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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, 2008



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, 2008, 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, 2008, 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, Special Tax Revenue Bonds, Series 2006, Schedule C, and Mental Health Infrastructure Revenue Bonds, Series 2007 A and B, Schedule D, 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 not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it.

San Juan, Puerto Rico
September 24, 2008.

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

Stamp No. 2363199 was affixed
to the original of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

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 \$113,486,225 or 92.74% as of June 30, 2008. This change is mostly related to the net effect of \$94.3 million increase in earnings on investments, \$5.2 million contribution from Port of Las Americas Authority and a decrease of \$5.1 million in the expenditures related to Puerto Rico Aqueduct and Sewer Authority (PRASA) projects. The financial position of the Authority improved during the year ended June 30, 2008 since the net assets increased.
- The Authority's net change from governmental activities increased by \$67,472,603 from \$46,013,622 in June 30, 2007 to \$113,486,225 in June 30, 2008.
- The General Fund, the primary operating fund, and the Capital Projects Fund reflected on a modified accrual basis, a decrease in fund balance of \$1,003,741 and \$226,135,529, respectively. The debt service and permanent funds reflected an increase of \$5,440,487 and \$137,402,940, 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.

	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Increase (Decrease)</u>
Current and other assets	\$ 2,176,634,938	\$ 2,214,714,845	\$ (38,079,907)
Capital assets	<u>1,418,079,717</u>	<u>1,228,506,764</u>	<u>189,572,953</u>
Total assets	<u>3,594,714,655</u>	<u>3,443,221,609</u>	<u>151,493,046</u>
Current liabilities	225,947,513	185,321,600	40,625,913
Non-current liabilities	<u>3,132,906,331</u>	<u>3,135,525,423</u>	<u>(2,916,092)</u>
Total liabilities	<u>3,358,853,844</u>	<u>3,320,847,023</u>	<u>38,006,821</u>
Net assets:			
Invested in capital assets	1,418,079,717	1,228,506,764	189,572,953
Restricted	1,963,959,687	1,999,761,030	(35,801,343)
Unrestricted	<u>(3,146,178,593)</u>	<u>(3,105,893,208)</u>	<u>(40,285,385)</u>
Total net assets	<u>\$ 235,860,811</u>	<u>\$ 122,374,586</u>	<u>\$ 113,486,225</u>

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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, 2008, increased by \$113,486,225 or 92.73%, when compared to total net assets as of June 30, 2007.

The assets increased by \$151,493,046 or 4.40% when it is compared with June 30, 2007. Capital assets increased by \$189,572,953. This is related to an increase in the progress of the construction of projects related to XXI Central American & Caribbean Games to be celebrated in the west area of the island on year 2010.

For the year ended June, 30, 2008, the increase of \$189,572,953 in capital assets is mostly attributed to the net change of the following projects:

Description	Amount
Port of the Americas	\$ 30,657,574
Education	12,831,365
Water and Sewer	43,082,710
Edificacions	15,088,087
Recreational and Sports	63,168,276
Arts and Entertainment	13,288,016
Transportation	11,498,832
Net decrease in depreciable assets	<u>(41,907)</u>
Change in construction work in process	<u>\$ 189,572,953</u>

The total liabilities of the Authority increased by \$38,006,821 or 1.14%. This is mainly related to the issuance of Mental Health Infrastructure Bonds, Series 2007 of approximately \$43.3 million, net of other decreases.

The following schedule compare revenues and expenses of the Authority for the years ended June 30, 2008 and 2007:

	Year ended June 30, 2008	Year ended June 30, 2007	Increase (Decrease)
Revenues:			
Program revenues – operating grants, contributions and earnings (losses) on investments	\$ 299,852,209	\$ 173,986,055	\$ 125,866,154
General revenues:			
Grants and contributions not restricted to specific programs	7,000,000	4,634,352	2,365,648

Continues ...

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	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Increase (Decrease)</u>
Continued ...			
Investment earnings	20,935,320	14,062,110	6,873,210
Other miscellaneous revenues	358,137	-	358,137
	<u>328,145,666</u>	<u>192,682,517</u>	<u>135,463,149</u>
Expenses:			
Program activities-			
General government	6,819,083	5,509,680	1,309,403
Aqueduct and sewer	-	4,843,969	(4,843,969)
Ports	372,673	737,779	(365,106)
Revolving fund	128,556	4,001,844	(3,873,288)
Transportation	13,414,996	6,658,816	6,756,180
Edifications	32,629,328	181,179	32,448,149
Education	5,373,417	-	5,373,417
Recreation and sports	6,808,928	836,490	5,972,438
Arts and entertainment	245,749	190,853	54,896
Interest on long-term debt	148,866,711	123,708,285	25,158,426
	<u>214,659,441</u>	<u>146,668,895</u>	<u>67,990,546</u>
Net change in net assets	<u>\$ 113,486,225</u>	<u>\$ 46,013,622</u>	<u>\$ 67,472,603</u>

Revenues

Operating grants and contributions, and earnings on investments from governmental activities, increased by \$135,463,149 during the year ended June 30, 2008 when it is compared with June 30, 2007, mainly due to the gain of \$210,806,966 in the fair market value of certain investments during the year ended June 30, 2008, in comparison with a loss in the fair market value of investment of \$79,405,794 during the year ended June 30, 2007.

Expenses

Net increase in expenses of \$67,990,546 represents mainly a progress of construction projects related to XXI Central American & Caribbean Games of \$32,448,149, progress of minor constructions and rehabilitations of public schools across the island and interest in long-term debt.

The aqueduct and sewer program had a decrease of \$4,843,969 which is mostly related to the final completion of water and sewer projects.