Basic Financial Statements and Required and Other Supplementary Information

Public Buildings Authority
Years Ended June 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

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Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required and
Other Supplementary Information

Years Ended June 30, 2012 and 2011

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Report of Independent Auditors

The Board of Directors of
Public Buildings Authority

We have audited the accompanying basic financial statements of the Public Buildings Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Authority's internal control over financial reporting. Our audits included 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 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, and evaluating the overall financial statement presentation. We believe that our audits provide 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 the Public Buildings Authority at June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 15 and the schedule of funding progress on page 58 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information on pages 59 through 62 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst & Young LLP

April 13, 2013

Stamp No. E54998
affixed to
original of
this report.

Management's Discussion and Analysis

Years Ended June 30, 2012 and 2011

Following is an overview and analysis of the financial activities of the Public Buildings Authority (the Authority) for the fiscal years ended June 30, 2012 and 2011. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. It is intended to serve as an introduction to the Authority's financial statements, which are comprised of the basic financial statements and the notes to financial statements. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole.

The *Balance Sheet* presents information on all of the Authority's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets, without a corresponding increase to liabilities, result in increased net assets, which also indicates an improved financial position.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the Authority's net assets changed during the period and are reported as soon the underlying event occur, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* reports cash receipts, cash payments, and net changes in cash resulting from operations, non-capital financing activities, capital and related financing activities, and investing activities.

The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the basic financial statements.

In addition to the basic financial statements and accompanying notes, various schedules present certain information concerning changes in bonds sinking funds accounts, activity at operating cash accounts, detail of rental operating revenues and receivables, and summary of capital improvements programs compared to budget.

Financial Highlights

- The Authority's net deficit increased by $110,050,088 (170.3%) during the year ended June 30, 2012. For the year ended June 30, 2011 the net assets decreased by $168,793,902 (162.0%). For the year ended June 30, 2012, the Authority reported operating income of $36,328,409; this income was mainly due to an increase in rent revenue, and a decrease in salaries and employees benefits, voluntary termination benefits, and repairs and maintenance, among others.

- The Authority's operating loss decreased from $12.9 million for year ended June 30, 2011 to an operating income of $36.3 million for year ended June 30, 2012. That increase was mainly due to the same reasons mentioned above.

Overview of the Financial Statements

Balance Sheets – Following is condensed financial information of the balance sheets of the Authority.

Analysis of 2012 and 2011

			Change	
	2012	**2011**	**In Dollars**	**Percentage**
Current assets	**$ 188,486,396**	$ 86,989,507	$ 101,496,889	116.7%
Capital assets	**3,434,748,589**	2,989,269,976	445,478,613	14.9%
Other noncurrent assets	**1,035,429,973**	529,421,785	506,008,188	95.6%
Total assets	**$4,658,664,958**	$3,605,681,268	$1,052,983,690	29.2%
Current liabilities	**$ 419,151,463**	$ 268,433,570	$ 150,717,893	56.2%
Noncurrent liabilities	**4,414,180,221**	3,401,864,336	1,012,315,885	29.8%
Total liabilities	**4,833,331,684**	3,670,297,906	1,163,033,778	31.7%
Net assets (deficit):				
Invested in capital assets, net of related debt	**11,084,414**	37,267,277	(26,182,863)	(70.3%)
Restricted	**2,247,906**	67,019,252	(64,771,346)	(96.6%)
Unrestricted	**(187,999,046)**	(168,903,167)	(19,095,879)	11.3%
Total net assets (deficit)	**(174,666,726)**	(64,616,638)	(110,050,088)	170.3%
Total liabilities and net assets	**$4,658,664,958**	$3,605,681,268	$1,052,983,690	29.2%

Analysis of 2011 and 2010

	2011	2010	Change In Dollars	Change Percentage
Current assets	$ 86,989,507	$ 57,301,917	$ 29,687,590	51.8%
Capital assets	2,989,269,976	2,895,140,953	94,129,023	3.3%
Other noncurrent assets	529,421,785	618,188,831	(88,767,046)	(14.4)%
Total assets	$3,605,681,268	$3,570,631,701	$ 35,049,567	1.0%
Current liabilities	$ 268,433,570	$ 341,589,392	$ (73,155,822)	(21.4)%
Noncurrent liabilities	3,401,864,336	3,124,865,045	276,999,291	8.9%
Total liabilities	3,670,297,906	3,466,454,437	203,843,469	5.9%
Net assets (deficit):				
Invested in capital assets, net of related debt	37,267,277	13,664,857	23,602,420	172.7%
Restricted	67,019,252	38,117,890	28,901,362	75.8%
Unrestricted	(168,903,167)	52,394,517	(221,297,684)	(422.4)%
Total net assets (deficit)	(64,616,638)	104,177,264	(168,793,902)	(162.0)%
Total liabilities and net assets	$3,605,681,268	$3,570,631,701	$ 35,049,567	1.0%

Analysis of Net Assets at June 30, 2012 and 2011

When comparing June 30, 2012 with June 30, 2011, there were an increase in current assets of $101.5 million (116.7%). This increase was due to the cash received from the proceeds of the issuance of Bonds Series R and T. Capital assets increased by $445.5 million (14.9%) due to the improvements and construction of the Schools under the 21st Century Program. Other non-current assets show an increase of $506 million (95.6%) mainly driven by an increase in bond sinking funds due to the cash received from the proceeds of the issuance of Bonds Series R, S, T, and U, and the decrease in rent receivable, related to a $38.3 million commitment for past due receivable.

Current liabilities increased by $150.7 million (56.2%). This increase is related to an increase in due to other government agencies, related to the Schools for the 21st Century Program. Other noncurrent liabilities increased by $1,012 million (29.8%) mainly due to the new issuance of Bonds Series R, S, T and U.

Analysis of Net Assets at June 30, 2011 and 2010

The total net assets at June 30, 2011, compared to prior year, decreased of 162.0%. This was caused by a reduction in rent fee approve by the Commonwealth of Puerto Rico.

When comparing June 30, 2011 with June 30, 2010, there was a decrease in current liabilities of 21.4%. This decrease was the net effect of a reclassification to noncurrent liabilities due to various lines of credit to be paid with a Series S issuance, a decrease in accounts payable, and an increase in due to other government agencies, related to the Schools for the 21st Century Program. During the year ended June 30, 2011, the Authority disbursed $20 million to the Puerto Rico Electric Power Authority as partial payment of the $36.4 million in arrears owed to the utility agency as of June 30, 2010. The Authority has continued to pay its current utility expenses.

Other non-current assets show a decrease of 14.4% mainly driven by the decrease in rent receivable, related to a $38.5 million commitment for past due receivable.

Statements of Revenues, Expenses and Changes in Net Assets

			Change	
	2012	**2011**	**In Dollars**	**Percentage**
Operating revenues – rent revenue	**$ 235,128,787**	$212,814,430	$22,314,357	10.5%
Non-operating revenues:				
Contributions from P.R. Sales Tax Financing Corporation	**–**	5,639,813	(5,639,813)	(100.0)%
Interest income	**3,050,146**	157,348	2,892,798	1838.5%
Intergovernmental	**21,315,007**	10,350,978	22,255,658	215.0%
Service charges and others	**8,151,041**	2,626,535	5,524,506	210.3%
Bonds Subsidy	**28,061,105**	–	28,061,105	100.0%
Capital contribution	**11,291,629**	–	11,291,629	100.0%
Total revenues	**306,997,715**	231,589,104	75,408,611	32.6%

(Continued)

Statements of Revenues, Expenses and Changes in Net Assets (continued)

	2012	2011	Change In Dollars	Change Percentage
Balances brought forward	**306,997,715**	231,589,104	75,408,611	32.6%
Operating expenses:				
Salaries and employee benefits	**61,031,542**	82,009,762	(20,978,220)	(25.6)%
Depreciation	**73,769,015**	67,387,667	6,381,348	9.5%
Utilities	**20,369,642**	22,504,298	(2,134,656)	(9.5)%
Repairs and maintenance	**12,665,411**	20,652,645	(7,987,234)	(38.7)%
Termination benefits	**1,503,481**	13,409,606	(11,906,125)	(88.8)%
Security services	**4,021,000**	3,528,225	492,775	14%
Rent and insurance	**6,440,214**	7,260,485	(820,271)	11.3%
Settlement of legal claim and other contingencies	**5,935,305**	1,549,216	4,386,089	283.1%
General and administrative	**13,064,768**	7,378,523	5,686,245	77.1%
Total operating expenses	**198,800,378**	225,680,427	(26,880,049)	(11.9)%
Non-operating expenses:				
Interest on bonds and notes, net of capitalized interest	**207,581,727**	164,711,431	42,870,296	26.0%
Amortization of deferred loss on bond defeasance	**7,462,637**	7,462,637	–	0.0%
Amortization of bond issuance costs	**3,164,482**	2,505,609	658,873	26.3%
Loss on disposition of capital assets	**38,579**	22,902	15,677	68.5%
Total non-operating expenses	**218,247,425**	174,702,579	43,544,846	24.9%
Total expenses	**417,047,803**	400,383,006	16,664,797	4.2%
Change in net assets	**(110,050,088)**	(168,793,902)	58,743,814	(34.8)%
Net asset (deficit) at beginning of year	**(64,616,638)**	104,177,264	(168,793,902)	(162.0)%
Net deficit at end of year	**$(174,666,726))**	$ (64,616,638)	$(110,050,088)	170.3%

Analysis of Fiscal Years 2012 and 2011

For fiscal years 2012 and 2011, operating revenues were approximately $235.1 million and $212.8 million, respectively. This change resulted from a 10.5% increase of the rental income. The change was mainly due to an increase in the replacement, maintenance and extraordinary improvements rent component.

During the year ended June 30, 2012, the operating expenses decreased compared to prior year ended June 30, 2011. The main reason for the decrease was due to the net effect of a decrease in repairs and maintenance, salaries and employee benefits and in voluntary termination benefits. Non-operating expenses for the year ended June 30, 2012 increased by $43.5 million due principally to increase on interest on bond and notes.

Statements of Revenues, Expenses and Changes in Net Assets

			Change	
	2011	**2010**	**In Dollars**	**Percentage**
Operating revenues – rent revenue	$212,814,430	$332,316,169	$(119,501,739)	(36.0)%
Non-operating revenues:				
Contributions from P.R. Sales Tax Financing Corporation	5,639,813	12,857,123	(7,217,310)	(56.1)%
Interest income	157,348	185,753	(28,405)	(15.3)%
Intergovernmental	10,350,978	15,752,411	(5,401,433)	(34.3)%
Service charges and others	2,626,535	–	2,626,535	100.0%
Other income	–	3,439,660	(3,439,660)	(100.0)%
Total revenues	231,589,104	364,551,116	(132,962,012)	(36.5)%
Operating expenses:				
Salaries and employee benefits	82,009,762	90,085,812	(8,076,050)	(09.0)%
Depreciation	67,387,667	66,266,227	1,121,440	01.7%
Utilities	22,504,298	20,257,372	2,246,926	11.1%
Repairs and maintenance	20,652,645	6,633,985	14,018,660	211.3%
Termination benefits	13,409,606	–	13,409,606	100.0%
Security services	3,528,225	7,596,315	(4,068,090)	(53.6)%
Rent and insurance	7,260,485	8,207,208	(946,723)	(11.5)%
Settlement of legal claim and other contingencies	1,549,216	1,994,334	(445,118)	(22.3)%
General and administrative	7,378,523	3,163,865	4,214,658	133.2%
Total operating expenses	225,680,427	204,205,118	21,475,309	10.5%

(Continued)

Analysis of Fiscal Years 2012 and 2011 (continued)

Statements of Revenues, Expenses and Changes in Net Assets (continued)

	2011	2010	Change In Dollars	Change Percentage
Balances brought forward	225,680,427	204,205,118	21,475,309	10.5%
Non-operating expenses:				
Interest on bonds and notes, net of capitalized interest	164,711,431	159,806,600	(4,904,831)	3.1%
Float interest, service charges, and others	–	2,235,078	(2,235,078)	(100.0)%
Amortization of deferred loss on bond defeasance	7,462,637	7,270,561	192,076	2.6%
Amortization of bond issuance costs	2,505,609	4,407,052	(1,901,443)	(43.1)%
Loss on disposition of capital assets	22,902	2,616,008	(2,593,106)	(99.1)%
Total non-operating expenses	174,702,579	176,335,299	(1,632,720)	(1.0)%
Total expenses	400,383,006	380,540,417	19,842,589	5.2%
Change in net assets	(168,793,902)	(15,989,301)	(152,804,601)	955.7%
Net assets at beginning of year	104,177,264	120,166,565	(15,989,301)	(13.3)%
Net assets(deficit) at end of year	$(64,616,638)	$104,177,264	$(168,793,902)	(162.0)%

Analysis of Fiscal Years 2011 and 2010

For fiscal years 2011 and 2010, operating revenues were approximately $212.8 million and $332.3 million, respectively. This change resulted in a 36% decrease of the rental income. The decrease was mainly due to a reduction in rent fee approved by the Commonwealth of Puerto Rico.

For the year ended June 30, 2011, the operating expenses increased compared to prior year ended June 30, 2010. The main reason for increase was due to the net effect of increase in repairs and maintenance and general and administrative due to the School Summer Program 2010, that is required to perform the necessary improvements as painting, trimming, fumigating, among others, in order that the schools be in good condition for the beginning of the semester. Decrease in salaries and employee benefits, increase in termination benefits due to the enacted Act No. 70 for voluntary employment termination program, and a decrease in security services. Note the Authority followed GASB No. 47, *Accounting for Termination Benefits*. Non-operating expenses for the year ended June 30, 2011 increased due to increase on bond interest and notes and the decrease of intergovernmental income.

Capital Assets

Capital assets as of June 30, 2012 and 2011 were as follows:

	June 30		
	2012	**2011**	**Change**
Capital assets being depreciated	**$ 3,617,699,550**	$ 3,533,911,730	$ 83,787,820
Accumualted depreciation and amortization	**(1,044,933,840)**	(971,832,713)	(73,101,127)
	2,572,765,710	2,562,079,017	10,686,693
Land	**130,473,114**	130,730,944	(257,830)
Construction in progress	**731,509,765**	296,460,015	435,049,750
Capital assets, net	**$ 3,434,748,589**	$ 2,989,269,976	$ 445,478,613

	June 30		
	2011	**2010**	**Change**
Capital assets being depreciated	$ 3,533,911,730	$ 3,445,719,899	$ 88,191,831
Accumualted depreciation and amortization	(971,832,713)	(904,855,207)	(66,977,506)
	2,562,079,017	2,540,864,692	21,214,325
Land	130,730,944	130,735,879	(4,935)
Construction in progress	296,460,015	223,540,382	72,919,633
Capital assets, net	$ 2,989,269,976	$ 2,895,140,953	$ 94,129,023

Capital Assets (continued)

June 30, 2012 and 2011

The Authority's investment in capital assets as of June 30, 2012 and 2011 amounted to approximately $3.4 billion and $3.0 billion, respectively, net of accumulated depreciation. Capital assets include land, land improvements, construction in progress, buildings, equipment, furniture, and vehicles. Most buildings consist of governmental facilities that are leased to the Commonwealth's agencies and public corporations. For more information, please refer to Note 8 of the basic financial statements.

During the years ended June 30, 2012 and 2011, the Authority invested approximately $639 million and $157 million, respectively, for the construction of buildings that will then be leased to the Commonwealth. This construction activity was financed through interim lines of credit with the Governmental Development Bank (GDB) and the proceeds of the bonds issuances. The rent revenue generated by these buildings is pledged first for the payment of long-term debt.

June 30, 2011 and 2010

The Authority's investment in capital assets as of June 30, 2011 and 2010 amounted to approximately $3.0 billion and $2.9 billion, respectively, net of accumulated depreciation. Capital assets include land, land improvements, construction in progress, buildings, equipment, furniture, and vehicles. Most buildings consist of governmental facilities that are leased to the Commonwealth's agencies and public corporations. For more information, please refer to Note 8 of the basic financial statements.

During the years ended June 30, 2011 and 2010, the Authority invested approximately $157 million and $83 million, respectively, for the construction of buildings that will then be leased to the Commonwealth. This construction activity was financed through interim lines of credit with the Governmental Development Bank (GDB) and the proceeds of the bonds issuances. The rent revenue generated by these buildings is pledged first for the payment of long-term debt.

Debt Administration

Long-term debt at June 30, 2012 and 2011 was as follows:

Bonds Payable	June 30 2012	June 30 2011	Change
Revenue bonds	**$ 37,315,000**	$ 37,315,000	$ –
Government facilities	**4,334,759,115**	3,032,224,085	1,302,535,030
Total bonds	**4,372,074,115**	3,069,539,085	1,302,535,030
Add (deduct):			
Bond discounts	**(30,870,194)**	(25,272,894)	(5,597,300)
Deferred loss on bonds	**(133,924,514)**	(142,673,870)	8,749,356
Accreted value on bonds outstanding	**19,937,885**	30,341,471	(10,403,586)
Bond premiums	**58,106,436**	76,268,664	(18,162,228)
Total bonds	**$ 4,285,323,728**	$ 3,008,202,456	$ 1,277,121,272

Debt Administration (continued)

	June 30		
	2012	**2011**	**Change**
Bonds payable	**$ 4,285,323,728**	$ 3,008,202,456	$ 1,277,121,272
Borrowings under line of credit	**140,871,510**	415,182,000	(274,310,490)
Long-term debt outstanding	**4,426,195,238**	3,423,384,456	1,002,810,782
Other long-term liabilities:			
Due to contractors	**26,496,226**	40,568,111	(14,071,885)
Advances from other governmental agencies	**3,024,596**	3,024,596	–
Compensated absences	**11,530,563**	12,146,386	(615,823)
Contingencies	**16,544,127**	10,026,514	6,517,613
Other postemployment benefit obligations	**8,114,876**	5,910,172	2,204,704
Voluntary termination benefits	**12,781,901**	13,409,606	(627,705)
Due to Commonwealth	**1,683,808**	1,683,808	–
Total other long-term liabilities	**80,176,097**	86,769,193	(6,593,096)
Total long-term obligations	**4,506,371,335**	3,510,153,649	$ 996,217,686
Less:			
Current portion	**92,191,114**	108,289,313	
Long-term obligations, less current portion	**$ 4,414,180,221**	$ 3,401,864,336	

The Authority's long-term debt increased by $1.003 million from $3.423 million as of June 30, 2011 to $4.426 million as of June 30, 2012, mainly due to the new issuance of Bonds Series R, S, T and U.

As of June 30, 2012 and 2011, the Authority has outstanding bonds payable of $4.285 billion and $3.008 billion, respectively. The balance is net of unamortized bond discounts, bond premium, deferred loss on bonds refunding, and bonds issuance costs. For more information, please refer to Note 12 of the basic financial statements.

Other Currently Known Facts

On August 24, 2011, the Authority issued $756,449,000 aggregate principal amount of Government Facilities Revenue Bonds, Series R (Qualified School Construction Bonds-Issuer Subsidy), guaranteed by the Commonwealth of Puerto Rico. The proceeds from the issuance were used to finance the rehabilitation, renovation or construction of at least 100 public schools under this program. The Authority expects to finance the rehabilitation, renovation or construction of the remaining public schools through a future issuance of bonds also designated as "Qualified School Construction Bonds".

Concurrently with the issuance of the Series R Bonds, on August 24, 2011 the Authority issued $303,945,000 aggregate principal amount of Government Facilities Revenue Bonds, Series S, guaranteed by the Commonwealth of Puerto Rico. The bonds were issued to (i) repay certain advances made to the Authority by Government Development Bank of Puerto Rico under line of credit facilities to (a) pay interest due January 1 and July 1, 2011 on certain bonds issued under the 1995 Bond Resolution and the 1970 Bond Resolution, and (b) pay a portion of the construction costs of certain buildings and facilities leased by the Authority to various departments, agencies, instrumentalities and municipalities of the Commonwealth; and (ii) pay costs of issuance the bonds. The Government Facilities Revenue Bonds, Series S, were used to repay the lines of credit principal in the amounts of $147.8 million, $16.2 million and $122 million, and accrued interest of $16 million.

On December 22, 2011, the Authority issued $121,528,000 aggregate principal amount of Government Facilities Revenue Bonds, Series T (Qualified Zone Academy Bonds-Direct Payment), guaranteed by the Commonwealth of Puerto Rico. The proceeds from the issuance were used to pay part of the cost of renovating and rehabilitating certain public schools.

On June 21, 2012, the Authority issued $582,345,000 aggregate principal amount of Government Facilities Revenue Refunding Bonds, Series U, guaranteed by the Commonwealth of Puerto Rico. The proceeds from the issuance were used to (i) refund in whole the Authority's Series J Bonds; (ii) refund a portion of the Authority's Series D and Series G Bonds (together with the Series J Bonds, the "Refunded Bonds"); (iii) repay certain advances made to the Authority by Government Development Bank of Puerto Rico under a line of credit; (iv) pay capitalized interest on the Bonds through July 1, 2013, and (v) pay expenses related to the issuance and sale of Bonds.

Other Currently Known Facts (continued)

As discussed in Note 19, on July 20, 2012, the Board of Directors authorized the Executive Director to obtain a loan from the Government Development Bank of Puerto Rico to finance all or a portion of the interest and principal components of certain outstanding revenue and revenue refunding bonds. The Authority is authorized to accept the terms and conditions of a loan in a principal amount not to exceed $103,652,602 to pay all or any portion of the interest component coming due during the twelve months after the date of the first drawing under the Loan Agreement. The loan shall mature and be due and payable on June 30, 2013.

On July 20, 2012, the Board of Directors authorized the Executive Director to obtain a loan from the Government Development Bank of Puerto Rico to financing all or a portion of the interest and principal components of certain outstanding revenue and revenue refunding bonds. The Authority is authorized to accept the terms and conditions of a loan in a principal amount not to exceed $71,145,555 to pay all or any portion of the principal component coming due during the twelve months after the date of the first drawing under the Loan Agreement. The loan shall mature and be due and payable on June 30, 2013.

On July 13, 2012, the Treasury Department transferred $35 million to the Authority related to the fourth partial payment of rent in arrears from agencies of the Commonwealth of Puerto Rico due before June 30, 2011.

As of June 30, 2012, 2011 and 2010, the principal amount of the Authority, net of unamortized discounts and net losses on advance refunding which approximated $4,372,074,115 million, $3,069,539,085 million and $ 3,154,389,085 million, respectively, were insured and rated Baa1, Baa3 and A3, respectively, by Moody's Investors Service (Moody's). On December 13, 2012, subsequent to year ended, the credit-rating agency, Moody's Investors Service, downgraded its rating on Puerto Rico's general obligation bonds, including the Authority's Bonds from Baa1to Baa3. On March 20, 2013, the credit-rating agency "Fitch" downgraded Puerto Rico GO's bonds from BBB+ to BBB-.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those interested parties. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Comptroller's Office, Public Buildings Authority, PO Box 41029, San Juan, PR 00940-1029.

Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Balance Sheets

	June 30 2012	June 30 2011
Assets		
Current assets:		
Cash and cash equivalents	**$ 122,481,435**	$ 34,701,282
Rent receivable	**55,402,149**	51,758,194
Other receivables, net	**9,749,957**	530,031
Other assets	**852,855**	–
Total current assets	**188,486,396**	86,989,507
Noncurrent assets:		
Restricted cash and cash equivalents:		
Bond sinking funds	**806,407,473**	176,103,008
Cash to be deposited in bond sinking funds	**11,435,008**	52,709,263
Construction funds	**30,783,047**	61,243,055
Funds for construction of facilities for other governmental agencies	**3,428,549**	3,796,605
Other restricted cash and cash equivalents	**484**	484
School Renovation Fund	**305,136**	305,136
Rent receivable	**35,069,760**	88,916,621
Due from Commonwealth	**92,903,697**	92,903,697
Notes receivable from other governmental agency	**7,734,568**	7,734,568
Land and buildings under construction for other governmental agencies	**1,538,817**	350,381
Prepaid insurance on bonds	**10,299,165**	25,832,818
Deferred charges	**32,440,431**	16,442,311
Capital assets, net	**3,434,748,589**	2,989,269,976
Property held for sale	**3,083,838**	3,083,838
Total noncurrent assets	**4,470,178,562**	3,518,691,761
Total assets	**$ 4,658,664,958**	$ 3,605,681,268

(Continued)

Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Balance Sheets (continued)

	June 30 2012	June 30 2011
Liabilities and net assets (deficit)		
Liabilities:		
Current liabilities:		
Accounts payable	**$ 944,150**	$ 2,937,387
Due to other governmental agencies	**182,567,912**	53,981,733
Accrued expenses	**35,500,826**	19,820,263
Deferred rent revenue	**9,907,980**	–
Compensated absences, current portion	**3,459,169**	3,158,060
Bonds payable	**78,580,448**	81,001,970
Interest payable	**96,853,182**	82,218,575
Other advances	**1,186,299**	1,186,299
Due to contractors	**7,108,417**	20,966,664
Other post-employment benefits obligation, current portion	**819,602**	1,072,275
Voluntary termination benefits	**2,223,478**	2,090,344
Total current liabilities	**419,151,463**	268,433,570
Noncurrent liabilities:		
Borrowings under credit line	**140,871,510**	415,182,000
Bonds payable	**4,206,743,280**	2,927,200,486
Due to contractors, including retainage	**19,387,809**	19,601,447
Advances from other governmental agencies	**3,024,596**	3,024,596
Compensated absences	**8,071,394**	8,988,326
Contingencies	**16,544,127**	10,026,514
Other post-employment benefits obligation	**7,295,274**	4,837,897
Voluntary termination benefits	**10,558,423**	11,319,262
Due to Commonwealth	**1,683,808**	1,683,808
Total noncurrent liabilities	**4,414,180,221**	3,401,864,336
Total liabilities	**4,833,331,684**	3,670,297,906
Net assets (deficit):		
Invested in capital assets, net of related debt	**11,084,414**	37,267,277
Restricted for constraints	**2,247,906**	67,019,252
Unrestricted	**(187,999,046)**	(168,903,167)
Total net assets (deficit)	**(174,666,726)**	(64,616,638)
Total liabilities and net assets (deficit)	**$ 4,658,664,958**	$ 3,605,681,268

See accompanying notes.

Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30	
	2012	**2011**
Operating revenue:		
Rent revenue	**$ 235,128,787**	$ 212,814,430
Operating expenses:		
Salaries and employee benefits	**61,031,542**	82,009,762
Depreciation	**73,769,015**	67,387,667
Utilities	**20,369,642**	22,504,298
Repairs and maintenance	**12,665,411**	20,652,645
Voluntary termination benefits	**1,503,481**	13,409,606
Security services	**4,021,000**	3,528,225
Rent and insurance	**6,440,214**	7,260,485
Settlement of legal claim and other contingencies	**5,935,305**	1,549,216
General and administrative	**13,064,768**	7,378,523
Total operating expenses	**198,800,378**	225,680,427
Operating income(loss)	**36,328,409**	(12,865,997)
Nonoperating revenues (expenses):		
Bonds subsidy	**28,061,105**	–
Interest income	**3,050,146**	157,348
Intergovernmental	**21,315,007**	15,990,791
Service charges and other	**8,151,041**	2,626,535
Interest on bonds and notes	**(207,581,727)**	(164,711,431)
Amortization of deferred loss on bond defeasance	**(7,462,637)**	(7,462,637)
Amortization of bond issuance costs	**(3,164,482)**	(2,505,609)
Loss on disposition of capital assets	**(38,579)**	(22,902)
Total nonoperating expenses, net	**(157,670,126)**	(155,927,905)
Loss before capital contributions	**(121,341,717)**	(168,793,902)
Capital contributions:		
Commonwealth contributions	**11,291,629**	–
Total contributions	**11,291,629**	–
Change in net assets	**(110,050,088)**	(168,793,902)
Net assets (deficit)at beginning of year	**(64,616,638)**	104,177,264
Net assets (deficit) at end of year	**$ (174,666,726)**	$ (64,616,638)

See accompanying notes.

Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Cash Flows

	Year Ended June 30	
	2012	**2011**
Operating activities		
Receipts from tenants covering debt service and operating	**$ 286,020,231**	$ 280,644,400
Payments to employees and related benefits	**(73,171,238)**	(74,898,233)
Payments to suppliers for goods and services	**(61,562,917)**	(48,246,723)
Payments for claims	**–**	(942,480)
Net cash provided by operating activities	**151,286,076**	156,556,964
Noncapital related financing activities		
Non-operating receipts	**37,676,875**	12,346,056
Net cash provided by noncapital related financing activities	**37,676,875**	12,346,056
Capital and related financing activities		
Capital expenses	**(326,400,788)**	(162,855,807)
Repayment of bonds	**(474,610,000)**	(84,850,000)
Borrowings under credit lines	**242,393,317**	255,072,711
Interest paid	**(228,117,389)**	(170,769,505)
Advances to governmental agencies	**–**	1,075,000
Proceeds from bonds issue	**1,761,792,556**	–
Payment on credit lines	**(516,703,807)**	(5,639,813)
Payment of bonds issue costs	**(12,535,728)**	–
Contribution from Puerto Rico Sales Tax Financing Corporation	**–**	5,639,813
Other advances	**–**	1,186,299
Net cash provided by (used in) capital and related financing activities	**445,818,161**	(161,141,302)
Investing activities		
Interest, service, and others charges collected	**11,201,187**	2,783,883
Net cash provided by investing activities	**11,201,187**	2,783,883
Net increase in cash and cash equivalents	**645,982,299**	10,545,601
Cash and cash equivalents at beginning of year	**328,858,833**	318,313,232
Cash and cash equivalents at end of year	**$ 974,841,132**	$ 328,858,833

(Continued)

Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Cash Flows (continued)

	Year Ended June 30	
	2012	**2011**
Reconciliation to cash and cash equivalents presented in the balance sheet		
Unrestricted	**$ 122,481,435**	$ 34,701,282
Bonds sinking funds	**806,407,473**	176,103,008
Cash to be deposited in bond sinking funds	**11,435,008**	52,709,263
Construction funds	**30,783,047**	61,243,055
Restricted for the School Renovation Fund	**305,136**	305,136
Other restricted cash and cash equivalents	**484**	484
Funds for construction of facilities for other governmental agencies	**3,428,549**	3,796,605
	$ 974,841,132	$ 328,858,833
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	**$ 36,328,409**	$ (12,865,997)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	**73,769,015**	67,387,667
Loss on disposition of capital assets	**38,579**	22,902
Decrease (increase) in operating assets:		
Rent receivable	**50,202,906**	67,957,709
Other receivables	**(9,219,442)**	(127,739)
Other assets	**(852,855)**	–
Increase (decrease) in operating liabilities:		
Accounts payable	**(1,993,237)**	(6,814,103)
Due to contractors	**(14,071,885)**	(386,493)
Due to other governmental agencies	**(15,982,746)**	9,192,987
Deferred rent revenue	**9,907,980**	
Other post-employment benefits obligation	**2,204,704**	2,783,124
Voluntary termination benefits	**(627,705)**	13,409,606
Compensated absences	**(615,823)**	126,973
Claims	**6,517,613**	606,736
Accrued expenses	**15,680,563**	15,263,592
Net cash provided by operating activities	**$ 151,286,076**	$ 156,556,964
Summary of noncash transactions		
Accretion of bonds payable	**$ 2,474,444**	$ 4,143,474

See accompanying notes.

1. Reporting Entity

The Public Buildings Authority (the Authority) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth), created on June 19, 1958 by Act No. 56, as amended, of the Legislature of Puerto Rico (the Enabling Act). The Authority designs, constructs, administers, and provides maintenance to office buildings, courts, warehouses, schools, health care facilities, welfare facilities, shops, and related facilities leased to the Commonwealth or any of its departments, agencies, instrumentalities or municipalities. The annual rent for each leased building is based on the amounts needed by the Authority to cover the payment of:

a) principal, interest and other amortization requirements of the notes and bonds issued to finance the buildings;
b) operating and maintenance expenses of the buildings, including a reasonable proportional share of administrative expenses, excluding depreciation;
c) cost of equipment replacement and extraordinary repairs.

Components (b) and (c), described above, are subject to escalation to permit the Authority to recover the costs incurred. Amounts due from departments and governmental agencies of the Commonwealth may be subject to periodic revisions and/or adjustments based on the availability of funds at the Commonwealth level.

The Enabling Act provides that the full faith and credit of the Commonwealth is pledged for the payment of rent under any lease agreement executed pursuant to the Enabling Act with any department of the Commonwealth. The Enabling Act also provides that the Department of the Treasury of the Commonwealth of Puerto Rico (the Treasury Department) will make advances to the Authority for any unpaid portion of rent payable to the Authority by any agency or instrumentality of the Commonwealth that has entered into lease agreements with the Authority. Such advances are recorded as a reduction of accounts receivable since the responsibility of reimbursement belongs to the agency in accordance to the Enabling Act.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are presented on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Under this method, revenues are recognized when earned, regardless of when received, and expenses are recognized when incurred, regardless of when paid.

2. Summary of Significant Accounting Policies (continued)

Basis of Presentation

The Authority is accounted for as an enterprise fund and its financial statements are presented to conform to the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for the State and Local Governments*, (GASB 34). GASB 34, as amended, establishes standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets (or balance sheet), a statement of revenues, expenses and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted, described as follows:

- *Invested in capital assets, net of related debt* – Consists of capital assets, net of accumulated depreciation reduced by the outstanding balance of any bonds, mortgage notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. 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 invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

- *Restricted for constraints* – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through covenants), contributors or law or regulations of other governments or constraints imposed by law through constitutional provision or enabling legislation.

- *Unrestricted* – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

As permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Authority has elected to apply all Financial Accounting Standards Board Statements and Interpretations, issued after November 30, 1989, that does not conflict with those issued by GASB.

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of 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 reported period. Actual results may differ from those estimates.

Future Adoption of Accounting Standards

GASB has issued the following accounting standards that the Authority has not yet adopted:

GASB Statement		Adoption required in fiscal year
60	Accounting and Financial Reporting for Service Concession Arrangements	2013
61	Accounting and Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34	2013
63	Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position	2013
65	Items Previously Reported as Assets and Liabilities	2014
66	Technical Corrections-2012, an amendment of GASB GASB Statements No. 10 and No. 62	2014
67	Financial Reporting of Pension Plans - an amendment of GASB Statement No. 77	2014
68	Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27	2015
69	Government Combinations and Disposals of Government Operations	2015

The impact of these standards has not yet been determined.

2. Summary of Significant Accounting Policies (continued)

Effects of New Pronouncements

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employers Plan*. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The provision of GASB statement No. 57 were required to be adopted during the year ended June 30, 2012. The adoption of GASB Statement No. 57 had no impact on the Authority.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1089 FASB and AICPA Pronouncements.* The objective of this Statement if to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The Authority adopted the provisions of GASB Statement No. 62 during the current year. The adoption of this provision did not have a material effect to the Authority.

2. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The carrying amounts reported in the balance sheets for cash and cash equivalents and receivables, approximate fair value due to their short-term duration. Amounts deposited in bond sinking funds and construction funds are carried at fair value. The carrying amount of bonds payable approximates fair value since interest rates on such debt approximate the rates currently available in the market for other debt with similar terms and remaining maturities.

Cash Equivalents

Cash equivalents include all highly liquid instruments with maturities of three months or less at the time of acquisition. If such instruments are included in restricted assets, they are considered cash equivalents for purposes of the statements of cash flows. The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance.

Custodial Credit Risk

This is the risk, in the event of a bank failure, that the government's deposits may not be returned to it.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing receivables, excluding debt service rentals and maintenance charges that may become uncollectible based on evaluations of the collectability of each balance. Because of uncertainties inherent in the estimation process, management's estimate of losses in the receivables outstanding and the related allowance may change in the near term. As of June 30, 2012 and 2011, the allowance for doubtful accounts for other receivables amounted to approximately $17.5 million and $17.3 million, respectively.

2. Summary of Significant Accounting Policies (continued)

Allowance for Doubtful Accounts (continued)

Law No. 97, Article 15, of May 15, 2006, establishes that any rent to be paid to the Authority during any fiscal year by any department, agency or public corporation of the Commonwealth of Puerto Rico under the conditions of a rental contract in accordance of the dispositions of Law No. 56 of June 19, 1958, as amended, the Commonwealth of Puerto Rico will advance to the Authority the amount not paid due from rent. This law requires to the Secretary of the Treasury Department to make an advance of any available funds committed by the good faith and credit of the Commonwealth. In case of the rent to be paid to the Authority by any municipality this law requires to the Municipal Revenue Collection Center to make payments to the Authority from any property tax collection.

Investments

The Authority is authorized to invest in Puerto Rico and U.S. government obligations or in obligations guaranteed by the Puerto Rico or U.S. governments or its agencies or instrumentalities. The Authority invests in certificates of deposit with financial institutions rated AA or AAA by Moody's Investor Services. Pursuant to the Investment Guidelines for the Commonwealth, adopted by the Governmental 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, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Monies in the sinking funds can only be invested in direct obligations of the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

Restricted Assets and Liabilities Payable from Restricted Assets

Restricted assets represent the amounts deposited by the Authority to provide for the principal and interest payments of bonds payable and related interest costs and cash available in the related construction fund.

When both restricted and unrestricted resources are available for a specific use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

2. Summary of Significant Accounting Policies (continued)

Other Assets

Other Assets consist of spare parts related to equipment, machine parts, maintenance materials, replacement parts, and other specific parts related to machinery. The spare parts valuation method used by the Authority is the weighted average method.

Capital Assets

Capital assets are recorded at cost. The construction costs include indirect administrative costs and interest costs allocated during the construction period. Capital assets are assets with an individual cost of more than $100 and a useful life in excess of five (5) years. As of June 30, 2012 and 2011, property (excluding cost of land, equipment and construction in progress) with a total cost of $3,601 million and $3,520 million, respectively, is leased to other governmental agencies.

Expenditures for major renewals and betterments that extend the useful life of the assets are capitalized and normal repairs and maintenance are expensed when incurred. Depreciation is determined using the straight-line method, over the estimated useful lives of the assets, is as follows:

Buildings	50 years
Equipment and automobiles	5-10 years

During the year ended June 30, 2012, the Authority evaluated its capital assets for impairment and did not identify any indicators of impairment pursuant to GASB 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*.

Property Held for Sale

Capital assets that have been identified to be for sale are presented net of accumulated depreciation and net of the incidental cost to dispose or sell such assets.

2. Summary of Significant Accounting Policies (continued)

Amortization of Discount, Premium and Bond Issuance Costs on Bonds Payable

Discount, premium, deferred loss on bond defeasance and bond issuance costs on bonds payable are amortized over the term of the bond, based on the straight-line method, which approximates the effective interest method.

Operating Revenues and Expenses

Operating revenues and expenses are those that result from the Authority's operations. The Authority evaluates leases under Accounting Standard Codification 840. All current existing leases meet the criteria to be treated as operating leases. Accordingly, rent revenue is recognized as operating revenue over the term of the lease and new leases are evaluated to determine proper treatment as operating or capital leases. Rent revenue is pledged as collateral for the repayment of the Authority's revenue bonds. Non-operating revenues include activities that have the characteristics of non-exchange transactions that are defined as non-operating revenues by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, such as state appropriations and investment income.

Risk Financing

The Authority carries commercial insurance to cover casualty, theft, claims and other loss. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage during the past three years. The Authority also pays premiums for workers compensation insurance to another component unit of the Commonwealth.

Compensated Absences

Compensated absences are accrued when earned by the employees. Employees may carry forward their vacation and sick leave as permitted by statute and may receive a cash payment from the Authority upon termination of employment.

3. Net Assets

Restricted net assets at June 30, 2012 and 2011 include $2.2 million and $67.0 million, respectively, which have been primarily restricted under various debt agreements to comply with long-term principal and interest debt services requirements.

As of June 30, 2012, the Authority is in a net deficit position. The Authority faces a number of business challenges that have been exacerbated by the Commonwealth's economic recession. During fiscal year ended June 30, 2012, the Authority collected approximately $38.3 million related to a third partial payment of rent in arrears due to the Authority, principally by agencies of the Government of Puerto Rico. Also, during the current fiscal year, management continued its policy of strict fiscal and budgetary control and economic measures. In addition, the Authority intends to improve its government office facilities in order to retain existing tenants and attract new agencies and instrumentalities.

4. Cash, Restricted Cash, and Deposits

At June 30, 2012 and 2011, the Authority maintained cash deposited at the Governmental Development Bank for Puerto Rico (GDB), a component unit of the Commonwealth, of $33 million and $87 million, respectively; therefore, the collateralization requirement does not apply.

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

The Authority had the following depository accounts in commercial banks. All deposits are carried at cost plus accrued interest.

	At June 30, 2012	
Depository Account	**Bank Balance**	**Book Balance**
Insured	**$ 500,000**	**$ 500,000**
Unrestricted, but collateralized held in the Authority's name	**10,211,469**	**6,080,093**
Total deposits	**$10,711,469**	**$6,580,093**

4. Cash, Restricted Cash, and Deposits (continued)

Restricted cash consist of the following:

a. Bond sinking funds,
b. Cash to be deposited in sinking funds,
c. Construction funds,
d. Funds for construction of facilities for other governmental entities, and
e. School renovation funds.

Bond Sinking Funds

The bond sinking funds under Bond Resolution No. 468 as of June 30, 2012 and 2011 consist of cash and money market funds carried at fair value, as follows:

	Bond Service Account	
Description	**2012**	**2011**
Resolution No. 468 – Governmental Facilities – Money Market Funds	**$806,407,473**	$176,103,008
	$806,407,473	$176,103,008

The bond sinking fund consists of two (2) separate accounts designated as a "Bond Service Account" and a "Redemption Account". Revenues received from debt service rentals with respect to the facilities financed under Bond Resolution No. 468 are deposited with its respective Fiscal Agent for the credit of such accounts in the following order:

- to the Bond Service Account, in such amount as may be required to make the amount equal to the amount of interest then due and payable and the interest, which will become due and payable within the next ensuing six months on all bonds of each series then outstanding and the principal of all serial bonds, if any, which will become payable within the next ensuing twelve months; and

- to the Redemption Account, in such amount as may be required to make the amounts so deposited in the current fiscal year equal to the amortization requirement, if any, for such fiscal year for the term bonds of each series then outstanding, plus the premium, if any, which would be payable on a like principal amount of bonds if such principal amount of bonds should be redeemed on the next redemption date from monies in their Bond Sinking Fund.

4. Cash, Restricted Cash, and Deposits (continued)

Bond Sinking Funds (continued)

Bond Resolution No. 468 requires that monies be invested and reinvested in government obligations, bankers' acceptances, certificates or time deposits of any Commonwealth's approval bank or national banking association; repurchase or reverse repurchase agreements or any other investment, which are rated in one of the three highest rating categories.

Cash to be Deposited in Bond Sinking Funds

These funds represent the funds deposited to be transferred to the bond sinking fund accounts with the fiscal agents. Funds available at June 30, 2012 and 2011 amounted to $11,435,008 and $52,709,263, respectively.

Construction Funds

Construction funds are created for the purpose of providing resources for the payment of all or any part of the remaining cost of the Initial Facilities, as defined, or for payment of all or any part of the cost to the Authority of any Additional Facilities or Improvements, as defined, in accordance with the Bond Resolutions. As of June 30, 2012 and 2011, construction funds aggregate $30,783,047 and $61,243,055, respectively.

Funds for the Construction of Facilities for Other Governmental Agencies

Funds for the construction of facilities for other governmental agencies represent the balance of the funds received less the amounts invested in the construction of said facilities. The properties constructed through this arrangement belong to the individual agencies and not to the Authority. Upon completion of each project, the Authority settles with the agency either by returning remaining funds or billing for the excess costs over the funds received. Funds available at June 30, 2012 and 2011 amounted to approximately $3.4 million and $3.8 million, respectively.

4. Cash, Restricted Cash, and Deposits (continued)

School Renovation Funds

These funds represent the balance received under federal financial assistance programs, as a sub-recipient of the Commonwealth of Puerto Rico Department of Education. These funds are restricted to be used for projects related to school renovation and are subject to compliance requirements applicable to this federal program. At June 30, 2012 and 2011, the balance of these funds amounted to approximately $305 thousand for both years.

5. Rent Receivable

This balance represents the amount due from Commonwealth agencies and instrumentalities determined in accordance with the corresponding rent contracts. In accordance with the provisions of the Enabling Act, the Secretary of the Treasury of the Commonwealth may make advances on behalf of certain agencies and instrumentalities lessees and make payments on behalf of certain department lessees. Minimum lease rentals for the following five years are as follows:

Year Ending June 30,	Minimum Lease Rentals
2013	$239,400,704
2014	$412,838,458
2015	$413,965,020
2016	$413,712,070
2017	$413,750,858

Minimum lease rentals are revised every July 1st based on, among other things, debt service requirements for the particular year. At June 30, 2012 and 2011, the Authority reclassified approximately $35 million and $89 million, respectively, of the rent receivable as a noncurrent asset because collection will not be received during the next 12-month period.

During fiscal year 2012, the Treasury Department transferred $38.3 million to the Authority for the payment of debts from agencies of the Commonwealth of Puerto Rico related to rent due before June 30, 2011.

On September 24, 2010, the Treasury Department transferred $60.4 million to the Authority for the payment of debts from agencies of the Commonwealth of Puerto Rico related to rent due as of June 30, 2009.

6. Notes Receivable from Other Governmental Agency

On July 23, 2004, the Authority entered into a note receivable agreement with the Department of Education (Institute of Technology in Ponce), for the payment of construction costs aggregating $12,256,705 to be collected into a thirty-two (32) years period plus interest at 2.81%. Subsequent to the signing of the agreement, the Authority credited $4,522,137 of the total balance as agreed with the Puerto Rico Office of Management and Budget. Future minimum collections, during the remaining term of the note, after the application of the credit of $4,522,137, are as follows:

Year Ending June 30,	Principal	Interest
2013	$ –	$ 1,086,707
2014	–	217,341
2015	–	217,341
2016	–	217,341
2017	–	217,341
2018-2022	983,083	1,052,272
2023-2027	2,098,675	807,055
2028-2032	2,414,861	490,869
2033-2037	2,237,949	135,065
Total	$ 7,734,568	$ 4,441,332

As of June 30, 2012, the Department of Education is not in compliance with the agreement.

7. Transaction with the Commonwealth of Puerto Rico

Due from the Commonwealth

The amount due from the Commonwealth of Puerto Rico represents the approximate costs of certain construction projects that have been either suspended or cancelled unilaterally by the Commonwealth during planning stages and, therefore, the funds must be returned and deposited in the corresponding bond sinking, construction, or reserve accounts, as deemed appropriate by the bond indentures.

7. Transaction with the Commonwealth of Puerto Rico (continued)

Due from the Commonwealth (continued)

The Puerto Rico's Office of Management and Budget (OMB) recognized that, subject to certain audit requirements by the OMB, this account shall be recognized as a liability by the Commonwealth. Accordingly, the Authority has recognized this amount as amount due from the Commonwealth as, in the opinion of the Authority's management; these costs will be recovered from future appropriations from the Commonwealth. Nevertheless, OMB has not appropriated any funds to reimburse the Authority and, since the timing of the collection cannot be readily determined, this amount is presented as a noncurrent asset.

Contributions from the Puerto Rico Sales Tax Financing Corporation

On May 13, 2006, the Legislature of the Commonwealth approved Act No. 91 and created the Puerto Rico Sales Tax Financing Corporation (the Tax Financing Corporation). Act No. 91 was amended by Act No. 291 of December 26, 2006 and by Act No. 56 of July 6, 2007.

On July 31, 2007, December 20, 2007 and June 26, 2008, the Puerto Rico Sales Tax Financing Corporation (known as COFINA for its Spanish acronym), a component unit of the Commonwealth, issued its Sales Tax Revenue Bonds Series 2007A and B, Series 2007C and Series 2009A, respectively, to refinance certain of Bonds outstanding issued by certain of the Commonwealth's agencies and component units (including the Authority).

Due to the Commonwealth

The balance of $1.7 million as of June 30, 2012 and 2011, respectively, represents excess of advances received from other governmental agencies for rent charges over construction costs incurred for government agencies projects.

8. Capital Assets

Capital assets activity for the years ended June 30, 2012 and 2011 were as follows:

	Year Ended June 30, 2012			
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**
Capital assets, not being depreciated:				
Land	**$ 130,730,944**	**$ –**	**$ (257,830)**	**$ 130,473,114**
Construction in progress	**296,460,015**	**512,947,596**	**(77,897,846)**	**731,509,765**
Total capital assets, not being depreciated	**427,190,959**	**512,947,596**	**(78,155,676)**	**861,982,879**
Capital assets, being depreciated:				
Buildings	**3,520,253,808**	**80,368,645**	**–**	**3,600,622,453**
Equipment and automobiles	**13,657,922**	**4,242,433**	**(823,258)**	**17,077,097**
	3,533,911,730	**84,611,078**	**(823,258)**	**3,617,699,550**
Less accumulated depreciation for:				
Buildings	**(959,646,406)**	**(73,134,195)**	**–**	**(1,032,780,601)**
Equipment and automobiles	**(12,186,307)**	**(634,820)**	**667,888**	**(12,153,239)**
	(971,832,713)	**(73,769,015)**	**667,888**	**(1,044,933,840)**
Total capital assets, being depreciated, net	**2,562,079,017**	**10,842,063**	**(155,370)**	**2,572,765,710**
Capital assets, net	**$2,989,269,976**	**$523,789,659**	**$(78,311,046)**	**$ 3,434,748,589**

8. Capital Assets (continued)

	Year Ended June 30, 2011			
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**
Capital assets, not being depreciated:				
Land	$ 130,735,879	$ –	$ (4,935)	$ 130,730,944
Construction in progress	223,540,382	156,947,129	(84,027,496)	296,460,015
Total capital assets, not being depreciated	354,276,261	156,947,129	(84,032,431)	427,190,959
Capital assets, being depreciated:				
Buildings	3,431,836,076	183,748,668	(95,330,936)	3,520,253,808
Equipment and automobiles	13,883,823	310,141	(536,042)	13,657,922
	3,445,719,899	184,058,809	(95,866,978)	3,533,911,730
Less accumulated depreciation for:				
Buildings	(892,621,471)	(67,025,195)	260	(959,646,406)
Equipment and automobiles	(12,233,736)	(362,472)	409,901	(12,186,307)
	(904,855,207)	(67,387,667)	410,161	(971,832,713)
Total capital assets, being depreciated, net	2,540,864,692	116,671,142	(95,456,817)	2,562,079,017
Capital assets, net	$2,895,140,953	$273,618,271	$(179,489,248)	$2,989,269,976

Total interest costs capitalized during the years ended June 30, 2012 and 2011 aggregates to approximately $27.0 million and $13.1 million, respectively. Total general and administrative expenses capitalized during the years ended June 30, 2012 and 2011, aggregates to approximately $22.4 million and $5.2 million, respectively.

9. Property Held for Sale

The Authority identified certain properties for sale, as part of its efforts to increase liquidity. The amount shown of $3 million as of June 30, 2012 and 2011, respectively, was reclassified from capital assets as property held for sale and is recorded at cost or net book value, which approximates its fair value. No costs of disposal have been estimated as these properties consist of real estate and the Authority believes that the net realizable amount will exceed the current book value of the property held for sale.

10. Land and Buildings under Construction and Advances from Other Governmental Agencies

Land and buildings under construction for other governmental agencies as of June 30, 2012 and 2011 were as follow:

	June 30, 2012			
	2011	**Increase**	**Decrease**	**2012**
Construction in progress	**$350,381**	**$1,188,436**	**$ –**	**$1,538,817**

	June 30, 2011			
	2010	**Increase**	**Decrease**	**2011**
Construction in progress	$150,390	$ 209,291	$ (9,300)	$ 350,381

Advances from other governmental agencies at June 30, 2012 and 2011 amounted to approximately $3.0 million, respectively. These amounts represent unspent funds received from several agencies and municipalities for the construction of projects.

11. Due to Other Governmental Entities

Due to other governmental entities as of June 30, 2012 and 2011 were as follow:

Description	2012	2011
Puerto Rico Infrastructure Financing Authority	**$179,642,792**	$35,073,867
Puerto Rico Electric Power Authority	**1,650,745**	12,826,215
Puerto Rico Aqueduct and Sewer Authority	**–**	3,148,272
Employees' Retirement System	**1,187,636**	1,862,953
Puerto Rico Department of Labor	**–**	616,704
Puerto Rico Land Authority	**–**	335,304
Board of Environmental Quality	**58,975**	57,625
General Services Administration	**30**	27,468
Municipality of San Juan	**–**	16,746
Puerto Rico Land Administration	**–**	12,549
Treasury Department of Puerto Rico	**26,094**	2,390
Municipality of Caguas	**1,530**	1,530
Department of Transportation and Public Works	**110**	110
Total	**$182,567,912**	$53,981,733

12. Bonds Payable

Bonds payable as of June 30, 2012 and 2011 were as follow:

Description	2012	2011
Office Buildings Bonds:		
Term Bonds, maturing through 2021, with interest rates ranging from 5.50% to 6.00%	**$ 37,315,000**	$ 37,315,000
	37,315,000	37,315,000
Government Facilities Revenue Bonds:		
Serial Bonds maturing through 2027, with interest rates ranging from 3.00% to 6.75%	**1,925,392,000**	996,410,000
Term Bonds maturing through 2039, with interest rates ranging from 3.00% to 5.75%	**2,364,415,000**	1,954,930,000
Capital Appreciation Bonds, maturing through 2031, with interest rates ranging from 3.75% to 5.50%	**64,890,000**	111,225,556
	4,354,697,000	3,062,565,556
Total bonds outstanding	**4,392,012,000**	3,099,880,556
Less: Bond discounts	**(30,870,194)**	(25,272,894)
Deferred loss on bonds defeased	**(133,924,514)**	(142,673,870)
Plus: Bond premiums	**58,106,436**	76,268,664
Net bonds payable	**4,285,323,728**	3,008,202,456
Less: Current portion	**(78,580,448)**	(81,001,970)
Bonds payable, noncurrent portion	**$4,206,743,280**	$2,927,200,486

12. Bonds Payable (continued)

Aggregate maturities of sinking funds' amortization requirements on bonds, (excluding discounts and premiums), accreted value on bonds and related interest payments in future years are as follows:

Year ending June 30,	**Principal**	**Interest**
2013	$ 78,580,448	$ 198,570,614
2014	72,595,000	198,477,847
2015	76,760,000	194,489,947
2016	82,000,000	190,244,253
2017	86,125,000	185,684,672
2018-2022	401,725,000	988,789,313
2023-2027	511,800,000	899,790,698
2028-2032	1,422,033,667	1,031,587,697
2033-2037	725,715,000	344,364,779
2038-2042	914,740,000	149,683,200
Principal outstanding and interest	4,372,074,115	4,381,683,020
Add (deduct): Bond discounts	(30,870,194)	–
Deferred loss on bonds defeased	(133,924,514)	–
Accreted value on bonds outstanding	19,937,885	–
Bonds premiums	58,106,436	–
Net bonds payable	4,285,323,728	4,381,683,020
Less: Current portion	(78,580,448)	–
Bonds payable, noncurrent portion	$4,206,743,280	$4,381,683,020

12. Bonds Payable (continued)

Activity of bonds payable during the years ended June 30, 2012 and 2011 are as follows:

	Year Ended June 30, 2012				
	2011	**Issuances/ Accretion**	**Payments/ Decreases**	**2012**	**Current Portion**
Office Building Bonds:					
Terms Bonds	**$ 37,315,000**	**$ –**	**$ –**	**$37,315,000**	**$ –**
	37,315,000	**–**	**–**	**37,315,000**	**–**
Government Facilities Revenue Bonds:					
Serial Bonds	**996,410,000**	**1,016,647,000**	**(87,665,000)**	**1,925,392,000**	**75,030,448**
Terms Bonds	**1,954,930,000**	**747,620,000**	**(338,135,000)**	**2,364,415,000**	**3,550,000**
Capital Appreciation Bonds	**111,225,556**	**2,474,444**	**(48,810,000)**	**64,890,000**	**–**
	3,062,565,556	**1,766,741,444**	**(474,610,000)**	**4,354,697,000**	**78,580,448**
Total bonds outstanding	**3,099,880,556**	**1,766,741,444**	**(474,610,000)**	**4,392,012,000**	**78,580,448**
Less: Bonds discounts	**(25,272,894)**	**–**	**(5,597,300)**	**(30,870,194)**	**–**
Deferred loss on bond defeased	**(142,673,870)**	**–**	**8,749,356**	**(133,924,514)**	**–**
Plus: Bonds premiums	**76,268,664**	**–**	**(18,162,228)**	**58,106,436**	**–**
Total bonds payable, net	**$3,008,202,456**	**$1,766,741,444**	**($489,620,172)**	**$4,285,323,728**	**$ 78,580,448**

12. Bonds Payable (continued)

	Year Ended June 30, 2011				
	2010	Issuances/ Accretion	Payments/ Decreases	2011	Current Portion
Office Building Bonds:					
Serial Bonds	$ 6,065,000	$ –	$ (6,065,000)	$ –	$ –
Terms Bonds	37,315,000	–	–	37,315,000	–
	43,380,000	–	(6,065,000)	37,315,000	–
Public Education and Health Facilities Bonds:					
Serial Bonds	32,585,000	–	(32,585,000)	–	–
	32,585,000		(32,585,000)	–	–
Government Facilities Revenue Bonds:					
Serial Bonds	1,042,610,000	–	(46,200,000)	996,410,000	81,001,970
Terms Bonds	1,954,930,000	–	–	1,954,930,000	–
Capital Appreciation Bonds	107,082,082	4,143,474	–	111,225,556	–
	3,104,622,082	4,143,474	(46,200,000)	3,062,565,556	81,001,970
Total bonds outstanding	3,180,587,082	4,143,474	(84,850,000)	3,099,880,556	81,001,970
Less: Bonds discounts	(26,454,183)	–	1,181,289	(25,272,894)	–
Deferred loss on bond defeased	(151,563,716)	–	8,889,846	(142,673,870)	–
Plus: Bonds premiums	84,785,495	–	(8,516,831)	76,268,664	–
Total bonds payable, net	$3,087,354,678	$ 4,143,474	$(83,295,696)	$3,008,202,456	$81,001,970

The maturities of bonds payable are funded by debt service rental revenue collected from the lessees. The bonds are secured by a pledge of the rentals of government facilities financed or refinanced by such bonds and leased by the Authority to departments, agencies, and instrumentalities of the Commonwealth.

12. Bonds Payable (continued)

The good faith and credit of the Commonwealth are pledged for the payment or advance of such rentals. The payment of principal and interest on the bonds is further secured by the guaranty of the Commonwealth under which the Commonwealth pledges to draw from any funds available in the Department of Treasury of Puerto Rico such sums as may be necessary to cover any deficiency in the amount required for the payment of principal and interest on the bonds, in an aggregate principal amount not exceeding $4,325 million.

The Authority's bonds payable are subject to the arbitrage rebate regulations issued by the Internal Revenue Service of the United States of America that require rebate to the federal government of excess investment earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2012.

The Authority's bonds payable include certain restrictive covenants. At June 30, 2012 and 2011, the Authority was in compliance with such covenants.

Defeased and Refunding Bonds

In prior years, the Authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old debts. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the statements of net assets. As of June 30, 2012 and 2011, approximately $426 million and $742 million of bonds outstanding, respectively are considered defeased.

On July 1, 2009, the Authority issued $330,935,000 aggregate principal amount of Government Facilities Revenue Refunding Bonds, Series P. The proceeds from the issuance were used to advance refund $297 million Government Facilities Revenue Refunding Bonds, Series K, make swap termination payments of $28.4 million and pay cost of issuance of $4.7 million. On the same date, the Authority converted $50 million principal amount of its Government Facilities Revenue Refunding Bonds, Series K, from a LIBOR-based rate to a fixed rate and remarketed such bonds. As a result of the transaction, the Authority recognized a loss on defeasance of $22 million which has been deferred and will be amortized over the life of the old debt.

On October 16, 2009, the Authority issued $152,540,000 aggregate principal amount of Government Facilities Revenue Refunding Bonds, Series Q, guaranteed by the Commonwealth of Puerto Rico. The bonds are being issued to refund interest (but not principal) of certain bonds issued by the Authority under the 1995 Resolution.

12. Bonds Payable (continued)

On August 24, 2011, the Authority issued $756,449,000 aggregate principal amount of Government Facilities Revenue Bonds, Series R (Qualified School Construction Bonds-Issuer Subsidy), guaranteed by the Commonwealth of Puerto Rico. The proceeds from the issuance were used to finance the rehabilitation, renovation or construction of at least 100 public schools under this program. As a result of this bond issuance the Authority received a subsidy of $28,061,105 from the federal government to be used for the payment of interest. The Authority expects to finance the rehabilitation, renovation or construction of the remaining public schools through a future issuance of bonds also designated as “Qualified School Construction Bonds”.

Concurrently with the issuance of the Series R Bonds, on August 24, 2011 the Authority issued $303,945,000 aggregate principal amount of Government Facilities Revenue Bonds, Series S, guaranteed by the Commonwealth of Puerto Rico. The bonds were issued to (i) repay certain advances made to the Authority by Government Development Bank of Puerto Rico under line of credit facilities to (a) pay interest due January 1 and July 1, 2011 on certain bonds issued under the 1995 Bond Resolution and the 1970 Bond Resolution, and (b) pay a portion of the construction costs of certain buildings and facilities leased by the Authority to various departments, agencies, instrumentalities and municipalities of the Commonwealth; and (ii) pay costs of issuance the bonds. The Government Facilities Revenue Bonds, Series S, repay the lines of credit principal in the amounts of $147.8 million, $16.2 million and $122 million, and accrued interest of $16 million.

On December 22, 2011, the Authority issued $121,528,000 aggregate principal amount of Government Facilities Revenue Bonds, Series T (Qualified Zone Academy Bonds-Direct Payment), guaranteed by the Commonwealth of Puerto Rico. The proceeds from the issuance were used to pay part of the cost of renovating and rehabilitating certain public schools.

On June 21, 2012, the Authority issued $582,345,000 aggregate principal amount of Government Facilities Revenue Refunding Bonds, Series U, guaranteed by the Commonwealth of Puerto Rico. The proceeds from the issuance were used to (i) refund in whole the Authority’s Series J Bonds; (ii) refund a portion of the Authority’s Series D and Series G Bonds (together with the Series J Bonds, the “Refunded Bonds”); (iii) repay certain advances made to the Authority by Government Development Bank of Puerto Rico under a line of credit; (iv) pay capitalized interest on the Bonds through July 1, 2013, and (v) pay expenses related to the issuance and sale of Bonds.

13. Other Long-Term Liabilities

Other long-term liabilities at June 30, 2012 and 2011 are composed of the following:

	Year Ended June 30, 2012				
	Beginning Balance	**Increases**	**Payments/ Decreases**	**Ending Balance**	**Current Portion**
Borrowings under lines of credit	**$415,182,000**	**$242,393,317**	**$ (516,703,807)**	**$140,871,510**	**$ –**
Due to contractors, including retainage	**40,568,111**	**77,509,456**	**(91,581,341)**	**26,496,226**	**7,108,417**
Advances from governmental agencies	**3,024,596**	**–**	**–**	**3,024,596**	**–**
Compensated absences	**12,146,386**	**21,460**	**(637,283)**	**11,530,563**	**3,459,169**
Contingencies	**10,026,514**	**7,867,613**	**(1,350,000)**	**16,544,127**	**–**
Other post-employment benefits obligation	**5,910,172**	**3,276,980**	**(1,072,276)**	**8,114,876**	**819,602**
Termination benefits	**13,409,606**	**1,503,481**	**(2,131,186)**	**12,781,901**	**2,223,478**
Due to Commonwealth	**1,683,808**	**–**	**–**	**1,683,808**	**–**
Total other long-term liabilities	**$501,951,193**	**$332,572,307**	**$(613,475,893)**	**$221,047,607**	**$13,610,666**

	Year Ended June 30, 2011				
	Beginning Balance	**Increases**	**Payments/ Decreases**	**Ending Balance**	**Current Portion**
Borrowings under lines of credit	$165,749,102	$255,072,711	$ (5,639,813)	$415,182,000	$ –
Due to contractors, including retainage	40,954,604	81,346,403	(81,732,896)	40,568,111	20,966,664
Advances from governmental agencies	1,949,596	2,150,000	(1,075,000)	3,024,596	–
Compensated absences	12,019,413	3,820,136	(3,693,163)	12,146,386	3,158,060
Contingencies	9,419,778	1,549,215	(942,479)	10,026,514	–
Other post-employment benefits obligation	3,127,048	2,783,124	–	5,910,172	1,072,275
Termination benefits	–	13,409,606	–	13,409,606	2,090,344
Due to Commonwealth	1,683,808	–	–	1,683,808	–
Total other long-term liabilities	$234,903,349	$360,520,376	$(93,083,351)	$501,951,193	$27,287,343

13. Other Long-Term Liabilities (continued)

Borrowings under Lines of Credit

Borrowings under lines of credit at June 30, 2012 and 2011 are composed of the following:

June 30, 2012

Line of credit amount	Principal	Interest	Total
$ 209,012,000	**$ 20,410,841**	**$ 624,954**	**$ 230,047,795**
16,988,000	**14,983,966**	**1,529,774**	**33,501,740**
75,000,000	**68,011,915**	**264,491**	**143,276,406**
98,500,000	**4,065,174**	**196,314**	**102,761,488**
93,267,486	**29,882,444**	**901,637**	**124,051,567**
$ 492,767,486	**$ 137,354,340**	**$ 3,517,170**	**$ 633,638,996**

June 30, 2011

Line of credit amount	Principal	Interest	Total
$ 209,012,000	$ 121,666,308	$ 9,193,034	$ 339,871,342
16,988,000	12,252,525	710,000	29,950,525
75,000,000	69,124,076	134,408	144,258,484
98,500,000	4,065,174	309,490	102,874,664
36,944,781	147,779,119	4,030,734	188,754,634
93,627,486	14,516,024	210,332	108,353,842
160,000,000	30,911,320	279,456	191,190,776
$ 690,072,267	$ 400,314,546	$ 14,867,454	$ 1,105,254,267

On May 2, 2008, the Authority executed two Loan Agreements with GDB for the interim financing of its Capital Improvement Program in an amount not to exceed $226 million, bearing interest at 6.0%. The loans are due on June 30, 2014 and will be payable from the proceeds of the future Revenue Refunding Bonds issuance of the Authority. The loans are divided into $209 million on a tax-exempt basis and $16.9 million on a taxable basis.

13. Other Long-Term Liabilities (continued)

Borrowings under Lines of Credit (continued)

On August 24, 2011, these lines of credit were partially repaid with the proceeds of the issuance of the Government Facilities Revenue Bonds, Series S.

The Authority maintains a line of credit with GDB for $75 million, bearing interest at a fixed interest rate of 7%. The line is collateralized with two of the Authority's properties. The proceeds were used to finance the Authority's operational expenses. Payments of principal and interest will be appropriate from the Commonwealth of Puerto Rico's general budget pursuant to the provisions of the Resolution No. 387 of December 21, 2005. The loan is due on June 30, 2018. During the fiscal years ended June 30, 2012 and 2011, payments of principal and interest due of $1,112,161 and $875,924, and $4,704,277 and $4,763,889, respectively, were made by the Puerto Rico Sales Tax Financing Corporation.

On April 27, 2009, GDB provide to the Authority a non-revolving credit facility in the maximum principal amount of $98,500,000 bearing interest on the unpaid principal amount of each advance at a fluctuating annual rate equal to 1.50% over and above the Prime Rate or at such other rate determined by GDB. The proceeds of the Facility were used exclusively for the payment of certain amounts due by the Authority to its suppliers and service providers. All such payments shall be subject to the prior approval of GDB and shall be disbursed directly to the suppliers and service providers. The loan is due on June 30, 2011 and will be payable from all funds generated by the PBA and any other properties owned and pledged to GDB.

On July 9, 2010 the Authority executed a loan agreement with GDB for the financing of the interest component of certain of its outstanding revenue and revenue refunding bonds in an aggregate principal amount not to exceed $36,944,781. The loan shall mature on such date as GDB may determine but in no event later than June 30, 2012 and will be payable from the proceeds of the issuance of revenue bonds to be issued by the Authority under Section 209 of Resolutions No. 468 and No. 158. The loan bears interest at a rate of interest per annum equal to the Prime Rate (as determined by the Lender) plus 150 basis points; provided that such interest shall not be less than six percent (6%). On September 22, 2010, the loan agreement was amended to provide an increase in the loan amount of $12,314,927 for a new loan balance of $49,259,708. On November 29, 2010 a second amendment to the loan agreement occurred in order to increase the amount of the loan by $98,519,416 from $ 49,258,708 to $147,779,124. On August 24, 2011, this line of credit was repaid in full with the proceeds of the issuance of the Government Facilities Revenue Bonds, Series S.

13. Other Long-Term Liabilities (continued)

Borrowings under Lines of Credit (continued)

On August 18, 2010, GDB provide to the Authority a non-revolving credit facility in the maximum principal amount of $93,627,486 bearing interest at a fluctuating annual rate equal to Prime plus 1.50 percent, provided that such interest shall not be less than six percent (6%), or at such other rate determined by GDB. The proceeds of the Facility were used for construction projects development. The loan is due on June 30, 2014 and will be payable from the proceeds of the future Revenue Refunding Bonds issuance of the Authority.

On October 21, 2010 the Authority executed a loan agreement with GDB for the financing of the projects costs, under the Inter-Departmental Agreement, until such time as the Authority issues the Qualified School Construction Bonds (the QSCBs) in an aggregate principal amount not to exceed $160,000,000. The loan shall mature and all outstanding principal of and interest on the loan shall be due and payable on August 31, 2011, and will be payable from the proceeds of the issuance of the QSCBs or from any other funds available to the Authority. The loan shall bear interest at a rate of interest per annum equal to the Prime Rate (as determined by the Lender) plus 150 basis points; provided that such interest shall not be less than six percent (6%) per annum nor greater than twelve percent (12%) per annum. On August 24, 2011, this line of credit was repaid in full with the proceeds of the issuance of the Government Facilities Revenue Bonds, Series R.

The Authority, in conjunction with the Puerto Rico Public Partnerships Authority (the P3 Authority), the Puerto Rico Department of Education, the Puerto Rico Department of Transportation and Public Works, and the Puerto Rico Infrastructure Financing Authority, is undertaking a significant and expansive modernization project for the Puerto Rico's Public Schools, known as the Schools for the 21st Century.

Due to Contractors, including Retainage

This amount represents the remaining balance due to contractors for projects under construction. Normally, the contractors submit progress billings for projects in progress and the Authority pays these invoices, except for the retainage portion. This withholding is used as a guarantee that the Contractor will complete the project in accordance with contract requirements.

Normally the retainage will be paid upon completion and acceptance of the projects, as determined by the Authority's engineers.

13. Other Long-Term Liabilities (continued)

Advances from Other Governmental Entities

This amount represents the balance of the amounts advanced by other governmental entities, mainly for the construction of facilities that will be owned by these entities. These projects include appropriations from the Commonwealth to finance the construction of facilities by these agencies, which in turn request the Authority to carry out the construction and the administration of the construction process. Upon acceptable completion, the project is completed and is taken over by the corresponding agency. The assets are not owned by the Authority.

Compensated Absences

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

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

Contingencies

This amount represents the Authority's estimates of possible legal and contractual settlements arising from normal litigation procedures. The estimated amount was based on the corresponding number of legal cases currently underway and based upon the advice and consent of the Authority's legal division and its external legal advisors. Actual amount to be settled may be materially different from the amount accrued. (Refer to Note 18.)

Other Post-Employment Benefits Obligation

This amount represents the Authority's liability for its retirement healthcare benefits under the Healthcare Benefit Plan to Retirees. See Note 15 for additional information.

13. Other Long-Term Liabilities (continued)

Voluntary Termination Benefits

This amount represents the Authority's liability related to a program that provides benefits for early retirement or economic incentives for voluntary employment termination to certain eligible employees. See Note 16 for additional information.

14. Employee Retirement Plan

The Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (the System) is a cost sharing multiple-employer defined-benefit pension plan sponsored by, and reported as a component unit of, the Commonwealth. The System was created under Act No. 447 (the Act) approved on May 15, 1951, as amended, and became effective on January 1, 1952. All regular appointed and temporary employees of the Authority under age fifty-five (55) at the date of employment become plan participants of the System.

The System provides retirement, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits generally vest after ten (10) years of plan participation. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest thirty-six (36) months of compensation recognized by the System. The annuity, for which a plan member is eligible, is limited to a minimum of $300 per month and a maximum of 75 percent of the average compensation.

Contribution requirements, which are established by law and not actuarially determined, are as follows:

Commonwealth	10.275% of applicable payroll

Beginning on July 1, 2012 thru June 30 2016, the minimum contribution requirement for the Commonwealth will increase annually each July 1st, in one (1) percent of applicable payroll. Since July 1, 2016 thru June 30, 2021, the minimum contribution requirement for the Commonwealth in effect at June 30 of each year will be increase annually every July 1st in 1.25% of applicable payroll.

Employees:	
Hired on or before March 31, 1990	5.775% of monthly gross salary up to $550 and 8.275% of monthly gross salary over $550
Hired on or after April 1, 1990	8.275% of monthly gross salary

14. Employee Retirement Plan (continued)

On September 24, 1999, an amendment to the Act, which created the System, was enacted with the purpose of establishing a defined contribution plan (System 2000) effective January 1, 2000. Employees participating in the defined benefit plan (the traditional plan) at December 31, 1999, had the option to either stay in the traditional plan or transfer to System 2000. Persons employed on or after January 1, 2000 are only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan there is a pool of pension assets, which are invested by the System, together with those of System 2000 benefit plan. The Commonwealth does not guarantee benefits at retirement age. The annuity is based on a formula which assumes that each year the participants' contribution (with a minimum of 8.275% of the participants' salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not granted under System 2000. The employers' contributions (10.275% of the employee's salary) are used to fund the traditional plan. System 2000 reduces the retirement age from sixty-five (65) years to sixty (60) years for those employees who joined the current plan on or after January 1, 2000.

Total employee and employer contributions for the years ended June 30, 2012 and 2011, are as follows:

	2012	**2011**
Traditional Plan:		
Employer	**$1,179,630**	$2,504,483
Employee	**$ 939,858**	$2,207,449
System 2000:		
Employer	**$ 983,937**	$1,639,132
Employee	**$ 794,586**	$1,468,458

14. Employee Retirement Plan (continued)

The System issued financial reports that include their basic financial statements and required supplementary information. Those reports may be obtained by writing to the System's administrator at 437 Ponce de León Avenue, Hato Rey, Puerto Rico 00918. Activity of accrued pension costs, which are included in accrued expenses on the balance sheets, during the years ended June 30, 2012 and 2011, are as follows:

Description	2012	2011
Beginning balance	**$ 14,430,609**	$ 894,839
Increase	**22,441,338**	32,977,650
Decrease	**(23,306,384)**	(19,441,880)
Ending balance	**$ 13,565,563**	$ 14,430,609

15. Other Post-Employment Benefits

Plan Description

The Authority provides retirement healthcare benefits under the Healthcare Benefit Plan to Retirees (the Plan) pursuant to collective bargain agreements. The Plan is administered by the Authority. Benefits consist of a maximum monthly payment (annuity) to cover medical expenses. Based on the Plan's features and functionality, and for the purpose of the actuarial valuation, it has been identified as a single –employer defined benefit healthcare plan. Participants groups covered are employees under Collective Labor Agreement with "Unión Independiente de Empleados de la Autoridad de Edificios Públicos" (UIEAEP), employees under Collective Labor Agreement with "Unión de Empleados de Oficina y Profesionales de la Autoridad de Edificios Públicos" (UEOP) and the Authority's management employees. All employees with at least 10 years of rendered service within the Authority are eligible for the healthcare benefit upon retirement age. Normal retirement is as follows:

For those employees by the Authority before March 30, 1990, normal retirement age would be:

- 30 years of service.

For employees employed by the Authority after March 30, 1990, normal retirement age would be at:

- 10 years of service and 65 years old.

15. Other Post-Employment Benefits (continued)

The benefit is paid in case of permanent disability of the retiree until death. Also, the benefit is paid in case an active employee gets disable until death. The obligation ends in case of death after retirement.

The Authority follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*, for its other post-employment benefits and requires the calculation and recording of the net other post-employment benefit (OPEB) obligations. The net OPEB obligation is, in general, the cumulative difference between the actuarial required contribution and the actual contributions at the valuation date.

Description of the other post-employment benefits provided – In addition to providing the pension benefits described in Note 14 above, the Authority provides a defined dollar contribution to partially cover medical insurance cost to eligible retired employees. The Authority contribution is limited to $200 monthly per eligible retired employees up to a period of thirty-six months (twelve months for managerial employees). This benefit is included in the Collective Bargain Agreement and it will be effective until May 2013 and will be re-evaluated when the agreement is up for renewal on May 2013. Under this level of benefits provided, the risk of medical cost increases resides with the retiree and, therefore, results in a lower OPEB liability for the Authority.

Membership – As of June 30, 2012 and 2011, the number of active employees and retirees amounted to 1,538 and 1,422, respectively.

The following table shows the components of the Authority's annual OPEB cost for the years ended June 30, 2012 and 2011, the amount actually contributed to the plan and the Authority's net OPEB obligation at June 30, 2012 and 2011:

	2012	**2011**
Normal cost	**$1,431,775**	$1,431,775
Amortization of unfunded actuarial accrued liability	**2,197,465**	2,197,465
Annual required contribution	**$3,629,240**	$3,629,240
OPEB contributions made during fiscal year	**$ 819,602**	$1,072,275
Percentage of expense contributed	**23%**	30%

15. Other Post-Employment Benefits (continued)

The net OPEB obligation change for the years ended June 30, 2012 and 2011, is as follows:

	2012	2011
Change in net OPEB obligation		
Net OPEB obligation	**$ 5,910,172**	$ 3,127,048
Total annual OPEB costs	**3,276,980**	3,172,305
Actual benefit payments	**(1,072,276)**	(389,181)
Net OPEB obligation	**$ 8,114,876**	$ 5,910,172

OPEB costs components for the years ended June 30, 2012 and 2011, are as follows:

	2012	2011
Annual OPEB Costs		
ARC for fiscal year	**$ 3,629,241**	$ 3,327,560
Interest on Net OPEB Obligation	**177,305**	93,811
ARC Amortization Adjustment	**(529,566)**	(249,066)
Total Annual OPEB Costs	**$ 3,276,980**	$ 3,172,305

As of June 30, 2012 and 2011, the actuarial accrued liability for benefits amounted to $26.2 million and $25.6 million, respectively, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was approximately $53 million and $59 million during the years ended June 30, 2012 and 2011, respectively, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 49.4% and 43.4%, respectively.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare costs trend. Amounts determined regarding the funded status of the plan and 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.

Projections of benefits for financial reporting purposes are based on the plan 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.

15. Other Post-Employment Benefits (continued)

The amortization method of the initial unfunded actuarial accrued liability is the level dollar for a period of 30 years-closed. The amortization method for the gain or loss is the level dollar for a period of 15 years-closed.

The valuation date was July 1, 2011 and the Projected Unit Credit Cost Method was used. The actuarial assumptions were based on a set of assumptions supplied by the Authority. Turnover rates were based on service and age-related turnover. A discount rate of 3.0% 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.

16. Voluntary Termination Benefits

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Authority. Act No. 70 was a voluntary selection for the public corporations, such as the Authority, and established that early retirement benefits will be provided to eligible employees that have completed between 20 to 29 years of credited of service in the Retirement System, between 48 and 55 year of age, and will consist of biweekly benefits of a 50% of each employee' salary, as defined. In this early retirement benefit program, the Authority will make the employee and the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have at least 30 years of credited service in the Retirement System who have attained the age for retirement. Economic incentives will consist of a lump-sum payment of six months of salary based on employment years. For eligible employees that choose the economic incentives and have at least 30 years of credited service in the Retirement System and the age for retirement or have the age for retirement, the Authority will make the employee and the employer contributions to the Retirement System for a five year period. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have at least 20 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Authority.

16. Voluntary Termination Benefits (continued)

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Authority's financial statements of a liability of $12.8 and $13.4 million in the balance sheet as of June 30, 2012 and 2011, respectively, and a charge of approximately $1.5 and $13.4 million in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2012 and 2011, respectively. At June 30, 2012, unpaid long-term benefits granted on this program were discounted at .85% and 1.00% depending on the employee voluntary termination benefits selected.

17. Commitments

The Authority has entered into various contracts with outside contractors for the construction of buildings and other facilities. The Authority records the liability for these contracts as progress billings are received, based on completed work. The uncompleted portion of these contracts is approximately $72.7 million as of June 30, 2012 and 2011.

18. Contingent Liabilities

The Authority is a defendant and/or co-defendant in various lawsuits for alleged breach of contracts and other actions arising in the ordinary course of business. There are two cases which are considered material. Even though arbitration was required, they involved issues of law which are being considered in judicial review.

In the first case, an Arbitration Panel awarded "Target" $2.6 million for anticipated earnings for the cancellation of a construction contract of a public school in the Municipality of Dorado. It is the contention of the Authority that the cancellation of the contract was lawfully executed and that anticipated earnings cannot be recognized against Government instrumentalities and Government agencies, which have the right and obligation of managing its necessities and priorities while protecting public funds. Judicial review is pending.

In the second case, an Arbitration Panel awarded "Target" $1.2 million for anticipated earnings for the cancellation of a construction contract of a public school in the Municipality of Carolina. The same defense as above was presented, but due to the comments of a member of the Arbitration Panel, where his prejudicial state of mind against the Authority's legal defense accidentally became part of the record, the Authority requested his impeachment and disqualification before its final decision. All controversies and legal contentions are pending in judicial review.

18. Contingent Liabilities (continued)

Recently, Appellate Court recognized the Authority's legal arguments in another case not related to "Target". Anticipating earnings was not recognized against the Authority for cancellation of construction contract. Rule of law is included in the Authority's arguments requesting judicial review of arbitration proceedings.

Management, based on the advice of the legal counsel, has recorded reserves to cover for possible liabilities related to these cases. These reserves are recorded as part of the contingencies in the accompanying balance sheets and were paid on December 2012.

In 2012, the Authority identified asbestos in the Central Offices building in Minillas. Asbestos removal cost was estimated base on environmental engineers' consultant survey. The Authority has a liability of $1,969,620, as part of the contingency liabilities at year end.

19. Subsequent Events

On July 20, 2012, the Board of Directors authorized the Executive Director to obtain a loan from the Government Development Bank of Puerto Rico to financing all or a portion of the interest and principal components of certain outstanding revenue and revenue refunding bonds. The Authority is authorized to accept the terms and conditions of a loan in a principal amount not to exceed $103,652,602 to pay all or any portion of the interest component coming due during the twelve months after the date of the first drawing under the Loan Agreement. The loan shall mature and be due and payable on June 30, 2013.

On July 20, 2012, the Board of Directors authorized the Executive Director to obtain a loan from the Government Development Bank of Puerto Rico to financing all or a portion of the interest and principal components of certain outstanding revenue and revenue refunding bonds. The Authority is authorized to accept the terms and conditions of a loan in a principal amount not to exceed $71,145,555 to pay all or any portion of the principal component coming due during the twelve months after the date of the first drawing under the Loan Agreement. The loan shall mature and be due and payable on June 30, 2013.

On July 13, 2012, the Treasury Department transferred $35 million to the Authority related to the fourth payment of rent in arrears from agencies of the Commonwealth of Puerto Rico due before June 30, 2011.

On December 13, 2012, the credit-rating agency, Moody's Investors Service, downgraded its rating on Puerto Rico's general obligation bonds, including the Authority's Bonds from Baa1to Baa3. On March 20, 2013, the credit-rating agency "Fitch" downgraded Puerto Rico GO's bonds from BBB+ to BBB-.

Required Supplementary Information

Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Funding Progress for Postemployment Healthcare Benefits

Year Ended June 30, 2012

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability	Funded Ratio	Annual Covered Payroll	Percentage of Covered Payroll
30/06/2010	$ –	$ 24,497,806	$ 24,497,806	—%	$ 62,901,044	36.7%
30/06/2011	$ –	$ 25,618,770	$ 25,618,770	—%	$ 59,056,613	43.4%
30/06/2012	$ –	$ 26,162,334	$ 26,162,334	—%	$ 52,933,339	49.4%

See accompanying independent auditors' report.

Other Supplementary Information

Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Bond Sinking Funds Accounts

Year Ended June 30, 2012

	2012 Total	Bond Service Account
Governmental Facilities Bonds		
Balance at June 30, 2011	$ 176,103,008	$ 176,103,008
Receipts:		
Transfers from other accounts	**10,285,667**	**10,285,667**
Net proceeds from new bonds issuance	**589,768,596**	**589,768,596**
Transfers from GDB Loan	**280,287,412**	**280,287,412**
Capitalized interest	**39,354,255**	**39,354,255**
Disbursements:		
Payment of bonds interest	**(113,240,123)**	**(113,240,123)**
Payment of bonds principal and interest	**(176,151,342)**	**(176,151,342)**
Balance at June 30, 2012	**$ 806,407,473**	**$ 806,407,473**

Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Operating Cash Accounts

Year Ended June 30, 2012

Description	Banco Popular de Puerto Rico	Government Development Bank for Puerto Rico
Balance as of June 30, 2011	$ 1,233,115	$ 52,709,263
Deposits:		
Rent collected	**18,729,030**	**305,858,997**
Investments	**8,988,031**	–
Services charges	–	**12,458,687**
Interest	–	**39,277**
Disbursements:		
For current expenses, transfers to bond service	–	–
acounts and others	**(27,779,713)**	**(60,308,004)**
Service charges	**(2,352)**	–
Debt services payable	–	**(291,781,929)**
Insurance payment	–	**(7,541,283)**
Balance as of June 30, 2012	**$ 1,168,111**	**$ 11,435,008**
	(A)	**(B)**

(A) Balance included in cash and cash equivalents in the accompanying balance sheet, *as unrestricted* .

(B) Balance included in cash and cash equivalents in the accompanying balance sheet, *as restricted*

Public Buildings Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Operating Rental Revenues and Receivables

Year Ended June 30, 2012

	Rental Revenues Year Ended June 30, 2012	Receivables as of June 30, 2012
Office Buildings		
Debt service rentals - bonds	**$ 29,283,629**	**$ –**
Operating, administrative and equipment replacement reserve rentals	**64,432,228**	**50,202,101**
Debt service rentals - notes	**263,732**	**–**
Total office buildings	**93,979,589**	**50,202,101**
Public Education Buildings		
Debt service rentals - bonds	**60,951,021**	**–**
Operating, administrative and equipment replacement reserve rentals	**59,679,434**	**11,806,249**
Debt service rentals - notes	**588,646**	
Total public education buildings	**121,219,101**	**11,806,249**
Health Facilities		
Debt service rentals - bonds	**17,677,001**	**–**
Operating, administrative and equipment replacement reserve rentals	**2,253,096**	**28,463,559**
Total health facilities	**19,930,097**	**28,463,559**
Total	**$ 235,128,787**	**$ 90,471,909**

Public Buildings Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Capital Improvements Program Compared to Budget

Year Ended June 30, 2012

	Actual	Budget
Educational facilities	$ 457,151,120	$ 528,395,685
Police facilities	302,232	4,290,188
Offices buildings	35,644,836	69,978,066
Courthouses	172,791	7,614,445
Firehouses	898,104	4,687,499
Penintentiaries	–	1,426,548
Authority's equipment	–	–
Total	$ 494,169,083	$ 616,392,431

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Public Buildings Authority

We have audited the financial statements of the Public Buildings Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2012, and have issued our report thereon dated April 13, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as findings 2012-01, 2012-02, 2012-03, 2012-04, 2012-05, 2012-06, 2012-07, in the accompanying schedule of findings and questioned costs to be material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matter that is required to be reported under *Government Auditing Standards*.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

April 13, 2013

Stamp No. E55006
affixed to
original of
this report.

OMB Circular A-133 Report

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Report on Compliance with Requirements That Could Have a Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Board of Directors of
Public Buildings Authority:

Compliance

We have audited the Public Buildings Authority (the Authority)'s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2012. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings 12-08, 12-09 and 12-10.

Internal Control over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of a compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as findings 12-08, 12-09 and 12-10. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on the responses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Authority as of and for the year ended June 30, 2012, and have issued our report thereon dated April 13, 2013, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

April 13, 2013

Stamp No. E55007
affixed to
original of
this report.

Public Buildings Authority

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Federal Grantor/Pass-through Grantors/Program Title	CFDA Number	Total Federal Expenditures
U.S. Department of Energy		
Pass-Through Program from Puerto Rico Infraestructure		
Finance Authority:		
ARRA - State Energy Program	ARRA - 81.041	$ 3,230,000
	Total Expenditures of Federal Awards	**$ 3,230,000**

See accompanying notes.

Public Buildings Authority

Notes to Schedule of Expenditures of Federal Awards

June 30, 2012

1. Basis of Presentation

For purposes of complying with the Single Audit Act Amendments of 1996, Public Buildings Authority (the Authority) is defined in a manner consistent with the entity defined in the basic financial statements as of and for the year ended June 30, 2012. Accordingly, the accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the federal financial assistance programs administered by the Authority for the year ended June 30, 2012.

2. Basis of Accounting

The accompanying Schedule was prepared using the modified accrual basis of accounting. Such expenses are recognized following the cost principles contained in OMB Circular A-87 *Cost Principles for States, Local and Indian Tribal Governments*, where certain types of expenses are not allowable or are limited as to reimbursement. The Authority's accounting system provides the primary information from which the Schedule is prepared.

Public Buildings Authority

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Part I – Summary of Auditor's Results

Internal Control over Financial Reporting

Material weaknesses identified?.. Yes

Significant deficiencies identified? .... No

Noncompliance material to financial statements noted?.. No

Federal Award Section

Internal control over major programs:

Material weaknesses identified?.. No

Significant deficiencies identified?... Yes

Identification of major programs and type of auditor's report issued on compliance for major each program:

CFDA Number	Major Program	Type of Report Issued on Compliance
ARRA-81.041	State Energy Program	Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133………………………………. Yes

Dollar threshold used to distinguish between Type A and Type B programs: … $300,000

Auditee qualified as low-risk auditee:……………………………………………….. No

Part II – Financial Statement Findings Section

This section identifies significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a circular A-133 audit.

Part II – Financial Statement Findings Section (continued)

Finding Number: 12-01

Topic

The Authority has control deficiencies in its internal controls, accounting and financial reporting practices. Due to their nature and magnitude, these control deficiencies are considered to be a material weakness.

Category

Internal Control

Compliance Requirement

Not applicable

Criteria

Auditees must prepare their financial statements in accordance with accounting principles generally accepted in the United States (GAAP). OMB Circular A-133 section 310, states that the auditee shall prepare financial statements that reflect its financial position, results of operations or changes in net assets, and where appropriate, cash flows for the fiscal year audited.

GASB Codification Section 1100, *Summary Statement of Principles*, states that a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with GAAP, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

In addition to the above requirements, the Authority's internal control system must provide for reconciliation of amounts reflected in control accounts with subsidiary records.

Part II – Financial Statement Findings Section (continued)

Finding Number: 12-01 (continued)

Condition

During our 2012 audit procedures for the Authority, we identified some audit differences that were not initially identified by the Authority's internal controls over financial reporting. There were also some audit differences that were known by the Authority but were not adjusted by the Authority's accounting department until the audit procedures started. Some of these differences were adjusted by management for financial statements purposes and others were included in our Summary of Audit Differences (SAD) as unrecorded differences. These adjustments were related to current year events and transactions, specifically in the following areas: capital assets and related depreciation, other assets, accounts payable, and accrued expenses. We also found differences that resulted in reclassifications between accounts that did not have an effect on the current year's changes in financial position. Also, there were some post closing adjustments recorded by management at year-end which caused delays in the audit procedures.

We evaluated these differences following the guidance of the Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, which specifically defines what is a material weakness, a significant deficiency, and a control deficiency. Based on this guidance, and as stated in paragraph #13:

> *"Multiple deficiencies that affect the same significant account or disclosure, relevant assertion, or component of internal control increase the likelihood of material misstatement and may, in combination, constitute a significant deficiency or a material weakness, even though such deficiencies individually may be less severe. Therefore, the auditor should determine whether deficiencies that affect the same significant account or disclosure, relevant assertion, or component of internal control collectively result in a significant deficiency or a material weakness."*

Based on SAS 115, and after evaluating all audit differences found, those recorded and unrecorded, we reached a conclusion that there was a material weakness in the financial statement close process due to the fact that there is reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis by the Authority's internal control processes.

Part II – Financial Statement Findings Section (continued)

Finding Number: 12-01 (continued)

Questioned Costs

Not applicable

Cause

The Authority's management has not adopted and enforced internal control policies and procedures over its accounting and financial reporting.

Effect

The Authority's ineffective internal controls are conducive to many deficiencies as described in the findings contained in this report. The continued existence of these deficiencies could result in material misstatements of the Authority's financial statements not being prevented or detected and corrected on a timely basis.

Recommendations

We recommend management reconcile all the general ledger accounts during their monthly financial statements close process and to keep focusing and improving its closing process in order to decrease the amount of audit differences found at year-end. By improving this process, the Authority will be able to detect errors on a timely basis.

Management's Response

The Authority established a monthly closing itinerary. This process helps in the general accounts reconciliations and if discrepancies are found they can be reconciled and adjusted immediately.

Part II – Financial Statement Findings Section (continued)

Finding Number: 12-02

Topic

The Authority's lack of control over its legal liability reserve estimation process led to a material adjustment in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category

Internal Control

Compliance Requirement

Not applicable

Criteria

A fundamental element of a sound system of internal controls is an effective liability estimation/calculation process. Such process is essential in enabling an organization to prevent and detect errors on a timely basis. An effective process helps ensure that all liability transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition

The Authority establishes a legal reserve for legal cases and claims in which a loss is deemed probable of occurring and amounts can be estimated. The legal reserve is recorded based on information provided by the Authority's internal legal department in addition to legal letter confirmations from external attorneys. Currently, the Authority does maintain a complete list of the monetary exposure of the outstanding legal cases being managed by external attorneys however the legal reserve as of year-end was not adjusted properly. As a result, a material audit adjustment resulted as part of our audit procedures.

Questioned Costs

Not applicable

Part II – Financial Statement Findings Section (continued)

Finding Number: 12-02 (continued)

Cause

Adequate communication between the legal and accounting department did not occur so that adjustments can be prepared timely.

Effect

The continued existence of this deficiency could result in a material misstatement of the Authority's financial statements (accrued litigation reserve) not being prevented or detected and corrected on a timely basis by the Authority's internal control processes.

Recommendations

We recommend the Authority maintain a complete list of monetary exposure related to outstanding legal cases and claims being managed by both internal and external attorneys. The list should provide an estimate of the legal reserve associated with all outstanding legal cases and claims so that the general ledger balance can be adjusted on a timely basis. Also, adequate communication between the legal and accounting departments should occur so that adjustments can be prepared timely.

Management's Response

Twice a year the Authority's Legal Department will provide to the Controller's Office an updated list of all pending legal matters managed by external and internal lawyers. This information will be used to properly reconcile the balance in the Accrued Legal Claims account. If a difference is determined, this will be reconciled with the Legal Department to register the corresponding adjustment.

Part II – Financial Statement Findings Section (continued)

Finding Number: 12-03

Topic

The Authority's lack of control over its accrued expense estimation process led to a material adjustment in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category

Internal Control

Compliance Requirement

Not applicable

Criteria

A fundamental element of a sound system of internal controls is an effective liability estimation/calculation process. Such process is essential in enabling the Authority to prevent and detect errors on a timely basis. This effective process helps ensure that all liability transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition

During our audit procedures, we noted that the Authority did not prepare an estimate for expenses incurred for which invoices has not yet been received as of June 30, 2012. As a result, a significant amount of liabilities were not recorded in books as of June 30, 2012. This resulted in a material adjustment being recorded in the financial statements.

Questioned Costs

Not applicable

Part II – Financial Statement Findings Section (continued)

Finding Number: 12-03 (continued)

Cause

Supervisory review of the liability estimation process was not in place. As a result, documentation supporting management's assertion was not accurate.

Effect

The continued existence of this deficiency could result in a material misstatement of the Authority's financial statements (accrued expenses) not being prevented or detected and corrected on a timely basis by the Authority's internal control processes.

Recommendations

The Authority should prepare an estimated analysis with adequate support in order to properly record its liabilities in the correct period. This analysis should be prepared at least quarterly and at year-end should be reviewed in depth to ascertain proper financial reporting. By improving this process in the accounts payable and accrued liabilities area, more efficient and accurate analysis can be performed for accounts payable and accrued liabilities, and cash availability as of year-end.

Management's Response

The Authority since fiscal year 2011-12, has implemented a year end accrued expense estimation process for various types of expenditures such as: professional services, utilities, employee's reimbursement for millage and diets, maintenance services, summer program expenditures and miscellaneous services. However, for the summer program expenditures several of the contracts granted were valid after June 30, 2012, and we based our estimates including only the work to be performed until June 30, 2012. When we received the invoices the contractor had completed all the work before June 30, and had billed the total of the services. This required recognizing an additional expense. In addition, to record invoices for projects under construction, the Project Development Department of the Authority will prepare a list of all jobs being performed within the year end and not invoiced by the contractor to properly charge the expenses to the corresponding projects.

Part II – Financial Statement Findings Section (continued)

Finding Number: 12-04

Topic

The Authority's lack of control over its capital assets process led to material adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category

Internal Control

Compliance Requirement

Not applicable

Criteria

A sound system of internal controls is essential in enabling the Authority to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition

During our review of construction in progress and confirmation procedures with AFI (Autoridad de Financiamiento e Infraestructura) we noted material amounts in CIP petitions from AFI that were not capitalized in the Authority's financial statements.

Questioned Costs

Not applicable

Cause

There was a lack of timely communication between the Authority and AFI.

Part II – Financial Statement Findings Section (continued)

Finding Number: 12-04 (continued)

Effect

The lack of supervisory review and coordination between the mentioned agencies led to material adjustments in the Authority's financial statements. This resulted in a material misstatement of the financial statements.

Recommendations

Proper communication should be maintained with other governmental agencies throughout the year in order to timely and properly record CIP projects and related liabilities on the Authority's books. Furthermore, projects could be reviewed monthly or quarterly depending on the size of each project to identify possible errors. This will ensure proper financial statement presentation and timely recording of expenses.

Management's Response

PBA had requested constantly to AFI an update of the work plan that includes schools completed; total costs incurred and estimated completion dates for outstanding projects. Currently, this information is being received faster. This will provide the necessary information to record the transactions in a timely manner.

Part II – Financial Statement Findings Section (continued)

Finding Number: 12-05

Topic

The Authority's lack of control over its capital assets' depreciation computation process led to a significant adjustment in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category

Internal Control

Compliance Requirement

Not applicable

Criteria

A sound system of internal controls is essential in enabling the Authority to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition

During our capital assets' depreciation procedures, we noted a material error in the Authority's depreciation expense computation.

Questioned Costs

Not applicable

Cause

Supervisory review of the depreciation expense computation process was not in place. As a result, the depreciation calculation was not accurate to support management's assertion.

Part II – Financial Statement Findings Section (continued)

Finding Number: 12-05 (continued)

Effect

The lack of timely performance and review led to adjustments not being identified on a timely basis. This resulted in a material misstatement of the financial statements.

Recommendations

The Authority's management should establish controls over the review of this calculation. This will allow for the Authority's personnel to be more efficient and effective in detecting errors and provide the Authority more timely and accurate financial information.

Management's Response

The Authority established a monthly closing schedule. This process helps in the general accounts reconciliations and if discrepancies are found can be reconciled and adjusted immediately.

Part II – Financial Statement Findings Section (continued)

Finding Number: 12-06

Topic

The Authority's lack of control over its capital assets process led to a material reclassification adjustment in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category

Internal Control

Compliance Requirement

Not applicable

Criteria

A sound system of internal controls is essential in enabling the Authority to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition

During our review of construction in progress and building accounts we noted a significant transfer that was improperly recorded as a completed building when the completion of the construction occurred after June 30, 2012.

Questioned Costs

Not applicable

Cause

There is a lack of supervisory review in relation to this process.

Part II – Financial Statement Findings Section (continued)

Finding Number: 12-06 (continued)

Effect

The lack of supervisory review led to a significant re-class adjustment in the Authority's financial statements. This resulted in a material misstatement of the financial statements.

Recommendations

The Authority's management should establish controls over the review of this process. This will allow for the Authority's personnel to be more efficient and effective in detecting errors and provide the Authority more timely and accurate financial information.

Management's Response

The Authority concurs with the auditor's findings and recommendations.

Part II – Financial Statement Findings Section (continued)

Finding Number: 12-07

Topic

The Authority's lack of control over its cash reconciliation process led to a material reclassification adjustment in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category

Internal Control

Compliance Requirement

Not applicable

Criteria

A sound system of internal controls is essential in enabling the Authority to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition

During our review of the cash accounts we noted that the Authority had duplicated the interest income of one of its investment accounts.

Questioned Costs

Not applicable

Cause

There is a lack of supervisory review in relation to this process.

Effect

The lack of supervisory review led to a material adjustment in the Authority's financial statements. This resulted in a material misstatement of the financial statements.

Part II – Financial Statement Findings Section (continued)

Finding Number: 12-07 (continued)

Recommendations

The Authority's management should establish controls over the review of this process. This will allow for the Authority's personnel to be more efficient and effective in detecting errors and provide the Authority more timely and accurate financial information.

Management's Response

The Authority concurs with the auditor's findings and recommendations.

Part III – Federal Awards Findings and Questioned Costs

This section identifies the audit findings required to be reported by OMB Circular A-133, Section .510(a) (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

Part III – Federal Awards Findings and Questioned Costs (continued)

Finding Number: 12-08

Program

U.S. Department of Energy – ARRA State Energy Program – CFDA No. 81.041

Category

Internal Control / Compliance

Compliance Requirement

Not applicable

Criteria

OMB Circular, Subpart C, Section .320 (a) General establishes that the audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. Unless restricted by law or regulation, the auditee shall make copies available for public inspection. (b) Data Collection. (1) The auditee shall submit a data collection form which states whether the audit was completed in accordance with this part and provides information about the auditee, its Federal programs, and the results of the audit. The form shall be approved by OMB, available from the Federal clearinghouse designated by OMB, and include data elements similar to those presented in this paragraph. A senior level representative of the auditee (e.g., State controller, director of finance, chief executive officer, or chief financial officer) shall sign a statement to be included as part of the form certifying that: the auditee complied with the requirements of this part, the form was prepared in accordance with this part (and the instructions accompanying the form), and the information included in the form, in its entirety, are accurate and complete.

Condition

The Data Collection Form (DCF) and the Single Audit reporting package were not submitted within nine months after the end of the audit period.

Part III – Federal Awards Findings and Questioned Costs (continued)

Finding Number: 12-08 (continued)

Questioned Costs

None

Cause

Information needed to complete the financial statement audit was not available to permit completion of the financial statement and compliance audit within the required period.

Effects

The lack of appropriate procedures to ensure a complete financial reporting package may cause delays in the singe audit issuance process thus affecting future grant awards.

Recommendation

The Authority should improve the procedures to ensure that the information required to complete the financial statements audit is available for examination by the external auditors with sufficient time to complete and issue the reporting package and submit the required single audit report and data collection form within the required period.

Management's Response and Corrective Action Plan

We concur. Our main building, where most of our records are kept, was seized and closed by the Environment Protection Agency (EPA) due to asbestos. Not having timely access to information requested by the auditors caused unexpected delays in the original audit time frame. The cleaning process to remove the asbestos will be completed by 2013.

Implementation Date:	May 2013
Responsible Person:	Executive Director

Part III – Federal Awards Findings and Questioned Costs (continued)

Finding Number: 12-09

Program

U.S. Department of Energy – ARRA State Energy Program – CFDA No. 81.041

Category

Internal Control / Compliance

Compliance Requirement

Davis-Bacon Act

Criteria

In accordance with 29 CFR part 5 non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL Regulations. This includes a requirement for the contractor or subcontractor to submit to the non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).

Condition

As part of our procedures, we noted that only one contractor was paid with federal funds for the approximate amount of $2.9 million. We examined this project contract and noted that there was no disclosure related to the Davis Bacon Act compliance requirements in the Agreement between the parties for this ARRA-SEP Fund as required by OMB Circular A-133. However, we ascertained that the contractor submitted the required certified payroll for each week in which any contract work was performed.

Questioned Costs

Not applicable

Part III – Federal Awards Findings and Questioned Costs (continued)

Finding Number: 12-09 (continued)

Cause

Internal controls to ensure proper documentation of compliance with Davis Bacon requirements were not operating effectively.

Recommendation

PBA should establish and implement procedures in order to properly communicate to contractors Davis Bacon requirements and prevailing wage rates before signing the contract as required by Circular A-133.

Management's Response and Corrective Action Plan

We concur. Instructions will be given to the Legal Department that construction contracts federally funded include disclosure on Davis Bacon Act.

Implementation Date:	April 2013
Responsible Person:	Director of Project Development

Part III – Federal Awards Findings and Questioned Costs (continued)

Finding Number: 12-10

Program

U.S. Department of Energy – ARRA State Energy Program – CFDA Nos. 81.041

Category

Internal Control / Compliance

Compliance Requirement

Procurement, Suspension and Debarment

Criteria

OMB Circular A-102 requires all non-federal entities to follow federal laws and implementing regulations applicable to procurements, as noted in federal agency implementation of the A-102 Common Rule. In addition, OMB Circular A-102 Common Rule prohibits the use of ARRA funds for a project for the construction, alteration, maintenance, or repairs of a public building or work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States (Buy America Act).

In accordance with non-federal entities are prohibited from contracting with or making sub awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded.

Condition

As part of our procedures we noted that federal funds were awarded to one contractor in the approximate amount of $2.9 million and two professional service providers in the approximate amount of $293,000. For the only contractor noted we requested the contract agreement and examined evidence to ascertain that procurement provided full and open competition. We examined the minutes of the auction and the newspaper auction notice; however, we were not able to examine the complete procurement file as required by Circular A-102.

Part III – Federal Awards Findings and Questioned Costs (continued)

Finding Number: 12-10 (continued)

Condition (continued)

During our examination we did not obtain evidence indicating that the Authority reviewed the EPLS website, obtained a certification from two professional service providers or the contractor, nor included a clause in the contracts to ensure that the contractor was either suspended or debarred before the contract was signed. In addition, the contract did not include any clause related to the ARRA requirement to use iron, steel and manufactured goods produced in the United States, nor management documented the requirement. The Buy American Act does not apply to the two professional service providers since funds were not used for the construction, maintenance, or repair of two public buildings.

Questioned Costs

Not applicable

Cause

Internal controls procedures to ensure proper documentation of compliance with Procurement and Suspension and Debarment requirements were not operating effectively.

Effect

The Authority could have contracted with a party that was suspended or debarred or whose principals were suspended or debarred or could have contracted a party who purchases unauthorized goods, which could has lead to noncompliance with federal laws and regulations.

Recommendation

PBA should establish and implement contingency procedures in order to ascertain that contract files are complete and available for examination. Also, PBA should establish and implement procedures to review the EPLS website, obtain a certificate from the vendor, or include a clause in contracts in order to ascertain that contractors are not suspended or debarred before signing the contract.

Part III – Federal Awards Findings and Questioned Costs (continued)

Finding Number: 12-10 (continued)

Management's Response and Corrective Action Plan

PBA complies with the procurement process required. The situation is that because asbestos leaking in the main building, it was seized and closed by the Environmental Protection Agency (EPA). This caused that we could not provide to the auditors the complete procurement file. However, management has provided copies of the newspaper auction notice, financial and technical evaluation of contractors and minutes of the auction.

Regarding the Suspension and Debarment and the Buy American Act findings, we concur with them. However, management has obtained a certification of the contractor indicating that the equipment and materials used in the project were manufactured in the USA and we verified in the EPLS website and the contractor does not have active exclusion records.

In addition, instructions will be given to the Legal Department that before awarding construction contracts federally funded; the contractor must submit certification of compliance with the Buy American Act. Furthermore, access the EPLS to verify that the contractor in not active in that list.

Implementation Date:	April 2013
Responsible Person:	Director of Project Development

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