wharfage, dockage and port services	\$ 33,415	\$ 34,094
Equipment and property rental	24,673	23,049
Tourist ship fees	19,949	18,486
Demurrage, utilities and other	1,006	1,945
Airport operations:		
Landing fees	26,908	30,435
Space rentals	45,583	45,662
Utilities, gas sales and other	4,084	4,056
Less: Discounts and Incentives	(1,825)	(2,360)
Total net operating revenues	\$ 153,792	\$ 155,369

Maritime revenue totaled \$79 million for 2008. The increase of \$1.5 million corresponds to an increase of cruise ship passengers of 122,000 for 2008.

Aviation revenues totaled \$76.5 million for 2008 with a decrease of \$3.5 million. The reduction in revenues for this year was due to lower tariffs charged at the LMM airport.

Expenses

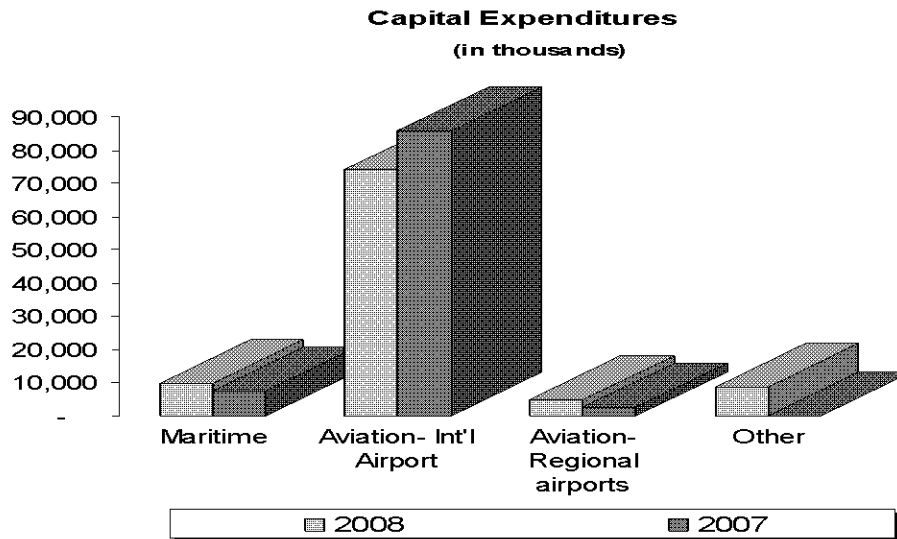
A summary of operating expenses follows:

	2008	2007
	<i>(In thousands)</i>	
Operating expenses:		
Salaries and employee benefits	\$ 76,485	\$ 74,583
General and administrative	30,075	28,686
Bad debts expense	15,331	9,000
Professional services	12,789	13,396
Insurance, rent, repairs and maintenance	9,961	9,417
Total operating expenses	\$ 144,641	\$ 135,082

Operating expenses for 2008 totaled \$144.6 million, an increase of \$9.5 million from 2007. The increase was primarily due to an adjustment of \$6 million on the bad debt provision to write off some uncollectible accounts receivables. All other expense categories had a minimal increase due to management's proactive plan of freezing and reducing operating costs.

Capital Construction Activities

The Authority expenditures for capital construction projects, including amounts accrued, totaled \$97.4 million in 2008 and \$95.4 million in 2007. Following is a chart of net capital expenditures for the last two years summarized by maritime, international airport, regional airports and other:



Funding sources for the \$97.4 million spent by the Authority on capital investment in 2008 were as follows: \$10.5 million was funded with federal contributions, \$65 million was funded with PFC's; and the balance of approximately \$22 million was funded with the Authority's own funds.

The Authority updated its Capital Improvement Plan, which calls for total spending of approximately over \$1,000 million in both airport and seaport facilities during the next 5 fiscal years.

Major elements of the 2009 Capital Improvement Plan include:

- ✓ Construction of a new passenger terminal and reconditioning of the runway, lighting and signage at the Ceiba Airport:
- ✓ Finish the ongoing construction of a new passenger terminal (Terminal A) in the LMM International Airport:
- ✓ Complete the reconstruction of Taxiway Sierra at the LMM International Airport
- ✓ Rehabilitations of various runways at Regional Airports
- ✓ Completion of the Closed Circuit Control Camera Room

Requests for Information

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

PUERTO RICO PORTS AUTHORITY
 STATEMENTS OF NET ASSETS
 JUNE 30, 2008 AND 2007 (CONTINUED)

	2008	<i>(As Restated)</i> 2007
<i>(In Thousands)</i>		
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,088	\$ 1,723
Accounts receivable, net of allowance for doubtful accounts of \$62,000 and \$50,000 in 2008 and 2007, respectively	46,390	40,982
Prepaid expenses and other assets	5,653	6,351
Total current assets	55,131	49,056
RESTRICTED ASSETS:		
Cash and cash equivalents:		
Construction Fund	37,989	57,335
Debt Service Funds	16,774	18,264
Renewal and replacements, maintenance and other funds	8,337	6,283
Passenger Facility Charges Receivables:		
Federal Aviation Administration	3,088	3,527
Aviation carriers	2,492	2,812
Total restricted assets	68,680	88,221
CAPITAL ASSETS - NET	1,093,607	905,676
OTHER ASSETS:		
Due from governmental entities	52,353	56,839
Deferred charges	11,677	13,745
Deferred debt issuance cost	1,459	1,530
Investment in joint venture	-	1,000
Capital asset purchase option	-	2,750
Total other assets	65,489	75,865
TOTAL	\$ 1,282,907	\$ 1,118,818

The accompanying notes are integral part of these financial statements.

PUERTO RICO PORTS AUTHORITY
STATEMENTS OF NET ASSETS
JUNE 30, 2008 AND 2007 (CONTINUED)

	2008	(As Restated) 2007
<i>(In Thousands)</i>		
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Notes payable	\$ 184,980	\$ 144,503
Accounts payable and accrued expenses	104,895	105,092
Tenants deposits	1,266	1,294
Deferred revenues	234	367
Liabilities payable from restricted assets:		
Retainage and construction costs payable	28,943	11,967
Current portion of bonds payable	2,770	4,855
Interest payable on bonds	1,959	2,133
Total current liabilities	<u>325,047</u>	<u>270,211</u>
LONG-TERM DEBT:		
Notes payable	463,254	426,560
Bonds payable	54,440	57,009
Deferred revenues	3,147	4,147
Other employee benefits	2,043	318
Total long-term liabilities	<u>522,884</u>	<u>488,033</u>
Total liabilities	<u>847,931</u>	<u>758,244</u>
NET ASSETS:		
Invested in capital assets, net of related debt	385,087	272,749
Restricted for:		
Capital assets	27,139	54,582
Debt service	14,814	16,132
Capital assets maintenance	4,480	3,409
Unrestricted	3,456	13,703
Total net assets	<u>434,976</u>	<u>360,575</u>
TOTAL	<u>\$ 1,282,907</u>	<u>\$ 1,118,818</u>

The accompanying notes are integral part of these financial statements.

PUERTO RICO PORTS AUTHORITY
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 YEARS ENDED JUNE 30, 2008 AND 2007

	2008	(As Restated) 2007
<i>(In Thousands)</i>		
OPERATING REVENUES:		
Maritime operations	\$ 79,043	\$ 77,575
Airport operations	76,574	80,153
Less discounts and incentives	<u>(1,825)</u>	<u>(2,360)</u>
Total	<u>153,792</u>	<u>155,369</u>
OPERATING EXPENSES:		
Salaries and employee benefits	76,485	74,583
General and administrative	30,075	28,686
Bad debts expense	15,331	9,000
Professional services	12,789	13,396
Insurance, rent, repairs and maintenance	<u>9,961</u>	<u>9,417</u>
Total	<u>144,641</u>	<u>135,082</u>
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION	9,151	20,287
DEPRECIATION AND AMORTIZATION	<u>43,162</u>	<u>40,338</u>
OPERATING LOSS	<u>(34,011)</u>	<u>(20,051)</u>
NON-OPERATING REVENUES (EXPENSES):		
Passenger facility charges	21,641	20,662
Fuel flowage fees	3,101	3,220
Penalties and other fees	2,353	1,888
Interest expense, net	<u>(17,207)</u>	<u>(14,865)</u>
Total	<u>9,889</u>	<u>10,906</u>
DECREASE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(24,123)	(9,145)
CAPITAL CONTRIBUTIONS, net of transfers	<u>98,524</u>	<u>14,413</u>
INCREASE IN NET ASSETS	74,401	5,268
NET ASSETS, at beginning of year, as previously reported	-	296,023
PRIOR PERIOD ADJUSTMENT	-	59,284
NET ASSETS, at beginning of year, as restated	<u>360,575</u>	<u>-</u>
NET ASSETS, at end of year	<u>\$ 434,976</u>	<u>\$ 360,575</u>

The accompanying notes are integral part of these financial statements.

PUERTO RICO PORTS AUTHORITY
 STATEMENTS OF CASH FLOWS
 YEARS ENDED JUNE 30, 2008 AND 2007 (CONTINUED)

	<u>2008</u>	<i>(As Restated)</i> <u>2007</u>
	<i>(In Thousands)</i>	
CASH FLOWS FROM (IN USED) OPERATING ACTIVITIES:		
Cash received from charges	\$ 147,223	\$ 166,950
Cash payments to suppliers for goods and services	(59,779)	(70,913)
Cash payments to employees for services	<u>(75,597)</u>	<u>(75,795)</u>
Net provided by operating activities	<u>11,846</u>	<u>20,242</u>
CASH FLOWS FROM (IN USED) CAPITAL AND RELATED FINANCIAL ACTIVITIES:		
Acquisition and construction of capital assets	(102,854)	(92,469)
Capital contributions	10,525	14,413
Interest paid	(43,602)	(44,248)
Principal paid on bonds	(4,855)	(4,545)
Proceeds from notes payable	80,221	451,797
Principal payments on notes payable	(3,050)	(331,914)
Passenger facility charges	<u>21,641</u>	<u>20,662</u>
Net cash provided by (used in) capital and related financing activities	<u>(41,973)</u>	<u>13,696</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:		
Penalties and other fees	2,353	1,888
Fuel flowage fees	3,101	3,220
Net change in due from government agencies	<u>4,486</u>	<u>(521)</u>
Net cash provided by non-capital and related financing activities	<u>9,940</u>	<u>4,588</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	<u>2,768</u>	<u>2,335</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(17,418)	40,860
CASH AND CASH EQUIVALENTS, at beginning of year	<u>83,606</u>	<u>42,746</u>
CASH AND CASH EQUIVALENTS, at end of year	<u>\$ 66,188</u>	<u>\$ 83,606</u>

The accompanying notes are integral part of these financial statements.

PUERTO RICO PORTS AUTHORITY
 STATEMENTS OF CASH FLOWS
 YEARS ENDED JUNE 30, 2008 AND 2007 (CONTINUED)

	2008	<i>(As Restated)</i> 2007
	<i>(In Thousands)</i>	
RECONCILIATION TO CASH AND CASH EQUIVALENTS:		
Unrestricted	\$ 3,088	\$ 1,723
Restricted Funds:		
Construction Fund	37,989	57,335
Debt Service Funds	16,774	18,264
Renewal and replacements, maintenance and others	8,337	6,283
Total	<u>\$ 66,188</u>	<u>\$ 83,606</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (34,011)	\$ (20,051)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	43,162	40,338
Provision for bad debts	15,331	9,000
Net change in operating assets and liabilities:		
Accounts receivable	(5,408)	(2,515)
Prepaid expenses and other assets	698	(1,303)
Deferred expenses and charges	(6,596)	567
Accounts payable and accrued expenses, excluding accrued interest	(197)	(5,591)
Deferred revenues	(1,133)	(203)
Net cash provided by operating activities	<u>\$ 11,846</u>	<u>\$ 20,242</u>

The accompanying notes are integral part of these financial statements.

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

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2008 AND 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Puerto Rico Ports Authority (the "Authority") is a public corporation and a component unit of the Commonwealth of Puerto Rico, created by Act No. 125 on May 7, 1942, as amended. The purpose of the Authority is to administer all port and aviation transportation facilities of the Commonwealth of Puerto Rico and to render other related services. The Authority owns eleven airport facilities and administers nine of them including Luis Muñoz Marín International Airport, the main aviation port of entry into Puerto Rico, and all government owned maritime port operations, including the Port of San Juan.

By Act No. 65, approved on August 17, 1989, the Authority was separated from the Department of Transportation and Public Works and the powers of the Authority were vested in a Board of Directors composed of five members as follows: Secretary of Transportation and Public Works, Chairman; Secretary of Economic Development, the Executive Director of the Tourism Company of Puerto Rico, the Executive Director of Puerto Rico Industrial Development Company and one private citizen appointed by the Governor with the consent of the Senate of Puerto Rico.

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

The Authority's airport system consists of Luis Muñoz Marín International Airport, and other regional airports. Maritime operations consist principally of cargo and cruise ships with ports and docks all around Puerto Rico.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies:

The Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting* (GASB No. 20). In adopting GASB No. 20, the Authority applied all Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued before and after November 30, 1989, unless these pronouncements conflict with, or contradict, GASB pronouncements.

Use of Estimates

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

The implementation of Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB No. 34) involved the use of assumptions and estimates in the determination of the cost of general infrastructure assets, such as roads, piers, airport facilities 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.

Cash and Cash Equivalents

The Authority considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Reclassifications

Certain reclassifications have been made to the 2007 figures to conform to current year's presentation.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectability of accounts receivable and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses 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 estimated historical cost. The cost of property and equipment includes costs for infrastructure assets, equipment and other related costs (including software), buildings and furniture and equipment. Costs for infrastructure assets include construction costs, design and engineering fees and administrative and general expenses paid from the construction fund monies.

Capitalization Policy

Capital assets are defined by the Authority as assets with an initial, individual cost of \$500 or more and an estimated useful life over one year.

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

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

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 passenger facilities charges, grants or donations restricted solely for construction.

Depreciation of Capital Assets

Depreciation of facilities is computed using the straight-line method during the estimated useful lives of the related assets (See Note 8). The useful lives of assets are developed by the various related disciplines in the Authority's Engineering Department utilizing past experience, standard industry expectations, and external sources such as consultants, manufacturers and contractors. Useful lives are reviewed periodically for each specific type of asset class. Asset lives used in the calculation of depreciation are generally as follows:

Buildings, piers, improvements and other structures	35 to 50 years
Machinery and equipment	3 to 10 years
Runways, roadways and other paving	10 to 20 years
Utility infrastructure	10 to 50 years
Service vehicles	3 to 10 years

Assets located at facilities leased by the Authority from others are depreciated over the lesser of the remaining term of the facility lease or the related asset live.

Impairment of Capital Assets

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.

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, among other, 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.

The Authority evaluated its capital assets as required by GASB 42 and no impairment was identified during the years ended June 30, 2008 and 2007.

Claims and Judgments

The estimated amount of the liability for claims and judgments is recorded on the accompanying Statements of Net Assets 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.

Vacation and Sick Leave

Employees earn annual vacation leave at the rate of 30 days per year which is the maximum permissible accumulation. Employees accumulate sick leave at the rate of 20 days per year. Maximum permissible accumulation for sick leave is 60 days for managerial and clerical employees, excess is paid within the next year. Union employees are paid for accumulations over 26 days within the following fiscal year. The Authority records as a liability and as an expense the vested accumulated vacation and sick leave as benefits accrue to employees.

Bond Premiums/Discounts and Bond Issuance Costs

Bond premiums/discounts are presented in the accompanying Statements of Net Assets as an increase/reduction of the face amount of bonds payable. Bond issuance costs are presented as a deferred asset in the accompanying Statements of Net Assets. The premiums/discounts and issuance costs are amortized over the life of the bonds on a method that approximates the effective interest method. Amortization expense related to bond premium/discounts was approximately \$201,000 and \$206,000 for the years ended June 30, 2008 and 2007; respectively, and is included as a component of interest expense in the accompanying Statements of Revenues, Expenses and Changes in Net Assets. Amortization of bond issuance costs for the years ended June 30, 2008 and 2007 was approximately \$71,000 and \$92,000, respectively and is included in a component of depreciation and amortization expense in the accompanying Statements of Revenues, Expenses and Changes in Net Assets.

Net assets

Net assets are classified in the following three components in the accompanying statements of net assets:

Invested in Capital Assets, Net of Related Debt

This component of net assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of this component of net assets. Rather that portion of the debt is included in the same net asset component as the unspent proceeds.

Restricted for Debt Service

Net assets restricted for debt service consist of restricted assets for the payment of principal of, and interest on the bonds payable. This restriction is imposed by the bondholders through debt covenants.

Restricted for Construction

Net assets restricted for construction consist of restricted assets for the specific purpose of paying the construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

Unrestricted

Unrestricted net assets consist of net assets that do not meet the definition of “restricted for debt service”, “restricted for construction” or “invested in capital assets, net of related debt”.

Revenues Recognition

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

Non-operating revenues consist principally of Passenger Facility Charges, fuel flowage fee, interest and penalties and other fees.

Contributions

Contributions are funds assigned by the federal and local governments, agencies and/or private companies such as Federal Aviation Administration (FAA), Federal Transit Administration (FTA), and Transportation Security Administration (TSA) to the Authority for the exclusive purpose of the construction of specific projects or infrastructure repairs and maintenance. Capital grants of the Authority are reported as non-operating revenues rather than contributed capital as required by GASB Statement No 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

2. ADJUSTMENT TO PRIOR YEARS FINANCIAL STATEMENTS

During the fiscal year ended June 30, 2008, the Authority evaluated their methodology for capitalizing interest into capital assets and Construction in Progress for 2007 and prior years according to generally accepted accounting principles. Based on this evaluation, an *understatement* of **\$88.3 million** on interest capitalized to capital assets from June 30, 1999 through 2007 (net of accumulated depreciation of \$4.2 million) was determined and adjusted. In addition, other corrections were made as well.

The effect of these adjustments, was to increase net assets and capital assets at June 30, 2006 by \$59.3 million and to increase capital assets and change in net assets during the year ended June 30, 2007 by approximately \$11.8 million.

The beginning net assets for fiscal years ended June 30, 2007 and 2006 have been restated to reflect this correction of error as follows:

	<u>2007</u> <u>Restatement</u>	<u>Prior to</u> <u>2006</u>	<u>Total</u>
INCOME/(EXPENSES):		<i>(In Thousands)</i>	
Deficiency on Interest Capitalization	\$ 17,562	\$ 74,992	\$ 92,554
Related Depreciation on Interest Capitalized	(1,475)	(2,751)	(4,226)
San Juan Harbor Dredging	(1,951)	(9,196)	(11,147)
Post Construction Capitalized Interest	(2,366)	(2,410)	(4,776)
Corrections of prior years billings and other accounting errors	-	(1,351)	(1,351)
TOTAL	<u>\$ 11,770</u>	<u>\$ 59,284</u>	<u>\$ 71,054</u>

3. SIGNIFICANT EVENT

Through a Quitclaim Deed dated February 8, 2008, between the United States of America, acting by and through the Secretary of the Navy (the Grantor), and the Puerto Rico Ports Authority; the Grantor transferred to the Authority, (by application dated June 7, 2007 requesting a Public Benefit Conveyance) the surplus portion of the former Naval Station Roosevelt Roads in Ceiba, Puerto Rico, containing approximately 1,646.161 acres in size. The Authority's application was approved by the Federal Aviation Administration on October 11, 2007 and accepted by the Secretary of the Navy on February 8, 2008.

On October 25, 2005, the Department of Economic Development and Commerce of the Commonwealth of Puerto Rico (the Government), obtained a professional appraisal of two tracks of land within the former Roosevelt Roads Naval Base. The purpose of the appraisal was to provide an estimate of the market value of the properties, considering them vacant and available for development, as of a current date. The estimated market value of the two tracks of land ranged from \$53,400 to \$200,000 per acre.

As of the date of these financial statements, an independent appraisal of the property transferred to the Authority has not been completed. Consequently, management used the lower market value estimated in 2005 to record the cost of the transferred property. As a result, the Authority capital assets (Land), was increased by approximately \$88 million and a contribution for the same amount was recorded in the year ended June 30, 2008. Any difference in market value versus the recorded amount resulting from the final independent appraisal will be adjusted as the final appraisal becomes available.

4. OTHER POST-EMPLOYMENT BENEFITS

The Authority implemented GASB Statements No. 43 and 45, regarding "*Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions*" ("GASB 45"). These Statements establish the standards for the measurement, recognition, and disclosure of Other Post-employment 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 governments' financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and whether and to what extent progress is being made in funding the Plans.

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 five and six years, for union and supervisory personnel respectively ("The Plan").

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

Funding Policy

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

Accounting Policy

The accrual basis of accounting is used. The fair market value of assets, if any, is determined by the market value of assets, if any, paid by a willing buyer to a willing seller.

Annual OPEB cost and net OPEB obligation

The Authority's annual other post employment benefit (OPEB) expense is calculated based on the Annual Required Contribution of the employer (ARC). The Authority engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement 45 for employers with more than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Authority's annual OPEB cost for the year ended June 30, 2008, the amount actually contributed to the Plan and the Authority's net OPEB obligation to the Plan at June 30, 2008 (*In Thousands*):

Normal cost	\$ 1,025
Amortization of unfunded actuarial liability	<u>930</u>
Annual required contribution	<u>\$ 1,955</u>
OPEB contributions made during the fiscal year	<u>\$ 1,025</u>
Percentage of expense contributed	<u>52%</u>

As of June 30, 2008, the actuarial accrued liability for benefits amount to \$17.2 million all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$36.1 million during the year ended June 30, 2008, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 48 %.

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 continuous revisions as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the Substantive Plan (the Plan as understood by the employer and plan members) and include the types of benefits provided at the time of valuation and the historical pattern of benefit costs paid by the employer to date.

The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The valuation date was June 30, 2008 and the Projected Unit Credit Cost Method was used. The actuarial assumptions were based on a set of assumptions supplied by the Authority.

Turnover rates were taken from the 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 Plan. Both the retirement rates and turnover assumption will be reviewed in the next valuation to make sure they are in line with the actual experience.

A discount rate of 5% was used. This rate is the best actuarial estimate of expected long-term experience and is in accordance with guidelines for selection of these rates under GASB 45. The healthcare trend rates are based on the actuarial knowledge of the general healthcare environment and the specific coverage offered by the Authority.

5. CASH AND CASH EQUIVALENTS

Amounts held by the Authority at June 30, 2008 and 2007 are composed of:

	<u>2008</u>	<u>2007</u>
	<i>(In Thousands)</i>	
Cash	\$ 41,077	\$ 77,323
US Treasury Notes	15,377	-
Money Market	<u>9,734</u>	<u>6,283</u>
Total	<u>\$ 66,188</u>	<u>\$ 83,606</u>

6. DEPOSITS AND INVESTMENTS

The following 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. 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.

Pursuant to the Investment Guidelines for the Commonwealth of Puerto Rico 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, banker's acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Monies in the sinking fund 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 to the Authority. However under Puerto Rico statutes, public funds deposited in commercial bank must be fully collateralized for the amount deposited in excess of federal depository insurance. The bank balance of the Authority’s accounts at June 30, 2008 and 2007 amount to \$54.9 and \$77.3 million, respectively.

As of June 30, 2008 and 2007, the Authority's custodial credit risk was approximately \$53.6 and \$122,000 respectively, which is the bank balance of cash deposited at the Government Development Bank and Economic Development Bank for Puerto Rico. These deposits are exempt from the collateral requirements established by the Commonwealth.

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that in the event of 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 commercial paper with a minimum quality rating of A1 Moody’s or Standard & 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.

As of June 30, 2008, the Authority holds US Treasury Notes with a fair value of \$15.4 million. These investments are unconditionally guaranteed or insured by, or backed by, the full faith and credit of the United States of America, its agencies or instrumentalities.

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 in market interest rate. Maturities of restricted cash and investments with Trustee at June 30, 2008 are less than one year. All investments have been classified AAA by Standard & Poor's.

7. PREPAID AND OTHER ASSETS

Prepaid expenses and other assets at June 30, 2008 and 2007 consist of:

	<u>2008</u>	<u>2007</u>
	<i>(In Thousands)</i>	
Prepays	\$ 5,582	\$ 6,030
Inventory	<u>71</u>	<u>321</u>
Total	<u>\$ 5,653</u>	<u>\$ 6,351</u>

8. CAPITAL ASSETS

The following schedule summarizes the capital assets held by the Authority as of June 30, 2008 and 2007:

	<u>Year Ended June 30, 2008</u>			
	<i>(As Restated)</i>			
	<u>June 30, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2008</u>
Assets not being depreciated		<i>(In Thousands)</i>		
Land and land improvements	\$ 138,149	\$ 122,652	\$ (1,511)	\$ 259,290
Construction in progress	<u>309,364</u>	<u>122,592</u>	<u>(119,209)</u>	<u>312,747</u>
Total assets not being depreciated	<u>447,513</u>	<u>245,244</u>	<u>(120,720)</u>	<u>572,037</u>
Assets being depreciated				
Building, piers, improvements and structures	562,289	46,145	(1)	608,433
Infrastructure	136,495	9,616	-	146,111
Roads and parking areas	171,732	41,900	-	213,632
Machinery, furniture and equipment	85,922	6,222	(3,819)	88,325
Automobiles and service vehicles	<u>13,897</u>	<u>6</u>	<u>(603)</u>	<u>13,300</u>
Total	970,335	103,889	(4,423)	1,069,801
Less accumulated depreciation	<u>(512,172)</u>	<u>(37,233)</u>	<u>1,174</u>	<u>(548,231)</u>
Total assets being depreciated	<u>458,163</u>	<u>66,656</u>	<u>(3,249)</u>	<u>521,570</u>
Total capital assets	<u>\$ 905,676</u>	<u>\$ 311,900</u>	<u>\$ (123,969)</u>	<u>\$ 1,093,607</u>

	Year Ended June 30, 2007			<i>(As Restated)</i> June 30, 2007
	June 30, 2006	Increases	Decreases	
	<i>(In Thousands)</i>			
Assets not being depreciated				
Land and land improvements	\$ 83,202	\$ 61,531	\$ (6,584)	\$ 138,149
Construction in progress	400,766	130,557	(221,959)	309,364
Total	<u>483,968</u>	<u>192,088</u>	<u>(228,543)</u>	<u>447,513</u>
Assets being depreciated				
Building, piers, improvements and structures	303,412	259,091	(214)	562,289
Infrastructure	323,571	45,413	(232,489)	136,495
Roads and parking areas	62,905	108,827	-	171,732
Machinery, furniture and equipment	64,859	23,662	(2,599)	85,922
Automobiles and service vehicles	13,808	96	(7)	13,897
Total	<u>768,555</u>	<u>437,089</u>	<u>(235,309)</u>	<u>970,335</u>
Less accumulated depreciation	<u>(475,134)</u>	<u>(41,137)</u>	<u>4,099</u>	<u>(512,172)</u>
Total assets being depreciated	<u>293,421</u>	<u>395,952</u>	<u>(231,210)</u>	<u>458,163</u>
Total capital assets	<u>\$ 777,389</u>	<u>\$ 588,040</u>	<u>\$ (459,753)</u>	<u>\$ 905,676</u>

The Authority capitalized interest for approximately \$14 and \$15 million during the years ended June 30, 2008 and 2007, respectively.

9. DUE FROM GOVERNMENTAL ENTITIES

Due from governmental entities as of June 30, 2008 and 2007 consists of:

	<u>2008</u>	<u>2007</u>
	<i>(In Thousands)</i>	
Maritime Transportation Authority	\$ 48,853	\$ 48,082
Municipality of Mayaguez	3,500	3,500
Puerto Rico Tourism Corporation	-	5,257
	<u>\$ 52,353</u>	<u>\$ 56,839</u>

10. DEFERRED REVENUES

The Authority entered in two lease agreements with a tenant for a tract of land at Luis Muñoz Marín International Airport. The lease agreements are for twenty-five (25) years with options to renew for two (2) additional five (5) year terms. One of the agreements was effective in September 1988 and the other in June 1995. Under the terms of the Agreements, the Authority will charge a fixed monthly rent plus an additional rent based on sales volume. The Authority also agreed to grant rental credits, up to \$34.4 million plus interest at 9.5%, to reimburse the lessee for the permanent improvements to the leased property. The title to such improvements will revert to the Authority at no further cost at the end of the lease term or at a prior date in case of default. The rental credit to be granted is limited to the amount invested by the lessee, which is required to submit evidence of the amount invested, in the leased property. During the year ended June 30, 1997 the Authority recorded property and equipment and deferred revenues for approximately \$19 million in connection with these agreements. Those amounts are been amortized annually.

Deferred revenue balance at June 30, 2008 and 2007 consist of:

	<u>2008</u>	<u>2007</u>
	<i>(In Thousands)</i>	
Carrying amount of unamortized portion of construction costs incurred by lessee, guaranteed with agreements, amortized by equivalent credits to the minimum fixed rental through May 2020	\$ 3,381	\$ 3,514
Contribution of property rights to be amortized over 30 years (See Note 15)	<u>-</u>	<u>1,000</u>
	3,381	4,514
Less current portion	<u>234</u>	<u>367</u>
Long-term	<u>\$ 3,147</u>	<u>\$ 4,147</u>

11. REVENUE BONDS PAYABLE

The Authority issued bonds at various times for the purpose of financing the construction of certain facilities and improvements for the airports and maritime facilities. The Authority has complied with all bond covenants at June 30, 2008 and 2007. Proceeds from tax-exempt bonds issued after September 1, 1986, are subject to the 1986 Tax Reform Act. The Authority is required to comply with Internal Revenue Service regulations in order to maintain tax-exempt status on the Authority's bonds. The Authority has no arbitrage liability at June 30, 2008 and 2007.

A summary of changes in bonds payable for the year ended as of June 30, 2008 and 2007 follows:

Description	Year Ended June 30, 2008			
	Balance 2007	Payments	Balance 2008	Current Portion
	<i>(In Thousands)</i>			
Term Revenue Bonds (Series C), maturing annually from July 1, 1996 to 2007	\$ 2,265	\$ 2,265	\$ -	\$ -
Term Revenue Bonds (Series D), maturing annually from July 1, 2006 to 2014	26,565	2,590	23,975	2,770
Term Revenue Bonds (Series D), maturing annually from July 1, 2015 to 2021	37,340	-	37,340	-
	<u>\$ 66,170</u>	<u>\$ 4,855</u>	<u>\$ 61,315</u>	<u>\$ 2,770</u>

Description	Year Ended June 30, 2007			
	Balance 2006	Payments	Balance 2007	Current Portion
	<i>(In Thousands)</i>			
Term Revenue Bonds (Series C), maturing annually from July 1, 1996 to 2007	\$ 4,390	\$ 2,125	\$ 2,265	\$ 2,265
Term Revenue Bonds (Series D), maturing annually from July 1, 2006 to 2014	28,985	2,420	26,565	2,590
Term Revenue Bonds (Series D), maturing annually from July 1, 2015 to 2021	37,340	-	37,340	-
	<u>\$ 70,715</u>	<u>\$ 4,545</u>	<u>\$ 66,170</u>	<u>\$ 4,855</u>

Debt Maturities

The outstanding bonds payable as of June 30, 2008 require future debt service payments as follow:

<u>Fiscal year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
		<i>(In Thousands)</i>	
2009	\$ 2,770	\$ 3,919	\$ 6,689
2010	2,965	3,725	6,690
2011	3,170	3,517	6,687
2012	3,395	3,295	6,690
2013	3,630	3,058	6,688
2014 through 2018	22,205	11,240	33,445
2019 through 2023	<u>23,180</u>	<u>3,578</u>	<u>26,758</u>
Total	<u>\$ 61,315</u>	<u>\$ 32,332</u>	<u>\$ 93,647</u>

The Authority allocates interest expense to different activities for which the related debt is incurred. Total interest incurred on bond payable, for the years ended June 30, 2008 and 2007 amounted to \$4.1 million and \$4.5 million, respectively.

The Serial and Term Revenue Bonds outstanding at June 30, 2008 and 2007 were issued under a Trust Agreement entered into by the Authority and the Trustee and Co-trustee, dated January 1, 1972, as amended. Certain provisions of this Trust Agreement follow:

General Provisions

The Authority's revenues, as defined in the Trust Agreement, are required to be revised as necessary to be sufficient for the payment of current expenses and provide for the higher of either the amounts needed for making the deposits in each fiscal year to the credit of the Sinking Fund and the Maintenance Reserve Fund or an amount not less than 125% of the maximum aggregate principal and interest requirements (as defined) for any fiscal year for all bonds then outstanding. The Authority has designed a cost reduction plan which includes cancellation of most of the professional service contracts in order to be in compliance with the covenant for the years ended June 30, 2008 and 2007.

The Authority may issue additional bonds under the provisions of the Trust Agreement provided (1) the net revenues, as defined, for any twelve consecutive months within the preceding eighteen months are not less than 125% of the maximum aggregate annual debt service on all outstanding bonds (not including the bonds to be issued) and (2) the estimated average annual net revenues, as defined, for the 5 fiscal years after the estimated completion date of the facilities to be financed by the issuance of such bonds is not less than 135% of the maximum aggregate annual debt service on all outstanding bonds and the bonds to be issued.

The principal and interest of all bonds issued by the Authority under the provisions of the Trust Agreement are payable from the Sinking Fund described under the caption "Funds" below. If there are insufficient funds in the Sinking Fund, such payments can be made out of other funds.

Security

The revenues derived from the Authority's airport and seaport operations, as defined in the Trust Agreement, are pledged to secure the revenue bonds payable.

Funds

The Authority has created the following funds for accounting purposes as required by the Trust Agreement:

Revenue Fund

All revenues received from the operations of the Authority's properties, except fuel flowage fees (which are deposited into the Sinking Fund), and income from the investment of funds in the Reserve Account and the Maintenance Reserve Fund, shall be deposited with the Co-Trustee to the credit of the Revenue Fund. The Co-Trustee is to make monthly transfers to other accounts and funds in accordance with the provisions of the Trust Agreement, as explained below, after providing for current expenses.

Sinking Fund

The Sinking Fund consists of the Bond Service, Redemption and Reserve Accounts. The Co-Trustee withdraws every month from the Revenue Fund an amount equal to the Fund's balance on the last day of the preceding month, after providing for current expenses, and deposits the amount so withdrawn to the following Accounts in the following order:

- a. the Bond Service Account, an amount equal to 1/6 of the interest payable on all outstanding bonds on the next succeeding interest payment date and 1/12 of the next maturing installment of principal of all outstanding serial bonds (reduced by any deposits of fuel flowage fees required to be deposited directly into the Sinking Fund) until the amount on deposit therein is equal to the sum of the amount of principal and interest payable on such payment date;
- b. the Redemption Account, for twelve months beginning with the second month before the commencement of each fiscal year in which there is an amortization requirement (as defined) for any bonds, 1/12 of the amortization requirement for such fiscal year for outstanding term bonds plus 1/12 of the premium, if any, which would be payable on the first redemption date in the following fiscal year (reduced by any deposits of fuel flowage fees); and

- c. the Reserve Account, an amount required to make the amount deposited in the Reserve Account in the current fiscal year at least equal to 20% of the maximum aggregate principal and interest requirements (as defined) on the bonds until the amount on deposit therein equals such maximum aggregate principal and interest requirements.

After these monthly deposits are made, the Co-Trustee then makes the deposits into the following Funds.

Maintenance Reserve Fund

The Authority is required to deposit monthly with the Co-Trustee to this fund (after the above Sinking Fund deposits are made) the sum of \$42,000 until the amount in this fund exceeds \$2,500,000 (\$4,480,000 and \$3,409,000 on deposit at June 30, 2008 and 2007, respectively), and thereafter, it is to deposit 1/12 of the amount required to restore the balance to such amount should the balance fall below \$2,500,000; provided however, that no such deposit shall be required in excess of \$42,000 in any one month. Disbursements from this fund shall be made only for the purpose of paying the cost of unusual or extraordinary major repairs and maintenance or repairs or replacements for an emergency caused by an extraordinary occurrence as described in the Trust Agreement, but related to the operations of the Authority's properties.

Renewal and Replacements Fund

The Authority is required to deposit monthly with the Co-Trustee to this fund (after the above Sinking Fund and Maintenance Reserve Fund deposits are made) an amount equal to 1/12 of the amount determined to be necessary by the Authority's transportation consultants for any fiscal year.

At June 30, 2008 and 2007, the amount deposited in the Renewal and Replacements Fund was \$3,776,000 and \$2,796,000, respectively.

Disbursements will be made for the purpose of paying only the cost of extension improvements, renewals and replacements of the Authority's properties, as defined and provided for in the Trust Agreement and necessary equipment, surveys and studies related thereto.

Non-Ports Authority Properties Operating Fund

The amount of monthly deposits into this fund (made after all of the preceding deposits have been made) shall be set forth in a certificate signed by the Comptroller of the Authority, and represents the amount needed each month to pay operating expenses and maintenance and repairs of non-Ports Authority properties, as defined in the Trust Agreement.

General Reserve Fund

Any balance remaining after making the deposits in all of the funds described above are to be deposited with the Co-Trustee to the credit of this fund. Disbursements are to be made only to cover any deficiencies in any funds described above. Remaining amounts at the end of each fiscal year are to be used first, to make the annual payment in lieu of taxes, if any, to the Secretary of the Treasury of the Commonwealth of Puerto Rico and the remaining balance shall be deposited in the Construction or Improvement Funds, at the option of the Authority.

Construction Fund

This fund consists of three accounts:

General Account - An account controlled by the Co-Trustee in which certain of the proceeds of the bond issues and any other monies received from loans or other sources are deposited to be used for the acquisition or construction of additional facilities.

Special Checking Account - An account in which monies are transferred from the Construction Fund General Account.

Imprest Account - An account used by the Authority to pay construction costs, which are not paid from the Special Checking Account. The Imprest Account is to be periodically replenished by transfers from the General Account.

General Operating Funds

The general operating funds consist of the Ports and non-Ports Authority operating funds. The amount of deposit for these funds represent the amount needed each month to pay Authority's Ports and non-Ports operating expenses. At June 30, 2008 and 2007, the current portion of cash and investments of the above mentioned funds were \$3.1 and \$1.7 million, respectively.

12. NOTES PAYABLE

Notes payable as of June 30, 2008 and 2007 consist of :

Description	Balance	
	June 30, 2008	June 30, 2007
	<i>(In Thousands)</i>	
Promissory note, bearing interest at LIBOR rate plus 80 basis points, through October 2018; principal payments begin in 2012.	\$ 411,705	\$ 411,705
Borrowings under line of credit agreement with bearing interest rate at 5.72%, due on demand.	77,107	34,600
Promissory notes payable, to bearing interest at variable rates (7.50% to 9.00%) due through May 2024.	27,457	29,898
Borrowings under line of credit agreements bearing interest at variable rates (5.02% to 5.12%), due on demand.	92,110	92,110
Promissory notes with bearing interest at LIBOR rate plus 50 basis points, due through June 2012; principal payments begin in 2010.	<u>39,855</u>	<u>2,750</u>
Total notes payable	648,234	571,063
Less Current portion	<u>184,980</u>	<u>144,503</u>
Long-term	<u>\$ 463,254</u>	<u>\$ 426,560</u>

LIBOR rate at June 30, 2008 and 2007 amounted to 3.16% and 4.56%, respectively.

Principal repayments on notes payable for the next five years and thereafter are as follow:

<u>Fiscal year ended June 30,</u>	<u>Principal</u>
2009	\$ 2,770
2010	2,965
2011	3,170
2012	3,395
2013	3,630
2014 through 2018	22,205
2019 through 2023	<u>23,180</u>
Total	<u>\$ 61,315</u>

Most of the promissory notes payable at June 30, 2008 represents borrowings under line of credit agreements with Wachovia Bank, with which the Authority refinanced all of its debts (\$411.7 million) in February 2007.

On September 14, 2007 the Authority entered in a loan agreement with the Government Development Bank for \$27.5 million to finance the purchase of a parcel of 23 acres located in the southern area of Old Naval Base, at the South Section of the ward known as Hangar 21. Of said amount the Authority received and used \$2,750,000 in April 2007 for the purchase option to acquire Hangar 21 and \$24,750,000 in September 2007 to consummate the acquisition.

13. RETIREMENT PLAN

Substantially all of 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. The payroll for employees covered by the System for the years ended June 30, 2008 and 2007 was approximately \$36.0 million and \$35 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% for 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 9.275% of the participant's gross salary. Total employer contributions during the years ended June 30, 2008 and 2007 under this plan amounted to approximately \$4,817,000 and \$3,838,000, respectively.

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 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the 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 assumes that takes into account each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) and investment income as defined in the Plan. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The Authority's contributions under this Plan for the years ended June 30, 2008 and 2007 amounted to approximately \$845,000 and \$756,000; respectively.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2008 and 2007, a copy of which can be obtained from the Retirement System Administration, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

The Authority has labor union contracts that provide all union employees who work for the Authority upon retirement with a lump-sum bonus payable at the retirement date of \$900 per year of service up to a maximum of \$27,000. In addition, management employees have similar benefits under the same conditions granted to labor union personnel. No actuarial valuation has been made for this retirement benefit as the Authority's management believes that if made, it will not affect the Authority's financial position or results of its operations.

14. COMMITMENTS AND CONTINGENCIES

Construction

As of June 30, 2008 and 2007, the Authority had commitments for approximately \$60.2 million and \$70.8 million, respectively, related to construction contracts.

Litigation

The Authority is defendant or co-defendant in various lawsuits under its normal course of operations for alleged damages in cases principally related to its concessionaries. These are generally either fully or partially covered by insurance. The Authority based on legal advice, has recorded an adequate provision to cover probable losses on those claims not fully covered by insurance. In the opinion of the Authority's Management, based on legal advice,

any liability in excess of the insurance coverage and/or the recorded provision that may arise from such claims, would not be significant to negatively affect the Authority's financial position or result of operations.

Special Facility Revenue Bonds

The Authority has issued \$39,810,000 in Special Facility Revenue Bonds, under the provisions of a Trust Agreement, dated as of June 1, 1993, and \$115,600,000 in Special Facility Revenue Bonds, under the provisions of a Trust Agreement dated May 1, 1996, between the Authority and The Chase Manhattan Bank (National Association), New York, New York, as Trustee (now JP Morgan Chase Bank) These bonds are limited obligations of the Authority, and are payable solely from and secured by a pledge of certain payments made under Special Facilities Agreements with American Airlines, Inc. and certain other monies. Neither the credit of the Commonwealth of Puerto Rico, nor that any of its political subdivisions is pledged for the repayment of these bonds. In addition, all the Special Facility Revenue Bonds are unconditionally guaranteed by American's Parent Company, AMR Corporation. The proceeds were used for the construction, acquisition of equipment and improvement of certain facilities at Luis Muñoz Marín International Airport for the benefit of American Airlines. The property is owned by the Authority and leased to AMR Corporation (the holding company of American Airlines). Therefore, the liability related to these bonds is not recorded in the accompanying financial statements.

Pursuant to the Special Facilities Agreements between the Authority and American Airlines, American has agreed to pay amounts sufficient to pay the principal of and premium, if any, and interest on the above bonds. The bonds are not collateralized by any property, but are payable solely from certain pledged payments by American under Special Facilities Agreements or by AMR Corporation under its unconditional guarantee.

15. PASSENGER FACILITY CHARGE

Pursuant to the Aviation Safety and Capacity Act of 1990 (the "Act"), airports may establish a Passenger Facility Charge ("PFC") of up to \$4.50 per ticket. Under the Act, PFC revenues are restricted to be used to finance eligible airport-related projects that preserve or enhance safety, capacity or security of the air transportation system subject to the approval of the Secretary of Transportation of the United States. The PFC income for the years ended June 30, 2008 and 2007 amounted to approximately \$21.6 million and \$20.7 million, respectively. As of June 30, 2008 and 2007, the Authority has unexpended resources amounting to approximately \$7.8 million and \$4.6 million respectively, which are restricted for PFC projects. PFC revenues are recognized as collected and are included in non-operating revenues.

16. RENTAL INCOME

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

All leases are non-cancelable operating leases. Cost of property leased or held for lease to others was approximately \$647 million and \$555 million for years ended June 30, 2008 and 2007, respectively.

Accumulated depreciation on this leased property was approximately \$280 million and \$276 million, for years ended June 30, 2008 and 2007, respectively. Minimum rentals on non-cancelable operating leases are \$50 million for the each of the next five years, for a total of \$250 million.

The Authority also has several leases that require the lessees to remit a percentage of their revenues or fuel consumption as their rental charges. Rental income under leases of this type is not included in future minimum rental amounts above. Rental income for 2008 and 2007 received through these leases was approximately \$55.0 million for each year. Although the actual income to be received in future periods cannot be known due to the nature of these leases, management does not anticipate significant changes in these rental amounts.

17. FEDERAL ASSISTANCE PROGRAMS

The Authority participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, or to compliance audits by grantor agencies. The resolution of certain previously identified questioned costs has not occurred. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Authority expects such amounts, if any, not to be significant.

Capital contributions for the years ended June 30, 2008 and 2007 consist of grants and donations as follow:

	<u>2008</u>	<u>2007</u>
	<i>(In Thousands)</i>	
Secretary of the Navy - Land donation	\$ 88,000	\$ -
Federal grants received from:		
Federal Aviation Administration	10,450	13,455
Federal Transit Administration	9,247	1,993
Transportation Security Administration	2,714	625
Other contributions	<u>2,617</u>	<u>1,660</u>
Total grants and contributions	113,028	17,733
Less:		
Pass - through grant program payments	(9,247)	(1,993)
Transfers - out	<u>(5,257)</u>	<u>(1,327)</u>
Net	<u>\$ 98,524</u>	<u>\$ 14,413</u>

18. OPERATING REVENUES

Operating revenues for the years ended on June 30, 2008 and 2007 consist of:

	<u>2008</u>	<i>(As Restated)</i> <u>2007</u>
	<i>(In Thousands)</i>	
Maritime operations:		
Wharfage, dockage and port services	\$ 33,415	\$ 34,094
Equipment and property rental	24,673	23,049
Tourist ship fees	19,949	18,486
Demurrage, utilities and other	<u>1,006</u>	<u>1,945</u>
	<u>79,043</u>	<u>77,575</u>
Airport operations:		
Landing fees	26,908	30,435
Space rentals	45,583	45,662
Utilities, gas sales and other	<u>4,084</u>	<u>4,056</u>
	<u>76,574</u>	<u>80,153</u>
Total revenues	155,617	157,728
Less discounts and incentives	<u>(1,825)</u>	<u>(2,360)</u>
Total net operating revenues	<u>\$ 153,792</u>	<u>\$ 155,369</u>

19. INVESTMENT IN JOINT VENTURE

On December 2007 the Authority's Board of Directors decided to terminate its joint venture between DynCorp International, LLP effective December 31, 2008. This joint venture was created to establish a school of aviation technology and a regional aircraft and logistics center and to provide aviation services. As a contribution for this joint venture, the Authority granted the rights for the exclusive use, at no rentals, of certain hangars and structures located at Rafael Hernandez Airport in Aguadilla, to be used for the Company's operations. At June 30, 2008 the investment of \$1million was written-off.

**INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING INFORMATION
REQUIRED BY THE TRUST AGREEMENT**

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on pages 39 to 44 provides additional analysis, which is not a required part of the basic financial statements, but is supplementary information required by the Trust Agreement. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HLB MORALES PADILLO & CO., PSC
CERTIFIED PUBLIC ACCOUNTANTS

PUERTO RICO PORTS AUTHORITY

STATEMENTS OF REVENUES AND EXPENSES

SUBJECT TO THE PROVISIONS OF THE TRUST AGREEMENT

YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<i>(As Restated)</i> <u>2007</u>
Revenues	<i>(In Thousands)</i>	
Maritime operations:		
Wharfage, dockage and port services	\$ 33,415	\$ 34,094
Equipment and property rental	24,673	23,049
Tourist ship fees	19,949	18,486
Demurrage, utilities and other	<u>1,006</u>	<u>1,945</u>
Total maritime	<u>79,043</u>	<u>77,575</u>
Airport operations:		
Landing fees	26,908	30,435
Space rentals	45,583	45,662
Utilities, gas sales and other	<u>4,084</u>	<u>4,056</u>
Total airport	<u>76,574</u>	<u>80,153</u>
Total operating revenues	<u>155,617</u>	<u>157,728</u>
Less:		
Discounts and incentive fees	(1,825)	(2,360)
Bad debt expense	<u>(15,331)</u>	<u>(9,000)</u>
Net operating revenues	<u>138,461</u>	<u>146,368</u>
Operating expenses:		
Salaries and employee benefits	76,485	74,583
General and administrative	30,075	28,686
Professional services	12,789	13,396
Insurance	7,851	7,149
Repairs and maintenance	1,690	1,755
Rent	<u>421</u>	<u>514</u>
Total operating expenses	<u>129,310</u>	<u>126,082</u>
Income before non-operating revenues (expenses)	<u>9,151</u>	<u>20,286</u>
Non-operating revenues (expenses)		
Fuel flowage fees	3,101	3,220
Penalties and other fees	<u>2,353</u>	<u>1,888</u>
Total non-operating income	<u>5,454</u>	<u>5,109</u>
Net income as defined in the Trust Agreement	<u>\$ 14,606</u>	<u>\$ 25,395</u>
Debt service Requirements	<u>\$ 6,689</u>	<u>\$ 9,123</u>
Debt Service Coverage Ratio:		
Required	125%	125%
Actual	218%	278%

PUERTO RICO PORTS AUTHORITY

SCHEDULE OF REVENUE BONDS

June 30, 2008

	<u>Principal Amount</u> <i>(In Thousands)</i>
<u>SERIAL BONDS</u>	
Term Bonds Series D maturing annually from July 1, 2006 through 2014	\$ 23,975
Term Bonds Series D maturing annually from July 1, 2015 through 2021	<u>37,340</u>
Total	<u>\$ 61,315</u>
Principal paid during the year ended June30, 2008:	
Series C	\$ 2,265
Series D	<u>2,590</u>
Total	<u>\$ 4,855</u>

PUERTO RICO PORTS AUTHORITY

**SCHEDULE OF PROPERTY AND EQUIPMENT SUBJECT TO
THE TRUST AGREEMENT
JUNE 30, 2008 AND 2007**

	<u>2008</u>	<i>(As Restated)</i> <u>2007</u>
	<i>(In Thousands)</i>	
Land and land improvements	\$ 143,790	\$ 138,148
Infrastructure	146,111	136,496
Buildings, piers, improvements and other structures	608,432	533,824
Roads and parking areas	213,632	171,732
Machinery, furniture and equipment	88,325	85,921
Automobiles and service vehicles	13,300	13,897
Construction in progress	<u>312,747</u>	<u>333,651</u>
Total	1,526,337	1,413,669
Less accumulated depreciation and amortization	<u>(548,230)</u>	<u>(508,093)</u>
Net book value	<u>\$ 978,107</u>	<u>\$ 905,576</u>

PUERTO RICO PORTS AUTHORITY

SCHEDULE OF RECEIPTS AND DISBURSEMENTS OF FUNDS SUBJECT TO THE TRUST AGREEMENT

JUNE 30, 2008

	Balance June 30, 2007	Receipts		Disbursements	Interfund Transfers Dr.(Cr)	Balance June 30, 2008
		Fuel Flowage Fees	Others			
Funds deposited with Co-Trustee and Government Development Bank for Puerto Rico ("GDB")						
		<i>(In Thousands)</i>				
General operating fund	\$ 1,304	\$ -	\$ -	\$ (145,767)	\$ 144,463	\$ -
Construction fund	-	-	-	(95,287)	95,287	-
Revenue fund	-	3,069	121,754	-	(124,823)	-
Maintenance reserve fund	3,409	-	125	-	947	4,481
Renewal and replacements fund	2,796	-	100	-	879	3,775
Other funds	78	-	3	-	-	81
Total	7,587	3,069	121,982	(241,054)	116,753	8,337
Funds held by Trustee;						
Bond service account	6,295	-	64	(4,092)	1,161	3,428
Reserve account	9,476	-	622	-	-	10,098
Redemption account	2,494	-	27	(4,855)	5,582	3,248
Total funds held by Trustee	18,265	-	713	(8,947)	6,743	16,774
Total	\$ 25,852	\$ 3,069	\$122,695	\$ (250,001)	\$ 123,496	\$ 25,111

PUERTO RICO PORTS AUTHORITY

DETAIL OF FUNDS SUBJECT TO THE TRUST AGREEMENT - Invested and Non Invested
 JUNE 30, 2008

Invested Funds	<u>Maintenance Reserve Fund</u>	<u>Renewal Replacement Fund</u>	<u>Other Funds</u>	<u>Sinking Fund</u>	<u>Total</u>
	<i>(In Thousands)</i>				
U.S. Treasury Bills	\$ -	\$ -	\$ -	\$ 15,377	\$ 15,377
Money Market	<u>4,480</u>	<u>3,776</u>	<u>81</u>	<u>-</u>	<u>8,337</u>
Total funds invested	<u>4,480</u>	<u>3,776</u>	<u>81</u>	<u>15,377</u>	<u>23,714</u>
Funds not invested	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,397</u>	<u>1,397</u>
Total Funds Subject to the Trust Agreement	<u>\$ 4,480</u>	<u>\$ 3,776</u>	<u>\$ 81</u>	<u>\$ 16,774</u>	<u>\$ 25,111</u>

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
YEAR ENDED JUNE 30, 2008**

The schedules comprising the accompanying information have been prepared in accordance with the Trust Agreement entered into by the Authority and the Trustee and Co-trustee, dated January 1, 1972.

Revenues – The Authority’s revenues, as defined in the Trust Agreement, will be revised as necessary to be sufficient for the payment of current expenses, and also provide for the higher of either the amounts needed for making the deposits in each fiscal year to the credit of the Sinking Fund and the Maintenance Reserve Fund or an amount not less than 125% of the maximum aggregate principal and interest requirements for any fiscal year for all bonds then outstanding.

Deferred revenues – Deferred revenues include the cost of construction of airport and maritime facilities, incurred by lessees and is being amortized into income based on the terms established in the lease agreements.

Capital assets – The schedule of capital assets are stated at cost and does not include \$88 million worth of land donated by the Federal Government and contributions of property received from the Commonwealth of Puerto Rico and others. The cost of projects constructed by the Authority includes a portion of interest allocated during the construction period. Provision for depreciation and amortization of capital assets has been excluded from the schedule of computation of net income.

Bonds payable, amortization of bond discounts and bond issue costs – The Authority issued bonds at various times for the purpose of financing certain facilities and improvements to airports and pier facilities.

Bond discounts and bond issue costs associated with the issuance of the Authority’s Revenue Bonds have been excluded from the schedule of computation of net income.