RSM ROC & Company
Certified Public Accountants & Consultants

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

ESTADO LIBRE ASOCIADO DE
PUERTO RICO
Autoridad para las Alianzas Público-Privadas de Puerto Rico

Basic Financial Statements and Required Supplementary Information as of and for the Year Ended June 30, 2014, and Independent Auditors' Report

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

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INDEPENDENT AUDITORS' REPORT

To: The Members of the Board of Directors of
Puerto Rico Public Private Partnerships Authority

We have audited the accompanying financial statements of Puerto Rico Public Private Partnerships Authority, a Component Unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Puerto Rico Public Private Partnerships Authority as of June 30, 2014, and the changes in financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 3 through 5, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Juan, Puerto Rico
December 9, 2014.

Stamp No. E138130 was affixed to
the original of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND DURING THE YEAR ENDED JUNE 30, 2014

This section presents a narrative overview and analysis of the financial performance of the Puerto Rico Public Private Partnerships Authority (the "Authority") and is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, and identify individual issues or concerns. The information presented here should be read in conjunction with the basic financial statements, including the notes thereto.

1. FINANCIAL HIGHLIGHTS

- The Authority's net deficit as of the year ended June 30, 2014, amounted to approximately $3.8 million due to a deficit of approximately $7.2 million during the year 2014, from a prior year net position of approximately $3.4 million. Current deficit is mainly related to a significant reduction in operating revenues. Operating revenues are derived from program revenues and service charges from completed public private partnership's projects. During the fiscal year ended June 30, 2014, there were approximately $102 thousands in program revenues and no service charges, since all projects were in progress as of June 30, 2014.

- Operating expenses decreased by approximately $2.3 million when compared to the prior year. This decrease is mainly related to the following: a decrease of approximately $2.6 million in program expenses; an increase of approximately $160 thousands in professional services; an increase of approximately $435 thousands in other operating expenses; and a decrease of approximately $317 thousands in interest expense.

- During the year ended June 30, 2014, the Authority's operations were financed with a $20 million revolving line of credit facility with the Bank, as established by the Public Private Partnerships Act 29 of June 8, 2009, the enabling act of the Authority.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This report includes this management's discussion and analysis section, the independent auditors' report and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail information pertinent to the financial statements.

3. REQUIRED FINANCIAL STATEMENTS

The financial statements of the Authority report information using accounting methods similar to those used by private sector entities. The statement of net position includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investment in resources (assets) and obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing its liquidity and financial flexibility.

Revenues and expenses are accounted for in the statement of revenues, expenses, and change in net deficit. This statement measures the results of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered its costs from the revenue it generates.

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The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net change in cash resulting from operating, investing, and capital and noncapital financing activities, and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

4. FINANCIAL ANALYSIS

The Authority's condensed financial information as of and for the year ended June 30, 2014, is as follows:

	June 30,		Change	
	2014	2013	Amount	Percentage
Assets	$ 641,240	$ 4,734,761	$ 4,093,521	86.46%
Liabilities	4,411,586	1,349,742	3,061,844	226.85%
Net position (deficit)	$ (3,770,346)	$ 3,385,019	$ (7,155,365)	211.38%
Operating revenues	$ 102,284	$ 19,596,588	$ (19,494,304)	99.48%
Operating expenses and nonoperating income:				
Operating expenses	(7,260,377)	(9,597,638)	2,337,261	-24.35%
Nonoperating income	2,728	2,125	603	28.38%
Total operating expenses and nonoperating income	(7,257,649)	(9,595,513)	2,337,864	-24.36%
Change in net position (deficit)	$ (7,155,365)	$ 10,001,075	$ (17,156,440)	-171.55%

The Authority's most significant operating expenses correspond to professional services and other operating expenses amounting to approximately $5.9 million and approximately $1.3 million, respectively, for the fiscal year ended June 30, 2014. As reflected above, in the year 2014, there was a decrease in operating expense of approximately $2.3 million when compared to the prior year. This decrease is mainly related to the following: a decrease of $2.6 million in program expenses; an increase of approximately $160 thousands in professional services; an increase of approximately $435 thousands in other operating expenses; and a decrease of $317 thousands in interest expense. The decrease in program expenses is related to the completion of works performed under previous Intergovernmental agreements executed for projects funded with PEC. In addition, the increase in other expenses is mainly related to the write-off of a balance due from the Commonwealth of Puerto Rico, which was considered uncollectible as of June 30, 2014.

The Authority's principal activities are related to the development of Public Private Partnership ("Partnerships") projects, which includes the preparation of desirability and convenience studies for proposed Partnerships, the identification and qualification of potential proponents and the evaluation, selection, negotiation and award of Partnership transactions. Most of the professional services expenses of the Authority are related to inter-governmental agreements established as part of implementing public policy on Partnerships, as set forth by Act 29 of June 8, 2009, as amended.

Total assets and total liabilities of the Authority as of June 30, 2014, amounted to approximately \$641 thousands and \$4.4 million, respectively, for a net deficit of approximately \$3.8 million. Total assets decreased by approximately \$4.1 million due to a significant reduction in the revenues during the year and the reduction of the account receivable from the Commonwealth of Puerto Rico, which was considered uncollectible as of June 30, 2014. Total liabilities increased by approximately \$3.1 million when compared to prior year due to the increase in accounts payable and the balance of line of credit with the Government Development Bank for Puerto Rico

The Authority earned approximately \$102 thousands in revenue during the year ended June 30, 2014. The revenue earned during the fiscal year ended June 30, 2014 decreased by approximately \$19.5 million when compared to approximately \$19.6 million earned during the fiscal year ended June 30, 2013. Prior year financial statements include approximately \$14.4 million in reimbursement of expenses and approximately \$2.5 million in professional fees for the services provided as part of the Luis Muñoz Marín International Airport Public Private Partnership. Similar transactions did not take place during fiscal year 2014, however the Authority was involved in the planning process of the potential public private partnership projects, as described in Note 6 to the Basic Financial Statements.

5. REQUESTS FOR INFORMATION

This financial report is designed to provide those interested with a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Puerto Rico Public Private Partnerships Authority at the following address: P.O. Box 42001, San Juan, Puerto Rico, 00940-2001.

PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET DEFICIT
JUNE 30, 2014

ASSETS		
CURRENT ASSETS:		
Cash	$	583,528
Due from the Government Development Bank for Puerto Rico		447
Other assets		8,137
Total current assets		592,112
NONCURRENT ASSETS:		
Capital asset, net		17,002
Other assets		32,126
Total noncurrent assets		49,128
TOTAL ASSETS	$	641,240
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$	2,689,387
Note payable to the Government Development Bank for Puerto Rico		970,776
Due to the Commonwealth of Puerto Rico		736,754
Due to the Puerto Rico Infrastructure Financing Authority		14,669
Total current liabilities		4,411,586
NET DEFICIT		
Net investment in capital assets		17,002
Unrestricted		(3,787,348)
Total net deficit	$	(3,770,346)

See notes to basic financial statements.

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PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
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STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET DEFICIT FOR THE YEAR ENDED JUNE 30, 2014

OPERATING REVENUES - Program revenues	$ 102,284
OPERATING EXPENSES:	
Professional services	5,844,375
Program expenses	102,284
Other operating expenses	1,310,985
Interest expense	2,103
Depreciation and amortization expense	630
Total operating expenses	7,260,377
OPERATING LOSS	(7,158,093)
NONOPERATING REVENUES - Interest income	2,728
CHANGE IN NET POSITION (DEFICIT)	(7,155,365)
NET POSITION - Beginning of year	3,385,019
NET DEFICIT - End of year	$ (3,770,346)

See notes to basic financial statements.

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PUERTO RICO PUBLIC PRIVATE PARTNERSHIPS AUTHORITY
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:		
Program revenues received	$	102,284
Cash paid for operating expenses		(3,901,720)
Net cash used by operating activities		(3,799,436)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Advances from short-term borrowings		414,296
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets		(16,410)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received		3,021
NET CHANGE IN CASH		(3,398,529)
Cash - beginning of year		3,982,057
Cash - end of year	$	583,528
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$	(7,158,093)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization		630
Interest expense		2,103
Bad debt expense		736,754
Increase in due from the Government Development Bank for Puerto Rico		(405)
Increase in other assets		(25,870)
Increase in accounts payable and accrued liabilities		2,645,445
NET CASH USED BY OPERATING ACTIVITIES	$	(3,799,436)

See notes to basic financial statements.

1. REPORTING ENTITY

The Puerto Rico Public Private Partnerships Authority (the "Authority") is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth") and an affiliate of the Government Development Bank for Puerto Rico (the "Bank"), another Component Unit of the Commonwealth. The Authority was created by virtue of Act 29 of June 8, 2009, as amended (the "Act 29").

The Authority is the Commonwealth's governmental entity authorized and responsible for implementing public policy on Public Private Partnerships (the "Partnerships") as established by Act 29 and to determine the functions, services or facilities for which such Partnerships will be established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Authority conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") for governments as prescribed by the Governmental Accounting Standards Board ("GASB").

Effective July 1, 2013, the Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources. It also reclassifies certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). The adoption of Statement No. 65 did not has an impact in the results of the operations or in the presentation of the financial statements of the Authority.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of changes in net position, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Following is a description of the Authority's most significant accounting policies:

Measurement Focus and Basis of Accounting — The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The Authority recognizes revenue when earned under the terms of each agreement and when the collection of the fees is reasonably assured. Expenses are recorded when incurred, regardless of the timing of related cash flows. Operating expenses are those related to the administration of the Authority. All revenues and expenses not meeting these criteria are reported as non-operating revenues and expenses.

The Authority's operating revenues is primarily derived from program revenues and services charges. Program revenues for the year ended June 30, 2014, are those obtained from the Local Economic Stimulus Program ("*Plan de Estímulo Criollo*" or "PEC"). However, the Authority made disbursements from said program revenues that are identified as program expenses in the accompanying Statement of Revenues, Expenses and Change in Net Deficit. Thus, the program revenues earned are equal to the expenses incurred. Services charges are those resulting from the costs incurred by the Authority as part of the process for the establishment of a public private partnership plus the fee charged to the participating governmental agency for the services rendered by the Authority upon completion of a project.

The statement of net deficit presents the Authority's assets and liabilities, with the difference reported as net deficit. Net deficit may be reported in three categories:

- Net investment in capital assets – consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding debt balances attributable to the acquisition, construction, or improvement of those assets.
- Restricted component – consists of restricted assets reduced by liabilities related to those assets. Restrictions are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted component – consists of net amount of the assets and liabilities that do not meet the definition of the preceding category. Unrestricted component of net deficit often is designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted component of net deficit often has constraints on use that are imposed by management, but such constraints may be removed or modified.

As of June 30, 2014, the Authority's net position was presented as net investment in capital assets and unrestricted.

The statement of revenues, expenses and change in net deficit demonstrates the degree to which the operating expenses are offset by operating revenues.

Custodial Credit Risk Related to Deposits — Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk. As of June 30, 2014, all of the Authority's bank balance, aggregating to approximately $276,000, was exposed to custodial credit risk since all such deposits, which are maintained at the Bank, are uninsured and uncollateralized.

Capital Assets — Capital assets, which consist of equipment, are stated at cost less accumulated depreciation. Capital assets are defined by the Authority as assets that have a cost of $500 or more at the date of acquisition and have an expected useful life of one or more years. Depreciation is charged to operations and included in general and administrative expenses, and is computed on the straight-line basis over the estimated useful lives of the depreciable assets (1 to 5 years). Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvement, whichever is shorter. Costs of maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to expense as incurred.

Compensated Absences — The employees of the Authority are granted 30 days of vacation and 18 days of sick leave annually. Vacation and sick leave may be accumulated up to a maximum of 72 and 90 days, respectively. In the event of employee resignation, an employee is reimbursed for accumulated vacation and sick leave days up to the maximum allowed.

Recently Issued Accounting Pronouncements – The GASB has issued the following accounting pronouncements that are effective for periods subsequent to June 30, 2014.

- GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, which is effective for fiscal years beginning after June 15, 2014.
- GASB Statement No. 68, Accounting *and Financial Reporting for Pensions – an amendment of GASB Statements No. 27*, which is effective for fiscal years beginning after June 15, 2014.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which is effective for periods beginning after December 15, 2013.
- GASB Statement No. 70, A*ccounting and Financial Reporting for Non Exchange Financial Guarantees*, which is effective for periods beginning after June 15, 2013.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which should be applied simultaneously with the provisions of Statement 68.

Management is evaluating the impact that these statements will have, if any, on the Authority's basic financial statements.

3. SHORT-TERM BORROWINGS

On November 18, 2009, the Authority entered into a $20 million revolving line of credit facility with the Bank to provide financing for the Authority's operations. The credit facility expires on January 31, 2016, and bears interest at 150 basis points over the prime rate (3.25% at June 30, 2014) or 6%, whichever is higher. The source of repayment of this line of credit is the fees charged by the Authority for services provided as part of the process to establish the Partnerships. As of June 30, 2014, the line of credit balance was approximately $971 thousands. Interest expense for the year ended June 30, 2014, amounted to $2,103, which remained unpaid as of June 30, 2014 and were presented as part of the accounts payable and accrued liabilities.

4. TRANSACTIONS WITH RELATED ENTITIES

During the year ended June 30, 2014, the Authority received certain management support and administrative services from the Bank, at no cost. The Bank, as part of the administrative services provided, may incur on payments on behalf of the Authority to cover certain of its operating expenses. In addition, during the year ended June 30, 2014, the Authority entered into an agreement with the Puerto Rico Infrastructure Financing Authority ("PRIFA") that defined the services to be provided by PRIFA and established a fee to cover such services. Total fees paid to PRIFA for the year ended June 30, 2014, amounted to $1,400.

During the fiscal year ended June 30, 2014, the Authority signed a five-year term lease agreement with PRIFA for the rental of the Authority's administrative office. The agreement calls for monthly lease payments of approximately of $4,600. The lease agreement expires in December 2019 and can be renewed for five additional years at the option of the Authority. As part of this lease agreement the Authority paid approximately $27,000 of prepaid rent in exchange for certain improvements to the rented premises. As of June 30, 2014, the prepaid rent balance approximates $24,000. Such advance is presented in the statement of net deficit as other assets and is amortized on a monthly basis over the life of the lease agreement as a reduction of the rent payment. Rent charged to operations during the fiscal year 2014 amounted to approximately $28,000.

As of June 30, 2014, the minimum annual future rentals under the lease agreement are approximately as follows:

Year Ending June 30,	Amount
2015	$ 49,416
2016	49,416
2017	49,416
2018	49,416
2019	24,708
Total	$ 222,372

5. CONTRIBUTION FROM THE COMMONWEALTH OF PUERTO RICO

During the year ended June 30, 2010, the Commonwealth, through PEC, assigned $20.5 million to the Authority to provide funding for certain pre-development costs for Partnership projects. During the year ended June 30, 2014, the Authority recognized approximately $102 thousands as program revenues and the same amount as program expenses. As of June 30, 2014, the amount of unused funds assigned to the Authority amounted to approximately $1 million.

6. INTER-GOVERNMENTAL AGREEMENTS

The Authority has entered into inter-governmental agreements (the "Agreements") as part of implementing public policy on Partnerships as established by Act 29. Below is a summary of each Agreement organized by the projects funded under PEC and those expected to be funded with private investment through a Partnership.

a) PEC Projects:

Extension to the PR-22 Project — On July 7, 2012, the Authority signed an agreement with PRIFA, to provide design management and evaluation services related to the proposed extension of toll road PR-22 from the municipality of Aguadilla to the municipality of Hatillo. During the year ended June 30, 2014, the Authority received for this project approximately $102 thousands charged the same amount as professional services expenses. There are no accounts payables as of June 30, 2014, in connection to this project.

Schools for the 21st Century Program — On June 21, 2010, the Authority signed an agreement with PRIFA, in which PRIFA agrees to provide the Authority administrative and technical assistance to fulfill its responsibilities in the evaluation of prospective bidders and proposals for the establishment of partnership contracts and other functions in relation to the Schools for the 21st Century Program. During the year ended June 30, 2014, there were no disbursements in connection to this agreement.

On June 7, 2011, the Authority entered into an agreement with the Department of Education (DE), in which the Authority agrees to cover certain expenses of the DE associated with the movement of furniture, materials, and equipment out of selected schools to be modernized under the Program. Specifically, the support for moving furniture and equipment included contracting with trucking and moving companies. As of June 30, 2014, there are approximately $604 thousands related to this agreement that remain unpaid. There was no activity during fiscal year ended June 30, 2014, in connection to this project.

Public Schools Structural Repairs Program — On May 28, 2010, the Authority signed an agreement with OMEP, in which the Authority agrees to transfer the funds to cover the pre-development costs of the structural repairs for certain facilities of public schools managed by OMEP. The pre-development costs for general repairs include technical advisory and evaluation, design, surveying, soil and site analysis, environmental impact statement, development of construction draft, search of structural information of public facilities, and permit documentation, among others. As of June 30, 2014, there are approximately $133,000 related to this agreement that remain unpaid. There was no activity during fiscal year ended June 30, 2014, in connection to this project.

Extension to the PR-5 Project — On April 28, 2010, the Authority signed an agreement with the Puerto Rico Highway and Transportation Authority ("PRHTA"), in which the Authority agrees to transfer funds to cover for the pre-development costs of environmental mitigation, technical advisory, design, surveying, soil, and site analysis, among others, for developing highways infrastructure projects. During the year ended June 30, 2014, there were no disbursements in connection to this agreement.

b) Partnership Projects:

Caguas — San Juan Commuter Train Project — On May 21, 2013, the Board of Directors (the Board) of the Authority ("the Board") authorized the process of request of proposals and selections of financial, technical, and legal advisors to review the study of desirability and convenience for the possible Partnership project for the establishment of a commuter train between the municipalities of Caguas and San Juan. On September 17, 2013, the Board approved the study of desirability and convenience and authorized the Authority to commence the process for the establishment of a Partnership. The Authority has been preparing all of the necessary documentation and information, which include environmental considerations, to initiate the procurement process. During the year ended June 30, 2014, the Authority charged as professional services expenses approximately $4.1 million in connection to this project. As of June 30, 2014, the balance payable related to this project amounted approximately $1.9 million.

Correctional Facilities — On May 21, 2013, the Board authorized the process of request for proposals and selections of financial, technical, and legal advisors to prepare the study of desirability and convenience for the establishment of a possible Partnership project for the establishment of two (2) correctional facilities: one for women and the other of maximum security for men. On December 16, 2013, the Board approved the study of desirability and convenience and authorized the Authority to commence the process for the establishment of a Partnership. The Authority has been preparing all of the necessary documentation and information, which include environmental considerations, to initiate the procurement process. During the year ended June 30, 2014, the Authority charged as professional services expenses approximately $1.4 million. As of June 30, 2014, the balance payable related to this project amounted approximately $373,000.

Liquid Natural Gas Supply and Development of Related Infrastructure for the Puerto Electric Power Plant Authority — On June 5, 2013, the Board authorized the process of request for proposals and selections of financial, technical, and legal advisors to prepare the study of desirability and convenience for the establishment of a possible Partnership project to develop the necessary infrastructure to supply natural for two of the San Juan's main power plants of the Puerto Rico Electric Power Authority. The Authority is gathering the necessary information to prepare the study of desirability and convenience. During the year ended June 30, 2014, the Authority charged as professional services expenses approximately $197,000. As of June 30, 2014, the balance payable related to this project amounted approximately $197,000.

7. RETIREMENT SYSTEM

Defined Contribution Hybrid Program – On April 4, 2013, the Legislature enacted Act 3 which amended Act 447 and Act 305 to establish, among other things, a defined contribution hybrid program (the "Hybrid Program") to be administered by the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico ("Retirement System"). All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit pension plan and the defined contribution plan, and were rehired on or after July 1, 2013, become members of the Hybrid Program as a condition to their employment. In addition, employees who as of June 30, 2014, were participants of previous plans will become part of the Defined Contribution Hybrid Program.

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Participants in the defined contribution plan who as of June 30, 2014 were entitled to retire because they were 60 years of age, may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program. Participants in the Program who as of June 30, 2014, has not reached the age of 60 can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

Act 3 requires employees to contribute ten percent (10%) of their monthly gross salary to the Hybrid Program. Employee contributions are credited to individual accounts established under the Hybrid Program. In addition a mandatory contribution equal to or less than point twenty five percent (.25%) is required for the purchase of disability insurance.

The Authority is required to contribute 12.275% of each participant's gross salary. The Retirement System will use these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2013, and up until June 30, 2016, the employer's contribution rate shall be annually increased by one percent (1%). Beginning July 1, 2016, and up until June 30, 2021, the employer's contribution rate that is in effect on June 30 of every year shall be annually increased on every successive July 1st by one point twenty-five percent (1.25%).

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service, a death benefit will be paid in one lump sum in cash to the participant's beneficiaries.

Participants with a balance of less than $10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability the participants have the option of receiving a lump sum or purchasing an annuity contract.

Total employee contributions for the defined contribution hybrid plan during the year ended June 30, 2014, amounted to approximately $28,000. The Authority's contributions during the year ended June 30, 2014, amounted to approximately $37,000. These amounts represented 100% of the required contribution for the corresponding year.

Additional information on the Retirement System is provided in its stand-alone financial statements for the year ended June 30, 2014, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan, PR 00940-2004.

8. CONTINGENCIES

The Authority is a party in a legal claim arising in the ordinary course of operations. Management and their legal counsels are of the opinion that the ultimate disposition of this matter will not have a material adverse effect on its financial position and the results of its operations.

9. SUBSEQUENT EVENTS

On September 2014, the Governor of the Commonwealth submitted a bill to the Legislature of the Commonwealth of Puerto Rico, which would impact the Authority's operations and administration. The bill proposes the following:

a) to create a special subdivision to coordinate the evaluation process for lower-investment projects and their maximum investment;
b) to establish parameters for the collection of service charges; and
c) to assign an appropriation of $2 million from the Commonwealth's General Fund for the fiscal year 2015-2016, to establish a special fund to cover costs related to lower-investment projects.

As of June 30, 2014, the bill is being evaluated by the Legislature of the Commonwealth of Puerto Rico.

Subsequent events were evaluated by management through December 9, 2014, the date the financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the financial statements. Management has determined that other than those already disclosed above, there are no material events or transactions that would affect the Authority's financial statements through such date.