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Financial Statements and Report of Independent Certified Public Accountants

Puerto Rico Highways and Transportation Authority

(A Component Unit of the Commonwealth of Puerto Rico)

June 30, 2009 and 2008

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Hon. Ruben Hernandez Gregorat, Secretary
Department of Transportation and Public Works,
Commonwealth of Puerto Rico

We have audited the accompanying statement of net assets of Puerto Rico Highways and Transportation Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, as of June 30, 2009 and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Puerto Rico Highways and Transportation Authority as of June 30, 2008, were audited by other auditors whose report dated September 19, 2008, expressed an unqualified opinion on those statements.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Puerto Rico Highways and Transportation Authority at June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 22, 2009, 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 grants 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.

The management's discussion and analysis information on pages 3 through 11 and the schedule of funding progress for retiree health plan on page 47 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

This report is intended solely for the information and use of the Board of Directors and management of the Authority and the Department of Treasury of the Commonwealth of Puerto Rico and is not intended to be and should not be used by anyone other than these specified parties.

Kevane Grant Thornton LLP

San Juan, Puerto Rico,
December 22, 2009.

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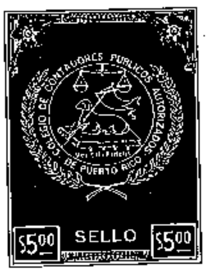

Management Discussion and Analysis
Years ended June 30, 2009 and 2008

The following discussion and analysis of the financial performance and activity of the Puerto Rico Highways and Transportation Authority (the Authority) provides an introduction and understanding of the basic financial statements of the Authority for the fiscal years ended June 30, 2009 and 2008. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follows this section.

Financial Highlights for 2009

- Net assets totaled $4,456.4 million at June 30, 2009.
- Net assets decreased by $270.2 million in 2009, as compared to a decrease of approximately $238 million in 2008.
- Net capital assets totaled $11,303.6 million at June 30, 2009.
- Net capital assets decreased by .16% at June 30, 2009, when compared with the balance at June 30, 2008 of $11,321.5 million.

Financial Highlights for 2008

- Net assets totaled $4,726.7 million at June 30, 2008.
- Net assets decreased $268.1 million in 2008, as compared to a decrease of $190.1 million in 2007.
- Net capital assets totaled $11,321.5 million at June 30, 2008.
- Net capital assets increased by 1% at June 30, 2008, when compared with the balance at June 30, 2007 of $11,239.2 million.

The Financial Statements

The basic financial statements provide information about the Authority's business-type activities. The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

Overview of the Financial Statements for Business-Type Activities

The financial statements consist of the: (1) statement of net assets, (2) statement of revenues, expenses, and changes in net assets, (3) statement of cash flows, and (4) notes to the financial statements. The financial statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with U.S. generally accepted accounting principles.

Statement of Net Assets

The statement of net assets reports all financial and capital resources of the Authority. The statement is presented in the format where assets equal liabilities plus net assets. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash within one year) and noncurrent. The focus of the statement of net asset is to show a picture of the liquidity and health of the Authority as of the end of the year.

The Authority's net assets are reported in the following categories:

- *Net Assets Invested in Capital Assets, Net of Related Debt* — this component of net assets consists of all capital assets, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Although the Authority's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations and from gasoline and petroleum taxes allocated annually by the Commonwealth of Puerto Rico, since the capital assets themselves cannot be used to liquidate liabilities.

- *Restricted for Debt Service* — this component of net assets consists of restricted assets for the principal and interest payments of the bonds payable. This restriction is imposed by the bondholders through debt covenants.

- *Restricted for Construction* — this component of net assets consists of restricted assets for the specific purpose of pay the construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

- *Unrestricted Net Assets* — this component consists of net assets that do not meet the definition of net assets invested in capital assets, net of related debt, or restricted for debt service or for construction.

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets includes operating revenues, which consist of toll, train fares, impact fee and other, and operating expenses, such as costs of operating the mass transportation system, administrative expenses, and depreciation on capital assets; and non-operating revenue and expenses, such as gasoline, diesel, oil and petroleum taxes, vehicle license fee, interest and investment income, and interest expense. The focus of the statement of revenues, expenses, and changes in net assets is the change in net assets. This is similar to net income or loss and portrays the results of operations of the Authority for the entire operating period.

Statement of Cash Flows

The statement of cash flows discloses net cash provided by or used for operating activities, investing activities, noncapital financing activities, and from capital and related financing activities. This statement also portrays the health of the Authority in that current cash flows are sufficient to pay current liabilities.

Notes to Financial Statements

The notes to financial statements are an integral part of the basic financial statements and describe the significant accounting policies, related-party transactions, deposits and investments, capital assets, capital lease obligations, bonds payable, long-term liabilities, defined-benefit pension plans, derivative financial instruments, and the commitments and contingencies. The reader is encouraged to review the notes in conjunction with the management discussion and analysis and the financial statements.

Financial Analysis of the Authority's Business-Type Activities

Statements of Net Assets

The following table reflects a condensed summary of assets, liabilities, and net assets of the Authority as of June 30, 2009, 2008, and 2007:

	June 30,		
	2009	2008	2007
Assets:			
Current assets	$ 55,545,027	$ 88,421,458	$ 79,864,357
Restricted assets	828,078,353	800,883,622	863,277,527
Capital assets, net	11,303,575,031	11,321,489,657	11,239,182,666
Other assets	124,046,633	131,820,569	160,370,993
Total assets	$12,311,245,044	$ 12,342,615,306	$ 12,342,695,543
Liabilities:			
Current liabilities	$ 495,524,891	$ 524,953,981	$ 366,094,476
Long-term liabilities, net	7,359,318,355	7,090,993,767	6,981,861,473
Total liabilities	$ 7,854,843,246	$ 7,615,947,748	$ 7,347,955,949
Net Assets:			
Investment in capital assets, net of related debt	$ 3,842,733,290	$ 3,991,522,521	$ 4,142,081,412
Restricted for debt service	595,340,428	576,138,901	634,835,969
Restricted for construction	41,763,134	47,590,565	71,674,452
Unrestricted	(23,435,054)	111,415,571	146,147,761
Total net assets	4,456,401,798	4,726,667,558	4,994,739,594
Total liabilities and net assets	$12,311,245,044	$ 12,342,615,306	$ 12,342,695,543

June 30, 2009

Current assets decreased by 37 % to $55.5 million. The change in current assets is primarily due to a decrease in overnight deposits under repurchase agreements.

Restricted assets increased by 3% to $828.06 million. The increased consist basically due to an increased in the investment with trustee at June 30, 2009.

Capital assets decreased by .16% to $17,914.6 million due to a decrease in construction in progress and increase in the accumulated depreciation of approx $50 million in the Transportation System (Urban Train). Capital assets are funded mainly with the proceeds of bonds and notes and with capital grants from the Federal Highways Administration (FHWA) and Federal Transit Administration (FTA). Total capital grants from FHWA and FTA during fiscal year 2009 and used to fund capital assets amounted to approximately $128.7 million.

Other assets decreased by 6% to $124.05 million due to a decrease on revenues bonds issuance cost resulting from the current year amortization.

Current liabilities decreased by 5% to $495 million. The factors that caused this decrease was mainly the net effect of an increase in balances due to suppliers offset by a decrease in balances due to contractors and non-revolving lines of credit.

Long-term liabilities increased by 4% to $7,359 million due principally to a net effect of a decrease in bonds payable and an increase in lines of credit and legal reserve.

Net assets decreased by 5% to $4,456.4 million principally due to a reduction on the Investment in capital assets, net of related debt and unrestricted net assets.

June 30, 2008

Current assets increased by 11% to $88.4 million. The change in current assets is primarily due to an increase in overnight deposits acquired under repurchase agreements.

Restricted assets decreased by 7% to $800.9. This decrease consist principally of a decrease in amounts deposited in construction fund of $75 million for amounts disbursed for construction cost during the year and a decrease in receivables from capital grants due to the completion level of certain projects net of an increase in sinking fund reserves for the payment of bond principal and interest.

Capital assets increased by 1% to $11,321.5 million due to the Authority's capital improvement program. Capital assets are funded with the proceeds of bonds and notes and with capital grants from the Federal Highways Administration (FHWA) and Federal Transit Administration (FTA). Total capital grants received from FHWA and FTA during fiscal year 2009 and used to fund capital assets amounted to approximately $158.8 million.

Other assets decreased by 18% to $131.8 million due to the current year amortization of the bond issue cost and a decrease in amount due from the Department of Transportation and Public Work (DTPW). The balance due by DTPW as of June 30, 2007 was reduced this fiscal year 2008 through charges to repairs of roads and bridges.

Current liabilities increased by 43% to $525.0 million. This increase consist principally of an increase in accounts payable and accrued liabilities and construction contracts payable of $50 million, an increase in line of credit of $83.6 million, an increase in accrued interest payable of $14.5 million, and an increase in current portion of bonds payable of $18 million net of a decrease in checks issued over bank balance of $8.5 million.

Long-term liabilities increased by 1% to $7,091.0 million due principally to the issue of $200 million of Subordinated Transportation Revenue Bonds (Series 2007B and 2008A) net of bonds paid during the fiscal year 2008.

Net assets decreased by 5% to $4,726.7 million. This decrease was the result of an excess of expenses over revenues (both operating and non-operating) and capital grants of $268.1 million. The largest portion of the Authority's net assets represents its investment in capital assets net of related debt outstanding used to acquire those capital assets.

Statements of Revenues, Expenses and Changes in Net Assets

The following table reflects a condensed summary of the revenues, expenses, and changes in net assets for the three years ended on June 30, 2009, 2008 and 2007.

	2009	2008	2007
Operating revenues	$ 229,161,530	$ 239,549,405	$ 249,334,483
Operating expenses	319,279,141	299,822,186	266,849,286
Depreciation and amortization	401,846,189	388,378,256	368,500,526
Operating loss	(491,963,800)	(448,651,037)	(386,015,329)
Non-operating revenues	325,902,272	325,882,395	333,972,123
Non-operating expenses	(280,640,613)	(304,087,854)	(264,779,600)
Loss before capital grants	(446,702,141)	(426,856,496)	(316,822,806)
Capital grants	176,436,381	158,784,460	126,717,771
Change in net assets	(270,265,760)	(268,072,036)	(190,105,035)
Net Assets at beginning of year	4,726,667,558	4,994,739,594	5,184,844,629
Net Assets at end of year	$ 4,456,401,798	$ 4,726,667,558	$ 4,994,739,594

Year Ended June 30, 2009

Operating revenues, which consisted of toll fares, train fares and other revenues decreased by 4.53% to $229.1 mainly due to a decrease in toll fares of $6.2 million and a decrease in impact fee of $5.7 million. This decrease is due to a reduction in patronage during fiscal year 2009 as a result of general economic conditions.

Operating expenses increased by 6% to $319.2 million mainly due to the net effect of an increase in the legal reserve of $30 million and decrease in salaries and related benefits as a result of a change in the capitalization policy for the year ended June 30, 2008.

Non-operating revenues, which consist principally of gasoline, oil, diesel and petroleum taxes and vehicle license fees allocated by the Commonwealth of Puerto Rico to the Authority, maintained in line with prior year, it reflected an increase of .08%.
Non-operating expenses, which consist principally of interest expense on bonds and line of credit, transfers and construction work performed for other government agencies, net of investment income, decreased by 8% to $280.6 million. This decrease is due to a decrease in transfers and construction work performed for other government agencies.

***Year Ended June 30,* 2008**

Operating revenues, which consisted of toll and train fares, decreased by 4% to $239.5 mainly due to a decrease in toll fares of $7.2 million and a decrease in train fares of $3.7 million. This decrease is due to a decrease in patronage during fiscal year 2008 as a result of general economic conditions.

Operating expenses increased by 12% to $299.8 mainly due to a decrease in expenses capitalized during fiscal year 2008 to construction in process of approximately $30 million.

Non-operating revenues, which consist principally of gasoline, oil, diesel and petroleum taxes and vehicle license fees allocated by the Commonwealth of Puerto Rico to the Authority, decreased by 2% to $325.9 million. This decrease is mainly due to a decrease of $8.1 million in gasoline, oil, diesel and petroleum taxes due to general economic conditions such as the increase in cost of petroleum during the year, net of an increase of vehicle license fee of $2.9 million.

Non-operating expenses, which consist principally of interest expense on bonds and line of credit, transfers and construction work performed for other government agencies, net of investment income, increased by 15% to $304.1. This increase is due to an increase interest on bonds and line of credit during fiscal year 2008 of $22 million, an increase in transfers and construction work performed for other government agencies of $26.5 million net of an increase in investment income of $9.1 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the Authority had invested approximately $11,303.6 million in capital assets (net of related depreciation) including roads, bridges, transportation equipment, buildings, land and equipment and construction in progress. At June 30, 2008, the Authority had invested approximately $11,321.5 million in capital assets.

At the end of fiscal year 2005, the Authority started operating the mass rail transportation system for the San Juan Metropolitan area known as "Tren Urbano". The Authority incurred approximately $2.42 billion in costs, $685.7 million paid with federal funds, for this project which consists of approximately 17 km. of track running from Bayamón to Santurce. Maintenance services are partially funded with capital grants from Federal Transit Administration (FTA). Total capital grants received from FTA during fiscal year 2009 and used for maintenance services amounted to $21.4 million.

The Authority entered into a five-year contract for the operation and maintenance of the system with a private company, which expires on June 5, 2010, with an option to extend the term for an additional five (5) years. Under this agreement, the private company is responsible for operating and maintaining Tren Urbano and is entitled to receive for such services an annual base compensation, subject to inflation adjustment for changes in cost of labor and materials. The base compensation does not include the cost of insurance and electricity which is paid by the Authority.

Debt Administration

By the end of fiscal year 2009, the principal amount of the Highways and Senior Transportation, and Grant Anticipation Revenues Bonds outstanding, net of unamortized discounts and net losses on advance refunding, which approximated $7,033.4 million, are insured and rated Baa3 by Moody's Investors Service (Moody's) and BBB by Standard & Poor's (S&P) for the Senior Bonds and BBB+ for the other Bonds. The remaining uninsured bonds are rated Baa1 by Moody's and A by S&P, except for the Subordinated Transportation Revenue Bonds, which are rated Aaa and A-, respectively.

On May 1, 2008, the Authority issued $400 million of Subordinated Transportation Revenue Bonds (Series 2008A). The Proceeds from the Series 2008A were used to repay the Subordinated Transportation Revenue Bonds from Series 2006A, 2007A and 2007B.

The Authority's bond sales must be approved by the Secretary of Transportation and Public Works, who exercises the powers of the Governing Board of the Authority in coordination with the Government Development Bank for Puerto Rico and the Fiscal Agent of the Commonwealth of Puerto Rico. The Authority must comply with certain rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission relating to such sales.

In connection with the issuance of the CPI and LIBOR Bonds, the Authority has entered into interest rate swap agreements. In general, the swap agreements provides that, subject to the terms thereof, the Authority will pay to the swap provider a fixed rate and the swap provider will pay to the Authority a floating rate based on the CPI or LIBOR Rate, based on a notional amount equal to the principal amount of the CPI and LIBOR Bonds outstanding. The purpose of the swap agreement is generally to convert the Authority's floating rate obligations with respect to the CPI and LIBOR Bonds to fixed rate obligations.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economy of Puerto Rico must be analyzed as a region of the U.S. economy, since it is part of the U.S. monetary and banking system, and it is located within its custom and territorial boundaries. The main driver of the Puerto Rico economy is a huge external sector closely tied to the flow of merchandise, tourists, and capital between Puerto Rico and the Mainland. Thus, historically, the real growth rate of the Puerto Rico economy has followed that of the U.S. economy, except in periods of energy crisis, when the rise in oil prices exerted a more profound negative effect on the level of economic activity in Puerto Rico. According to the NBER, the U.S. economy entered into a recessionary period in December 2007, which turned into a deep recession in the third quarter of 2008, concurrent with a U.S. and globally financial and housing market crises. The current recession has been the longest and deepest since the Great Depression of the thirties. In this period of what has been called the Great Recession, the U.S. economy experienced declines in real GDP at annual rates of -5.4% in the fourth quarter of 2008 and -6.4% in the first quarter of 2009. In terms of fiscal years, U.S. real GDP dropped by -2.25% in fiscal year 2009, posting its first decline in the present decade. In fiscal year 2009, the U.S. economy also lost 3.2 million payroll jobs and the average annual unemployment rate rose from 4.95% in fiscal year 2008 to 7.57% in fiscal year 2009.

Real GNP of the Puerto Rico economy declined by more than -5.0% in fiscal year 2009, a negative record since the Great Depression, as anticipated by the Interamerican Econometric Model and later confirmed by the Planning Board. This steep decline in Puerto Rico real GNP was caused by the interaction of several factors, mainly the substantial magnitude of the U.S. and global economic crises, combined with the negative effects of the fiscal crisis of the Puerto Rico Central Government and a substantial overbuilding in the housing sector. However, in spite of the volatility of oil and gasoline prices during fiscal year 2009, the average price of gasoline dropped from $3.24 per gallon in fiscal year 2008 to $2.51 per gallon in fiscal year 2009, posting a decline of 73 cents per gallon or 20%. This decline in gasoline prices contributed to offset the negative impact of the recession on gasoline and other petroleum products consumption, as well as Authority's revenues.

We must emphasize that in spite of the adverse macroeconomic environment prevailing in fiscal year 2009, the Authority was able to achieve a level of recurrent revenues, excluding train fares and financial revenues, close to the level attained in fiscal year 2008. The total of the main five categories of recurrent revenues amounted to $532.5 million, a drop of only $6.1 million over the amount collected in fiscal year 2008 ($538.6 million), which can be mainly attributed to negative structural and extraordinary factors affecting diesel tax revenues and toll revenues.

Gasoline tax revenues amounted to $174.6 million in fiscal year 2009, a figure similar to that of fiscal year 2008 ($174.7 million). Gasoline tax revenues remained stable in spite of the adverse recessionary conditions, due to the favorable impact of the 20% decline in gasoline prices. The lower level of gasoline and petroleum products prices also contributed to a moderate 2.3% increase in revenues of the special petroleum products tax, which rose from $99.04 million in fiscal year 2008 to $101.3 million in fiscal year 2009. Revenues from the tax on diesel oil dropped from $18.08 in fiscal year 2008 to $13.86 million in fiscal year 2009, a decline of $4.22 million. This decline was mainly due to a lower consumption of taxable Fuel # 2 (Middle Distillates) from the Electric Power Authority (AEE), which contributes with more than fifty percent to total diesel tax revenues. The lower consumption of the Fuel #2 by the AEE was caused by the reopening of the Palo Seco generating plant, which fully operated in fiscal year 2009, and the decline of -5.36% in electricity generation caused by recessionary economic conditions, which tend to affect more negatively the demand for high cost Fuel #2. Toll revenues were negatively affected by the recession and a special structural factor associated with a temporary, but significant, decline in toll revenues from PR-53 plazas, when toll collection was changed from two to only one direction. Total revenues from toll plazas amounted to $208.01[1] million in fiscal year 2009, a drop of $4.62 million, of which $2.1 million or 45% can be attributed to the decline in revenues of PR-53, and about $1.0 million to the decline in revenues in September of 2008 due to floods associated with hurricane Kyle. Revenues from the motor vehicles license fees increased for a second year in a row, rising from $34.0 million in fiscal year 2008 to $36.3 million in fiscal year 2009, in spite of a significant drop in new vehicle registration. This increase was probably due to the payment of Treasury's for license fees collected prior to fiscal year 2009.

[1] Total toll revenues during fiscal year 2009 does not include $1.5 million of deferred revenues.

A weak macroeconomic environment is expected to persist in fiscal year 2010, due to a modest recovery in the U.S. economy, without any significant growth in Puerto Rico real GNP, as projected by the Inter American University Econometric Model. We must emphasize that in spite of the turnaround to a positive growth in the U.S. economy in the third quarter of 2009, at an annual rate of 2.8%, in fiscal year 2010 the U.S. economy is expected to achieve only a meager growth of 0.26% in terms of real GDP, posting another loss of 4.0 million payroll jobs and a 10% average unemployment rate. The Puerto Rico economy is expected to enter into a recovery phase in the second semester of fiscal year 2010, with the help of the U.S. recovery and the positive impact of the Federal and local stimulus plans. However, in spite of a weak macroeconomic environment in fiscal year 2010, operating revenues of the Authority, excluding train fares and investment income, are expected to expand moderately to a level of $541.5 million in fiscal year 2010, posting an increase of $9.0 million or 1.7% over fiscal year 2009. The behavior of main recurrent revenues in the first four months of fiscal year 2010 shows encouraging signs. In the first four months of the current fiscal year 2010, revenues from the gasoline tax amounted to $58 million, showing an increase of 2.78% over the same period of last year. A decline of 29% in gasoline prices in the period of July-October 2009 over a year ago was the main factor contributing to the increase in gasoline demand. The behavior of toll revenues is even more encouraging. In the period July-October 2009, toll revenues amounted to $69.35 million, surpassing by $1.87 million or 2.8% the level attained in the same period of 2008.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our bondholders, patrons, and other interest parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have question or need additional financial information, contact the Puerto Rico Highways and Transportation Authority, Finance Area, P.O. Box 42007, San Juan, Puerto Rico 00940-2007.

Puerto Rico Highways and Transportation Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Net Assets
June 30, 2009 and 2008

Assets

	2009	2008
Current assets:		
Cash and cash equivalents	$ 30,718,499	$ 80,245,810
Accounts receivable, net of allowance for doubtful accounts of $41,722,944 and $41,603,899 in 2009 and 2008, respectively	22,833,588	5,568,799
Prepaid expenses and other assets	1,992,940	2,606,849
Total current assets	55,545,027	88,421,458
Restricted assets:		
Cash and cash equivalents	41,964,963	38,618,433
Cash and investments with trustee	774,515,123	746,764,187
Receivables-		
Puerto Rico Treasury Department	227,311	227,310
US Federal Government	10,199,758	13,954,161
Accrued interest and other	1,171,198	1,319,531
Total restricted assets	828,078,353	800,883,622
Capital assets:		
Land	1,821,795,129	1,812,808,155
Construction work in progress	925,870,443	1,014,081,507
Transportation system, net	2,227,825,827	2,276,213,343
Roads and bridges, net	6,297,724,618	6,192,020,421
Equipment, vehicles and other, net	30,359,014	26,366,231
Total capital assets	11,303,575,031	11,321,489,657
Revenue bonds issuance cost, net of accumulated amortization of $40,860,894 and $33,086,958 in 2009 and 2008, respectively	124,046,633	131,820,569
Advances to governmental entity, net of of allowance for doubtful accounts of $18,790,466 and $15,059,802 in 2009 and 2008, respectively	-	-
Total Assets	$ 12,311,245,044	$ 12,342,615,306

The accompanying notes are an integral part of these financial statements.

Puerto Rico Highways and Transportation Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Net Assets
June 30, 2009 and 2008

Liabilities and Net Assets

	2009	2008
Current liabilities:		
Checks issued over bank balance	$ 7,554,582	$ 13,105,773
Accounts payable	82,916,894	22,486,343
Accrued and other liabilities	33,890,789	26,939,756
Non-revolving lines of credit	-	83,570,729
Liabilities payables from restricted assets-		
Accounts and subcontracts payable	110,090,406	140,896,349
Accrued interest payable	156,982,220	154,015,031
Current portion of bonds payable	104,090,000	83,940,000
Total current liabilities	495,524,891	524,953,981
Long- term debt:		
Accrued legal claims	62,404,000	31,940,000
Accrued vacations and sick leave	16,260,794	14,354,584
Non-revolving lines of credit	351,313,000	-
Bonds payable, net	6,929,340,561	7,044,699,183
Total long-term debt	7,359,318,355	7,090,993,767
Total liabilities	7,854,843,246	7,615,947,748
Net assets:		
Investment in capital assets, net of related debt	3,842,733,290	3,991,522,521
Restricted for debt service	595,340,428	576,138,901
Restricted for construction	41,763,134	47,590,565
Unrestricted	(23,435,054)	111,415,571
Total net assets	4,456,401,798	4,726,667,558
Total liabilities and net assets	$ 12,311,245,044	$ 12,342,615,306

The accompanying notes are an integral part of these financial statements.

Puerto Rico Highways and Transportation Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Revenues, Expenses and Changes in Net Assets
Years ended June 30, 2009 and 2008

	2009	2008
Operating revenues:		
Toll and train fares	$ 217,683,308	$ 223,258,672
Impact fee and other	11,478,222	16,290,733
Total operating revenues	229,161,530	239,549,405
Operating expenses:		
Salaries and related benefits	25,429,180	54,733,004
Toll highways administration and maintenance	31,563,122	23,992,384
Train operating and maintenance costs	75,510,088	73,068,072
Integrated transportation system	27,228,909	29,707,530
Repairs and maintenance of roads and bridges	67,825,049	66,463,401
Utilities	12,084,121	14,555,321
Other	79,638,672	37,302,474
Total operating expenses	319,279,141	299,822,186
Operating loss before depreciation and amortization	(90,117,611)	(60,272,781)
Depreciation and amortization	401,846,189	388,378,256
Operating loss	(491,963,800)	(448,651,037)
Non-operating income (expenses):		
Gasoline, diesel, oil and petroleum tax revenues	289,593,522	291,840,831
Vehicle license fee	36,308,750	34,041,564
Interest on bonds and line of credit	(316,175,096)	(286,603,283)
Interest and investment income	38,585,898	38,298,408
Transfers and construction work performed for other government agencies	(3,051,415)	(55,782,979)
Total non-operating income	45,261,659	21,794,541
Loss before capital grants	(446,702,141)	(426,856,496)
Capital grants	176,436,381	158,784,460
Change in net assets	(270,265,760)	(268,072,036)
Net assets at beginning of the year	4,726,667,558	4,994,739,594
Net assets at end of year	$ 4,456,401,798	$ 4,726,667,558

The accompanying notes are an integral part of these financial statements.

Puerto Rico Highways and Trasnportation Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Cash Flows
Years ended June 30, 2009 and 2008

	2009	2008
Operating activities:		
Receipts from toll and train fares	$ 208,160,045	$ 223,258,672
Receipts from other sources	11,478,222	20,136,669
Payments to employees and related benefits	(23,655,471)	(52,064,753)
Payments to suppliers for goods and services	(198,781,931)	(212,533,234)
Net cash flows used in operating activities	(2,799,135)	(21,202,646)
Non-capital financing activities:		
Transfers and construction work performed for other government agencies	(3,051,415)	(55,782,979)
Payment for bonds issuance cost	-	(123,500)
Net change in checks issued over bank balance	(5,551,191)	(8,467,850)
Net cash flows used in non-capital financing activities	(8,602,606)	(64,374,329)
Capital and related financing activities:		
Receipts from US Federal Government grants	180,190,784	168,885,655
Acquisition and construction of capital assets, net of capitalized interest	(373,660,653)	(386,639,014)
Receipts from gasoline, petroleum and vehicle license fees	321,899,709	334,385,542
Net advances from line of credit	267,742,271	83,570,729
Proceeds from bond issuance	-	200,000,000
Payments to retire bonds	(83,940,000)	(66,020,000)
Interest paid	(357,994,446)	(326,520,052)
Net cash flows (used in) provided by capital and related financing activities	(45,762,335)	7,662,860
Investing activities:		
Payments for cash and investments with Trustee	(440,866,210)	(303,607,361)
Deposits to cash and investments with Trustee	413,969,061	357,733,810
Investment and interest income received	37,880,444	34,806,242
Net cash flows provided by investing activities	10,983,295	88,932,691
Net (decrease) increase in cash and cash equivalents	(46,180,781)	11,018,576
Cash and cash equivalents at beginning of year	118,864,243	107,845,667
Cash and cash equivalents at end of year	$ 72,683,462	$ 118,864,243

The accompanying notes are an integral part of this statement.

Puerto Rico Highways and Trasnportation Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Statements of Cash Flows
Years ended June 30, 2009 and 2008

	2009	2008
Reconciliation to cash and cash equivalents presented in the statements of net asstes:		
Cash and cash equivalents	$ 30,718,499	$ 80,245,810
Cash and cash equivalents - restricted	41,964,963	38,618,433
Total	$ 72,683,462	$ 118,864,243
Reconciliation of operating loss to net cash flows provided by operating activities:		
Operating loss	$ (491,963,800)	$ (448,651,037)
Adjustments to reconcile operating loss to net cash flows used in operating activities:		
Depreciation and amortization	401,846,189	388,378,256
Loss on disposition of assets	216,464	-
Decrease in amount due from government entities through charges to repairs of roads and bridges	-	20,246,663
Net change in operating asstes and liabilities:		
Accounts receivable	(17,264,789)	3,845,936
Prepaid expenses and other assets	613,909	274,046
Accounts payable	60,430,551	12,035,239
Accrued liabilities	10,952,131	(994,843)
Accrued legal claims	30,464,000	
Accrued vacations and sick leave	1,906,210	3,663,094
Net cash flows used in operating activities	$ (2,799,135)	$ (21,202,646)
Supplemental cash flows information (Non-cash transaction):		
Bonds defeased in issuance of bonds	$ -	$ 400,000,000
Capital appreciation bonds	$ 5,207,054	$ 5,508,099

The accompanying notes are an integral part of this statement.

(1) Organization and summary of significant accounting policies:

(a) Organization -

Puerto Rico Highways and Transportation Authority ("the Authority") is a public corporation and instrumentality of the Commonwealth of Puerto Rico, created by Act No. 74 of June 23, 1965, as amended, to provide roads and other facilities for the movement of persons, vehicles and vessels, and for the planning, promotion and feasibility of mass transportation systems. The Authority is a component unit of the Commonwealth of Puerto Rico and accordingly is included in the general-purpose financial statements of the Commonwealth. The powers normally exercised by a Board of Directors are vested with the Secretary of the Department of Transportation and Public Works (DTPW). The Authority is exempt from the payment of any taxes on its revenues and properties.

(b) Summary of significant accounting policies:

(i) Measurement focus and basis of accounting -

The accounting policies of the Authority conform to generally accepted accounting principles in the United States of America, as promulgated in pronouncements of the Governmental Accounting Standards Board (GASB) and the pronouncements of the Financial Accounting Standards Board (FASB) issued before December 1, 1989, which are not in conflict with GASB pronouncements. 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 not apply FASB pronouncements issued after November 30, 1989.

The Authority's operations are accounted for as a proprietary fund (enterprise fund) using the flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the Authority's operations are included on the statement of net assets. Revenue is recognized in the period in which it is earned and expenses are recognized in the period in which incurred.

The Authority accounts for its operations and financings in a manner similar to private business enterprises; the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

(ii) Cash and cash equivalents -

The Authority considers as cash and cash equivalents all highly liquid investments with original maturities at the date of purchase of three months or less.

(iii) Investments -

The Authority follows the provisions of GASB No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". This statement requires investments to be reported on the statements of net assets at fair value and investment income, including changes in the fair value of investments, to be reported as non-operating income in the statement of revenues, expenses and changes in net assets. Fair values have been determined using quoted market values at June 30, 2009 and 2008.

(iv) Allowance for doubtful accounts -
The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectibility of accounts receivable and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

(v) Capital assets:

Cost basis-
Capital assets are recorded at historical cost or estimated historical cost. The cost of property and equipment includes costs for infrastructure assets (rights-of-way and bridge substructures and highways and bridges), toll facilities, equipment and other related costs (including software), buildings and furniture and equipment. Highways and bridge substructures include road sub-base, grading, land clearing, embankments, and other related costs. Costs for infrastructure assets include construction costs, design and engineering fees and administrative and general expenses paid from construction monies.

Capitalization policy-
Infrastructure capital assets (road, bridges, highways, transportation equipment, etc.) are defined by the Authority as assets with an initial, individual cost of more than $500,000 and an estimated useful life of more than one year. Other capital assets, such as equipment, vehicles, etc. are defined by the Authority as assets with an initial individual cost of more than $100 and an estimated life of more than three years.

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

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

Interest cost is capitalized as part of the historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Interest earned on proceeds of tax-exempt borrowings arrangements restricted for the acquisition of qualifying assets is offset against interest cost to determine the net amount to be capitalized. Interest cost is not capitalized on costs paid with the proceeds of grants or donations restricted solely for construction.

Depreciation of capital assets-
Depreciation is provided using the straight-line method over an estimated useful live of 40 years for roads and highways, 50 years for bridges and transportation system and 10 years for equipment, vehicles and other.

Impairment of capital assets-
The Authority has implemented GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* The objective of GASB 42 is to establish accounting and financial reporting standards for impairment of capital assets. A capital asset is considered

impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries.

Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage among others.

The Authority evaluated its capital assets as required by GASB 42 and no impairment was identified during the years ended June 30, 2009 and 2008.

(vi) Claims and judgments -
The estimated amount of the liability for claims and judgments is recorded on the accompanying statements of net assets based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for claims and judgments may change in the future.

(vii) Vacation and sick leave -
Employees earn annual vacation leave at the rate of 30 days per year up to a maximum permissible accumulation of 60 days for regular employees. 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.

(viii) Unamortized gains/losses on advance refunding -
Gains/losses resulting from current or advance refunding of debt are deferred and amortized over the shorter of the life of the new debt and the remaining life of old debt. The amount deferred is reported as a reduction of the debt and the amount amortized is reported as a component of interest expense.

(ix) Bond premiums/discounts and bond issuance costs -
Bond premiums/(discounts) are presented in the accompanying statements of net assets as an increase/reduction of the face amount of bonds payable. Bond issuance costs are presented as a deferred asset in the accompanying statements of net assets. The premiums/(discounts) and issuance costs are amortized over the life of the bonds on a method that approximates the effective interest method. Amortization related to bond premium/(discounts) was approximately $22,091,600 and $23,044,300 for the years ended June 30, 2009 and 2008, respectively, and is included as a component of interest expense in the accompanying statements of revenues, expenses and changes in net assets.

Depreciation and amortization expense in the accompanying statements of revenues, expenses and changes in net assets includes amortization of bond issuance costs for the years ended June 30, 2009 and 2008 of approximately $7,773,900 and $8,427,300, respectively.

(x) Net assets -

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

Invested in Capital Assets, Net of Related Debt-

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

Restricted for Debt Service-

Net assets restricted for debt service consists of restricted assets for payment of principal and interest related to bonds payable. This restriction is imposed by the bondholders through debt covenants.

Restricted for Construction-

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

Unrestricted-

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

(xi) Revenues recognition -

The Authority distinguishes operating revenues and expenses from non-operating items. Revenues associated with toll and train fares are recorded as operating revenues when cash is received. Expenses related to the administration and maintenance of toll highways and transportation system, repair and maintenance of roads and bridges, and administrative expenses are recorded as operating expenses. All other revenues and expenses are considered non-operating.

Non-operating revenues consist principally of gasoline, diesel, oil and petroleum taxes and vehicle license fees which are allocated to the Authority by the Commonwealth of Puerto Rico as approved by law to finance the acquisition and construction of capital assets and for the payment of the related debt. These taxes and fees are recorded as non-operating revenues at the moment of the Puerto Rico Treasury Department collect such taxes and inform the Authority of such collection.

(xii) Contributions -

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

(xiii) Financial instruments -
The Authority uses derivative financial instruments to manage the economic impact of fluctuations in interest rates. The Authority follows the provision of Government Accounting Standards Board (GASB) Technical Bulletin No. 2003-1, Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets, in accounting for its derivative financial instruments.

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

The implementation of Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB No. 34) involved the use of assumptions and estimates in the determination of the cost of general infrastructure assets, such as roads, highways, bridges and land. The cost of such assets was estimated based on current costs for similar assets deflated using the general price index through the estimated average age of the assets.

(xv) Reclassifications -
Certain reclassifications have been made to the 2008 figures to conform to current year's presentation.

(xvi) Newly issued accounting pronouncements -
In June 2007, GASB issued Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The provisions of this statement are effective for periods beginning after June 15, 2009. Management has not completed its determination of the impact on the financial statements once the provisions of this statement are implemented.

In June 2008, GASB issued Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments". This statement requires the requires to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurements focus and the accrual basis of accounting. The statement also addresses hedge accounting requirements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management has not completed its determination of the impact on the financial statements once the provisions of this statement are implemented.

(xvii) Risk financing -
The Authority carries commercial insurance to cover casualty, theft, claims and other losses. 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 three years. The Authority also pays premiums for workers compensation insurance to another component unit of the Commonwealth of Puerto Rico.

(2) Cash and cash equivalents:

Cash and cash equivalents at June 30, 2009 and 2008 consist of:

	2009	2008
Cash on hand and in banks	$ 5,856,485	$ 12,324,212
Repurchase agreements	24,310,038	67,377,322
Certificates of deposit	551,976	544,276
Total	$ 30,718,499	$ 80,245,810

Cash and cash equivalents includes overnight deposits acquired under repurchase agreements with Economic Development Bank (EDB) and Government Development Bank (GDB) in the amounts of $15 million and $49 million at June 30, 2009 and 2008, respectively. These deposits are exempt from collateral and therefore are subject to custodian credit risk. The remaining balance of $9 million and $18 million at June 30, 2009 and 2008, respectively, of the repurchase agreements is collateralized by US Government Securities.

(3) Accounts receivable:

Accounts receivable at June 30, 2009 and 2008 consist of:

	2009	2008
Government agencies and other	$ 56,009,919	$ 40,727,830
Rent receivables	3,879,264	3,758,814
Repairs to highways	1,329,768	1,291,234
Other	3,337,581	1,394,820
Total	64,556,532	47,172,698
Less allowance for doubtful accounts	41,722,944	41,603,899
Accounts receivable, net	$ 22,833,588	$ 5,568,799

(4) Restricted cash and investments with trustee:

Restricted cash and investments with Trustee at June 30, 2009 and 2008 consist of:

	2009	2008
Cash and cash equivalents:		
Cash on hand and in banks	$ 4,667,133	$ 4,817,171
Cash held by:		
Puerto Rico Treasury Department	19,723,037	21,465,640
Government Development Bank	8,151,426	3,774,574
Puerto Rico State Infrastructure Bank Deposit	9,423,367	8,561,048
Total	$ 41,964,963	$ 38,618,433
Cash and investments with trustee:		
Cash and cash equivalents	$ 148,562,360	$ 335,837,098
Guaranteed investment contracts	348,369,351	337,881,130
US Government securities	253,676,115	63,335,882
Mortgage backed securities	23,907,297	9,710,077
Total	$ 774,515,123	$ 746,764,187

At June 30, 2009 and 2008 the above amounts were restricted to comply with long-term principal and interest debt service requirements or for construction of transportation facilities. These restricted assets are held by the Fiscal Agent under the Bonds Resolutions in the following funds and accounts:

1968 Reserve Account - Reserve for payment of principal of and interest on Highway Revenue Bonds in the event moneys in Bond Service Account or Redemption Account under Resolution 68-18 are insufficient for such purpose.

1968 Bond Service Account and Redemption Account (Sinking Fund under Resolution 68-18) - Current year requirements for principal and interest on Highway Revenue Bonds.

1998 Senior Reserve Account - Reserve for payment of principal and interest on Senior Transportation Revenue Bonds in the event moneys in Senior Bond Service Account Senior Bond Redemption Account under Resolution 98-06 are insufficient for such purpose.

1998 Senior Bond Service Account and Senior Bond Redemption Account (Senior Bond Sinking Fund under Resolution 98-06) - Current year requirements for principal and interest on Senior Transportation Revenue Bonds.

1998 Subordinated Reserve Fund - Reserve for payment of principal of and interest on Subordinated Transportation Revenue Bonds in the event moneys in Subordinated Bond Service Account or Subordinated Bond Redemption Account under Resolution 98-06 are insufficient for such purpose.

1998 Subordinated Bond Service Account and Subordinated Bond Redemption Account (Subordinated Bond Sinking Fund under Resolution 98-06) - Current year requirements for principal of and interest on Subordinated Transportation Revenue Bonds.

1998 Construction Fund - Special fund created by the Resolution 98-06. The proceeds of any Transportation Revenue Bonds issued for the purpose of paying the cost of acquiring or constructing transportation facilities, together with the money received from any other source for such purpose, except proceeds which are (i) applied to the repayment of advances, (ii) deposited in the 1998 Senior Bond Reserve Account or 1998 Subordinated Bond Reserve Fund, (iii) deposited in the 1998 Senior or Subordinated Bond Service Account as capitalized interest or (iv) used for the payment of financing expenses, shall be deposited in the 1998 Construction Fund and held by the Fiscal Agent in trust.

2004 Grant Anticipation Bond Reserve Account - Reserve for payment of principal and interest on 2004 Grant Anticipation Bonds in the event insufficient funds for such purpose are available in the Bond Payment Fund.

At June 30, 2009 and 2008 amounts held by Fiscal Agent in the above accounts amounts to (in thousands):

	2009	2008
1968 Reserve Account	$ 143,185	$ 148,285
1968 Sinking Fund	89,275	87,781
1998 Senior Reserve Account	290,645	279,516
1998 Senior Sinking Fund	148,647	124,004
1998 Subordinated Reserved Fund	42,153	42,154
1998 Subordinated Sinking Fund	21,235	21,111
1998 Contruction Fund	26,455	31,617
2004 Grant Anticipation Reserve Account	12,920	12,297
Total	$ 774,515	$ 746,765

Deposits in Puerto Rico Infrastructure Bank (SIB) represent funds held by Government Development Bank (GDB) related to the establishment of a state infrastructure bank account, which is dedicated solely to provide loans or other form of financial assistance consistent with the National Highway System Designation Act of 1995. The SIB is funded by a matching share agreement whereby on or before the date the Authority receives a Federal payment, the Authority must deposit an amount equal to at least 25% of such payment. These time deposits are held in the Authority's name.

(5) Deposits and investments:

The following disclose essential risk information about deposits and investments as required by Governmental Accounting Standard Board Statement No. 40, *Deposits and Investments Risk Disclosures.*

The Authority is restricted by law to deposit funds only in institutions approved by the Puerto Rico Treasury Department, and such deposits are required to be kept in separate accounts in the name of the Authority. Resolutions 68-18, 98-06 and 04-18 (the Bond Resolutions) require that moneys in the debt service funds be held by Bank of New York (the Fiscal Agent) in trust and applied as provided in the Bond Resolutions.

Pursuant to the Investment Guidelines for the Commonwealth adopted by Government Development Bank for Puerto Rico ("GDB"), the Authority may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, repurchase agreements, banker's 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, or obligations unconditionally guaranteed by the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

Custodian credit risk - deposits

For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. Under Puerto Rico statutes public funds deposited in commercial bank must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth of Puerto Rico. The bank balance of the Authority's deposit at June 30, 2009 and 2008 amounts to $22.1 million and $117.6 million, respectively.

As of June 30, 2009 and 2008, the Authority's custodial credit risk was approximately $55.5 million and $100.3 million, respectively, which is the bank balance of cash deposited, including repurchase agreements, at the Government Development Bank and Economic Development Bank for Puerto Rico and the Department of Treasury of the Commonwealth of Puerto Rico. These deposits are exempt from the collateral requirement established by the Commonwealth.

Custodian credit risk – investments

For an investment, custodial credit risk is the risk that in event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority invests in prime investments with a minimum quality rating of A1 Moody's or Standard and Poor's. In addition, investment in bond sinking funds are limited to investments in direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

The Authority holds guaranteed investment contracts with a fair value of $348 million and $338 million at June 30, 2009 and 2008, respectively. These investments are guaranteed by US Government Securities.

Providers of guaranteed investment contracts as of June 30, 2009 and 2008 are as follows:

	2009	2008
Societe Generale	$ 79,845,253	$ 79,729,203
Bank of New York	63,795,587	63,308,300
Banks of America	46,883,778	46,883,778
FSA Capital Management Service	44,674,424	44,674,425
Citigroup Financial Product, Inc.	40,092,954	39,414,850
First Union National Bank	-	37,358,373
Wachovia Bank NA	26,512,201	26,512,201
Westdeutsche Landesbank	46,565,154	-
Total	$ 348,369,351	$ 337,881,130

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes to market interest rate. Maturities of restricted cash and investments with Trustee at June 30, 2009, are as follows:

	Maturiting From/To	Fair Market Value
Cash and cash equivalents	N/A	$ 148,562,360
Guaranteed investments contracts	7/2009-7/2045	348,369,351
US Government and agencies securities	12/2011-2/2023	253,676,115
Mortgage backed securities	11/2014-1/2023	23,907,297
Total		$ 774,515,123

All investments have been classified as Aaa by Standard & Poors.

(6) Advances to governmental entity:

Advances to governmental entity at June 30, 2009 and 2008, consist principally of advances made by the Authority to the Department of Transportation and Public Works of the Commonwealth of Puerto Rico ("DTPW") to carry-out its participation in the construction improvement program of the Authority. These advances are reduced by the Authority through charges made by DTPW for repairs and maintenance of roads and bridges.

(7) Capital assets:

The following schedule summarizes the capital assets held by the Authority as of June 30, 2009 and 2008:

	Balance at June 30, 2008	Increases	Decreases	Balance at June 30, 2009
Assets not being depreciated:				
Land	$ 1,812,808,155	$ 8,986,974	$ -	$ 1,821,795,129
Construction in progress	1,014,081,507	263,908,154	(352,119,218)	925,870,443
Total	2,826,889,662	272,895,128	(352,119,218)	2,747,665,572
Assets being depreciated:				
Transportation system	2,419,375,826	-	-	2,419,375,826
Roads	10,782,705,241	371,787,316	-	11,154,492,557
Bridges	3,198,354,587	73,321,100	-	3,271,675,687
Equipment, vehides and other	88,295,101	10,578,104	(1,796,677)	97,076,528
Total	16,488,730,755	455,686,520	(1,796,677)	16,942,620,598
Less accumulated depreciation	(7,994,130,760)	(394,072,253)	1,491,874	(8,386,711,139)
Total asstes being depreciated	8,494,599,995	61,614,267	(304,803)	8,555,909,459
Total capital assets	$ 11,321,489,657	$ 334,509,395	$ (352,424,021)	$ 11,303,575,031

	Balance at June 30, 2007	Increases	Decreases	Balance at June 30, 2008
Assets not being depreciated:				
Land	$ 1,768,566,254	$ 44,241,901	$ -	$ 1,812,808,155
Construction in progress	1,228,571,191	398,728,768	(613,218,452)	1,014,081,507
Total	2,997,137,445	442,970,669	(613,218,452)	2,826,889,662
Assets being depreciated:				
Transportation system	2,418,980,649	395,177	-	2,419,375,826
Roads	10,215,869,622	566,835,619	-	10,782,705,241
Bridges	3,134,852,859	64,339,955	(838,227)	3,198,354,587
Equipment, vehides and other	89,510,531	1,408,792	(2,624,222)	88,295,101
Total	15,859,213,661	632,979,543	(3,462,449)	16,488,730,755
Less accumulated depreciation	(7,617,168,440)	(379,950,995)	2,988,675	(7,994,130,760)
Total asstes being depreciated	8,242,045,221	253,028,548	(473,774)	8,494,599,995
Total capital assets	$ 11,239,182,666	$ 695,999,217	$ (613,692,226)	$ 11,321,489,657

The Authority capitalized interest for approximately $33.5 million and $44.2 million during the years ended June 30, 2009 and 2008, respectively.

(8) **Bonds payable:**

The bond resolutions authorize the issuance of revenue bonds to obtain funds to pay the construction and related costs of transportation facilities. Bonds outstanding under the bond resolutions at June 30, 2009 and 2008, consist of:

	2009	2008
RESOLUTION 68-18:		
Serial bonds, maturing through 2034 with interest ranging from 3.30% to 6.50%	$ 846,655,000	$ 888,005,000
Term bonds, maturing through 2039 with interest ranging from 4.00% to 6.00%	733,670,000	733,670,000
Capital appreciation bonds, maturing through 2026 with interest ranging from 4.36% to 4.58%	22,839,669	21,836,622
RESOLUTION 98-06:		
Serial bonds, maturing through 2037 with interest ranging from 2.25% to 5.75%	1,915,630,000	1,951,630,000
Term bonds, maturing through 2046 with interest ranging from 2.25% to 5.75%	2,208,795,000	2,208,795,000
Capital appreciation bonds, maturing through 2026 with interest ranging from 4.47% to 5.08%	88,951,198	84,747,191
LIBOR based interest rate bonds maturing through 2045	389,060,000	389,060,000
Consumer Price Index based interest rate bonds maturing through 2028	57,965,000	57,965,000
LIBOR based interest rate bonds maturing on August 2009 (See note 16)	400,000,000	400,000,000
Subtotal	$6,663,565,867	$ 6,735,708,813

	2009	2008
Subtotal from previous page	$ 6,663,565,867	$ 6,735,708,813
RESOLUTION 04-18:		
Serial bonds, maturing through 2021 with interest ranging from 2.25% to 5.00%	114,585,000	121,175,000
Total bonds outstanding	6,778,150,867	6,856,883,813
Add net unamortized premium	370,249,091	392,340,731
Less unamortized loss on advance refundings	(114,969,397)	(120,585,361)
Net bonds payable	7,033,430,561	7,128,639,183
Less current portion	(104,090,000)	(83,940,000)
Long-term portion	$ 6,929,340,561	$ 7,044,699,183

The bonds are secured by a pledge of the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes, a maximum of $11 million monthly (but not more than $120 million annually) derived from excise taxes over crude oil and its derivatives, $15 per vehicle per year from motor vehicle license fees, the proceeds of any other taxes, fees or charges which the Legislature of Puerto Rico may allocate to the Authority in the future and which the Authority may pledge, proceeds of any tolls or other charges which the Authority may impose for the use of any of its traffic facilities and certain investment earnings.

The proceeds of the gasoline tax, the gas oil and diesel oil tax, the crude oil tax and the motor vehicle license fees allocated to the Authority are available taxes and revenues under the Constitution of the Commonwealth of Puerto Rico. Accordingly, if needed, they are subject to being applied first to the payment of debt service on the public debt of the Commonwealth, but such taxes and license fees are to be used for such payments only if and to the extent that all other available revenues of the Commonwealth under the Constitution are insufficient for such purpose. The Commonwealth has never applied these revenues for such payments.

The Bond Resolutions further provide that receipts of pledged revenues be deposited in certain accounts with the Fiscal Agent for the payment of interest and principal of the bonds outstanding.

Nothing in the Bond Resolutions is to be construed as preventing the Authority from financing any facilities authorized by the Act that created the Authority, as amended, through the issuance of bonds or other obligations, which are not secured under the provisions of the Bond Resolutions.

On May 1, 2008, the Authority issued $400 million of Subordinated Transportation Revenue Bonds (Series 2008A). The Proceeds from the Series 2008A were used to repay the Subordinated Transportation Revenue Bonds from Series 2006A, 2007A and 2007B.

A summary roll forward of bonds payable at June 30, 2009 and 2008, are as follows:

	June 30, 2009				
	Balance 2008	Issuance accretions	Payments amortization	Balance 2009	Current portion
Serial bonds:					
Resolution 68-18	$ 888,005,000	$ -	$ (41,350,000)	$ 846,655,000	$ 43,920,000
Resolution 98-06	1,951,630,000	-	(36,000,000)	1,915,630,000	53,400,000
Resolution 04-18	121,175,000	-	(6,590,000)	114,585,000	6,770,000
Total	2,960,810,000	-	(83,940,000)	2,876,870,000	104,090,000
Term bonds:					
Resolution 68-18	733,670,000	-	-	733,670,000	-
Resolution 98-06	2,208,795,000	-	-	2,208,795,000	-
Total	2,942,465,000	-	-	2,942,465,000	-
Bond anticipation note	400,000,000	-	-	400,000,000	-
CPI based interest rate bonds:					
Resolution 98-06	57,965,000	-	-	57,965,000	-
LIBOR based interest rate bonds:					
Resolution 98-06	389,060,000	-	-	389,060,000	-
Capital appreciation bonds:					
Resolution 68-18	21,836,622	1,003,047	-	22,839,669	-
Resolution 98-06	84,747,191	4,204,007	-	88,951,198	-
Total	106,583,813	5,207,054	-	111,790,867	-
Total bonds outstanding	$ 6,856,883,813	$ 5,207,054	$ (83,940,000)	$ 6,778,150,867	$ 104,090,000

	June 30, 2008				
	Balance 2007	Issuance accretions	Payments amortization	Balance 2008	Current portion
Serial bonds:					
Resolution 68-18	$ 926,025,000	$ -	$ (38,020,000)	$ 888,005,000	$ 41,350,000
Resolution 98-06	1,973,255,000	-	(21,625,000)	1,951,630,000	36,000,000
Resolution 04-18	127,550,000	-	(6,375,000)	121,175,000	6,590,000
Total	3,026,830,000	-	(66,020,000)	2,960,810,000	83,940,000
Term bonds:					
Resolution 68-18	733,670,000	-	-	733,670,000	-
Resolution 98-06	2,208,795,000	-	-	2,208,795,000	-
Total	2,942,465,000	-	-	2,942,465,000	-
Bond anticipation note	-	400,000,000	-	400,000,000	-
CPI based interest rate bonds:					
Resolution 98-06	57,965,000	-	-	57,965,000	-
LIBOR based interest rate bonds:					
Resolution 98-06	589,060,000	200,000,000	(400,000,000)	389,060,000	-
Capital appreciation bonds:					
Resolution 68-18	20,580,609	1,256,013	-	21,836,622	-
Resolution 98-06	80,495,105	4,252,086	-	84,747,191	-
Total	101,075,714	5,508,099	-	106,583,813	-
Total bonds outstanding	$ 6,717,395,714	$ 605,508,099	$ (466,020,000)	$ 6,856,883,813	$ 83,940,000

The LIBOR based interest rate bonds consist of $389 million of the 2007 Series N. The Series N LIBOR Bonds bear interest from their date of delivery at a per annum rate for each period equal to (a) 67% of the Three-Month LIBOR Rate for such period plus (b) a per annum spread equal to 0.53%. In each case the LIBOR-based interest rate cannot exceed the maximum rate permitted under Puerto Rico law (currently 12%).

The Series 2008A LIBOR bonds (Bond Anticipation Note) matured in August 2009 and bear interest at the index of one month LIBOR plus a spread of 225 base points not to exceed 12%. The maturity date was subsequently extended. (See note 16).

Interest on the Consumer Price Index ("CPI") Bonds will be payable on the first Business Day of each month commencing on July 2, 2007. The CPI Rate, which will be reset monthly, is an interest rate based on changes in the CPI and cannot exceed the maximum rate permitted under the Puerto Rico law (currently 12%).

In connection with the issuance of the CPI, LIBOR bonds and USD SIFMA index based interest rate bonds, the Authority has entered into interest rate swap agreements. In general, the swap agreements provide that, subject to the terms thereof, the Authority will pay to the swap provider a fixed rate and the swap provider will pay to the Authority a floating rate based on the CPI or LIBOR rate, based on a notional amount equal to the principal amount of the CPI and LIBOR bonds outstanding. The purpose of the swap agreement is generally to convert the Authority's floating rate obligations with respect to the CPI and LIBOR bonds to fixed rate obligations.

(i) Interest rates swap agreements

In order to protect against the potential of rising interest rates, the Authority entered into pay-fixed, receive-variable interest rate swap agreements in the following bonds; $389 million LIBOR based interest rate bonds; $200 million USD SIFMA Swap Index based interest rate bonds and $57 million CPI based interest rate bonds. The counterparties are Citibank, N.A, ("Citibank), Morgan Stanley Capital Services, Inc ("Morgan") and UBS Financial Services ("UBS").

(ii) Terms, and fair values

The credit ratings of the counterparties, terms and fair value of the outstanding swaps as of June 30, 2009, are as follows:

Counter Party	Rating (1)	Notional Amount	Effective Date	Fixed Rate	Variable Rate	Termination Date	Fair Value
Citibank	A1/A+/ A+	$ 233,440,000	March 6 2007	4.106%	67% of Libor Interest Rate plus a spread of .53%	July 1, 2045	$ (37,461,220)
Citibank	A1/A+/ A+	$ 155,620,000	March 6 2007	4.107%	67% of Libor Interest Rate plus a spread of .53%	July 1, 2041	$ (24,280,585)
Morgan	A2/A/A A-	$ 57,965,000	March 6, 2007	4.050%/ 4.060%	Consumer price index rate plus a spread of 1.12%	July 1, 2027/ July 1, 2028	$ (2,831,972)
Morgan	A2/A/A A-	$ 150,000,000	May 27, 2008	4.06%	USD SIFMA Swap Index less a spread of .5%	July 1, 2028	$ (18,404,468)
UBS	Aa2/A+/ A+	$ 50,000,000	May 27, 2008	4.37%	USD SIFMA Swap Index less a spread of .5%	July 1, 2028	$ 5,818,107

(1) Moody's Investors Service, Standard & Poor's and Fitch, respectively.

The notional amounts of the swaps match the principal amount of the associated debt. The swap agreements contain scheduled reductions to outstanding notional amounts that follow scheduled reductions in the associated debt.

(iii) Fair values

Relevant market interest rates as of June 30, 2009, valuation date of the swaps, were lower than market interest rate on the effective date of the swaps. Consequently, as of the valuation date the swaps had a negative fair value. The fair values listed in the above table represent the theoretical cost of terminating the swaps. The fair values were provided by the counterparties and were estimated using Counter party's internal present value models.

Credit risk - Because all of the Authority's swaps rely upon the performance of the third parties who serve as swap counterparties, the Authority is exposed to credit risk, or the risk that swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps, as shown in the columns labeled Fair Value in the tables above. When the fair value is positive the Counterparty owes the Authority, which creates a credit risk for the Authority. When the fair value is negative the Authority owes the Counterparty and therefore the Authority does not possess credit risk. The Authority minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is acceptable under the investment policies of the Authority.

Termination risk - The Authority's swap agreements do not contain any out-of-the-ordinary termination events that would expose it to significant termination risk. In keeping with market standards the authority or the counterparty may terminate each swap if the other party fails to perform under the terms of the contract. In addition, the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. The Authority views such events to be remote at this time. If the swap is terminated, the variable-rate bond would no longer carry a fixed interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

Rollover risk - the Authority is not exposed to rollover risk since the due date of the swaps is the same due date of the related bonds.

(iv) Debt maturities

The outstanding bonds as of June 30, 2009 require future payments of principal and interest as follows:

Fiscal year ended June 30,	Principal	Interest	Total
2010	$ 104,090,000	$ 307,620,077	$ 411,710,077
2011	220,095,000	341,173,668	561,268,668
2012	429,980,000	331,201,715	761,181,715
2013	157,645,000	324,469,931	482,114,931
2014	166,090,000	315,948,452	482,038,452
2015 to 2019	932,074,118	1,493,039,025	2,425,113,143
2020 to 2024	961,386,296	1,214,811,973	2,176,198,269
2025 to 2029	840,495,453	990,407,529	1,830,902,982
2030 to 2034	1,051,385,000	718,971,239	1,770,356,239
2035 to 2039	1,170,400,000	426,612,295	1,597,012,295
2040 to 2044	618,155,000	163,305,198	781,460,198
2045 to 2047	126,355,000	16,577,873	142,932,873
Total	$ 6,778,150,867	$ 6,644,138,975	$ 13,422,289,842

For variable interest rate bonds included above, the debt service requirements and net swap payments were computed assuming current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

(v) **Debt refunding**

The outstanding balances as of June 30, 2009 and 2008 of the bond issues defeased by the Authority are as follows:

	2009	2008
Series Y	$ 444,180,000	$ 451,180,000
Series D	548,575,000	548,575,000
Series K	485,105,000	492,780,000
Series B	452,600,000	443,810,000
Series A	53,485,000	416,400,000
Series G	290,770,000	290,770,000
Series J	269,100,000	273,340,000
Series C	-	14,880,000
Series H	9,905,000	9,905,000
Total outstanding defeased bond issues	$ 2,553,720,000	$ 2,941,640,000

(9) Borrowings under lines of credit:

At June 30, 2009 and 2008, lines of credit consist of the following:

Description	2009	2008
(a) Non-revolving line of credit of up to $122,113,000 bearing interest at the Government Development Bank cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (4.24% at June 30, 2009), which expires on September 30, 2010. (See note 16)	$ 122,113,000	$ -
(b) Non-revolving line of credit of up to $25,000,000 bearing interest at the Government Development Bank cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (2.68% at June 30, 2009), which expires on September 30, 2010. (See note 16)	25,000,000	-
(c) Non-revolving line of credit of up to $140,000,000 bearing interest at the Government Development Bank cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (4.24% at June 30, 2009), which expires on September 30, 2010. (See note 16)	140,000,000	83,570,729
Subtotal	$ 287,113,000	$ 83,570,729

Description	2009	2008
Subtotal from previous page	$ 287,113,000	$ 83,570,729
(d) Non-revolving line of credit of up to $15,000,000 bearing interest at the Government Development Bank cost of funding for tax exempt or variable rate loan transactions plus a margin of 125 basis points (2.43% at June 30, 2009), which due on September 30, 2010. (See note 16)	15,000,000	-
(e) Non-revolving line of credit of up to $78,300,000 bearing interest at prime rate plus a margin of 150 basis points (4.75% at June 30, 2009), maturing on June 30, 2011.	49,200,000	-
Total	$ 351,313,000	$ 83,570,729

(10) Retirement plan:

Substantially all the Authority's employees participate in the Retirement System of the Commonwealth of Puerto Rico ("the System"), a cost sharing multi-employer defined benefit pension plan. The payroll for employees covered by the System for the years ended June 30, 2009 and 2008 was approximately $78 million and $73 million, respectively.

All Authority's employees, who at the time of employment are 55 years old or less, are eligible to participate in the System. Employees who retire at or after age 55 with 25 years of credited service or age 58 with 10 years of credited service are entitled to a retirement benefit, payable each month for life, computed based on a benefit rate set forth by Commonwealth statute.

The System also provides death and disability benefits established by Commonwealth statute. Commonwealth legislation requires employees to contribute 5.775% for the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. The Authority is required by the same statute to contribute 9.275% of the participant's gross salary.

On September 24, 1999, an amendment to Act No. 447 of May 1, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Employees joining the Authority on or after January 1, 2001, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that takes into account each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) and investment income as defined in the Plan. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000.

Total employer contributions (rounded) for the years ended June 30, 2009, 2008 and 2007 were approximately as follows:

	2009	2008	2007
Traditional Plan	4,553,000	4,523,000	4,723,000
System 2000	2,619,000	2,297,000	2,146,000

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2009 and 2008, a copy of which can be obtained from the Retirement System Administration, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

The Authority has a labor union contract that provides all union employees who work for the Authority upon retirement with the following lump-sum bonus payable at the retirement date computed as follows:

Years worked	Amount
10-15 years	$170 per year of service
16-20	$200 per year of service
21-25	$225 per year of service
26-30	$250 per year of service

In addition, management employees have similar benefits under the same conditions granted to labor union personnel, as detailed above.

(11) Other post-employment benefits:

The Authority has implemented GASB Statement No. 45, *"Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions"* ("GASB 45"). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits ("OPEB") expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information ("RSI") in the financial reports of state and local governmental employers.

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and whether and to what extent progress is being made in funding the plan.

(i) Plan description

The Authority agreed to provide medical, pharmacy, dental and vision medical insurance coverage to eligible retirees, its spouses and dependents, for a period of two years after retirement as a single employer defined benefit Other Post Employment Benefit Plan ("The Plan"). The Plan can be amended by action of the Authority subject to applicable collective bargaining and employment agreements. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

(ii) Funding policy

The obligations of the plan members employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement. The Authority currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the plan are paid by the Authority

(iii) Annual OPEB cost and net OPEB obligation

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

The following table shows the components of the Authority's annual OPEB cost for the year ended June 30, 2009, the amount actually contributed to the plan, and the Authority's net OPEB obligation to the Plan at June 30, 2009:

Annual required contribution (ARC)	$ 889,461
Interest on net OPEB obligation	(12,044)
Adjustment to annual required contribution	14,923
Annual OPEB cost (expense) (AOC)	892,340
Contribution made	507,600
Increase (decrease) in net OPEB obligation	384,740
Net OPEB asset, beginning of year	(240,879)
Net OPEB obligation, end of year	$ 143,861

The Authority's annual OPEB cost, percentage of annual OPEB cost contribution to the plan, and net OPEB obligation for the year ended June 30, 2009 and 2008 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset / (Obligation)
2008	889,461	127%	240,879
2009	889,461	56%	(384,740)

As of June 30, 2009, the actuarial accrued liability for benefits was $7,068,000 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was approximately $76,659,000 and $68,714,000 during the years ended June 30, 2009 and 2008 respectively, and the ratio of the unfunded actuarial accrued liability to the covered payroll was approximately nine percent (9%) and ten percent (10%), as of June 30, 2009 and 2008, 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 cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

(iv) Methods and assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to the point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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

Turnover rates were taken from a standard actuary table, T-5. This table was chosen so as to match the Authority historical turnover experience. Retirement rates were also based on recent Authority experience, but are less reliable due to the size of the current retiree group and the relative newness of the program. Both the retirement rates and turnover assumption will be reviewed in the next valuation to make sure they are tracking well with the actual experience.

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

(12) Commitments and contingent liabilities:

(i) Construction

As of June 30, 2009 and 2008, the Authority had commitments for approximately $662 million and $733 million, respectively, related to construction contracts.

(ii) Leases

The Authority has various non-cancelable operating leases for office space with the Puerto Rico Public Buildings Authority and other lessors, the latest of which expires in June 2022. The rental expense for the years ended June 30, 2009 and 2008, were approximately $1,082,000 and $966,000, respectively. Future rental payments as of June 30, 2009 under these leases are as follows:

Year ending June 30,		
2010	$	791,000
2011		791,000
2012		791,000
2013		791,000
2014		791,000
2015 to 2019		3,955,000
2020 to 2022		1,582,000
Total future rental payments required	$	9,492,000

(iii) Litigation

Urban Train

On December 24, 2003, Siemens Transportation Partnership Puerto Rico S.E. ("STT") and others filed legal claims against the Authority in the amount of approximately $50 million for damages, amounts withheld, acceleration of work and other causes of action in connection with the construction of the Urban Train Project.

On November 24, 2004, the Authority filed a counter claim against STT for liquidating damages as stipulated in the contract in the amount of $100 million. The Authority amended its counter claim on November 17, 2008 to include other credits against STT. Therefore, the total claimed damages were increased to $233 million.

Under the contractual obligations between STT and the Authority, STT was responsible to defend, indemnify and hold harmless the Authority from claims asserted by third parties against the agency for the acts and omissions by STT, or any of its subcontractors, in the Project. Presently, some Alignment Section Contractor (ASC's) have asserted claims against the Authority for damages suffered in part by STT actions or omissions amounting to $150 million, approximately.

On September 22, 2005, the Authority filed a third party complaint for breach of contract, liquidated damages and others against various ASC's in the amount of $25 million.

On April 20, 2007, the Administrative Judge designated this case as a complex litigation and remitted it to the Chief Justice of the Supreme Court who has to assign a presiding judge for the case. The parties are still awaiting such designation.

On August 28, 2008, STT amended its complaint to adjust the amount claimed to $114 million.

On April 21, 2009, in accordance to the calendar approved by the Court through its Order dated May 6, 2009, the PRHTA field an Amended Third Party Complaint in which, aside from amending its allegation to the already appearing parties, the guarantors and sureties and assurance companies were brought to the case.

In the opinion of legal counsel, although discovery up to date has shown that it is unlikely that STT will prevail in its allegation against the Authority, due to the complexities of the case it is not possible to estimate the amount of any potential loss.

Redondo Construction

Redondo Construction filed legal claims against the Authority in the amount of approximately $38.1 million for damages, additional compensation, unpaid claims, prejudgment interests and others causes of actions related to various construction contracts. The Bankruptcy Court entered judgment on August 31, 2009. See Note 16.

Others
The Authority is defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. These are generally either fully or partially covered by insurance. The contractors are required, under the terms of the construction agreements, to carry adequate public liability insurance and to hold harmless the Authority from lawsuits brought on account of damages relating to the construction of the projects.

The Authority, based on legal advice, has recorded an adequate provision to cover probable losses on those claims not fully covered by insurance. In the opinion of legal counsel, any liability in excess of the insurance coverage and/or the recorded provision that may arise from such claims would not be significant to affect to the Authority's financial position or results of operations

(iv) Special Facility Revenue Bonds

On December 20, 1992, the Authority and Autopistas de Puerto Rico y Compañía S.E. ("Autopistas") entered into a concession agreement ("the Concession Agreement"), amended in 1992, and again in 2004, for the design, construction, operation and maintenance of the Teodoro Moscoso Bridge ("the Bridge"), a toll bridge, which traverses the San Jose Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Bridge and commenced operating the Bridge on February 23, 1994. The initial term of this agreement is 35 years, expiring on April 3, 2027.

In March 1992, the Authority issued Special Facility Revenue Bonds, 1992 Series A, B and C amounting to approximately $117 million for the purpose of facilitating the construction of the Bridge. The proceeds from the sale of the bonds were transferred by the Authority to Autopistas, the borrower, pursuant to a loan agreement (the Loan Agreement) by and between Autopistas and the Authority.

On October 30, 2003, the Authority issued Special Facility Revenue Refunding Bonds, 2004 Series A amounting to approximately $153 million for the purpose of refunding the Authority's Special Facility Revenue Bonds, 1992 Series A, B, and C, which were issued to fund the construction of the Bridge, and to pay the cost of issuance of the bonds. The proceeds from the sale of the bonds were transferred by the Authority to Autopistas, pursuant to a new loan agreement by and between Autopistas and the Authority.

Under certain circumstances, the Concession Agreement may be terminated and the Authority is then obligated to assume all of the Autopistas's obligations to pay principal of, and interest on, the bonds outstanding, which pursuant to the Loan Agreement will be paid from the net revenues of the use and operation of the Bridge. The Authority does not currently expect the Concession Agreement to terminate. The outstanding bonds (including accrued interest) at June 30, 2009 and 2008, amounted to approximately $158 million and $153 million, respectively.

(v) Federal assistance programs

The Authority participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, or to compliance audits by grantor agencies.

(13) Operation and maintenance of urban train system:

The Authority entered into a System and Test Track Turnkey Contract ("STTT Contract") with Siemens Transportation Partnership Puerto Rico, S.E., Juan R. Requena y Asociados, and Alternate Concepts, Inc. (all together known as "Siemens") for the purpose of operating and maintaining the Tren Urbano. During 2005, the STTT Contract became effective upon the execution of the contract for an initial term of five years with an option by the Authority to extend the term for an additional five years. The compensation is based on a schedule included in the master agreement which approximate $4 million on a monthly basis. The total annual operation and maintenance cost, including cost of insurance and electricity, for fiscal years 2009 and 2008 was approximately $80.1 million and $80.4 million, respectively.

Integrated transportation system

Costs incurred in connection with the integrated transportation system financed in part by the Authority during the years ended June 30, 2009 and 2008 are as follows:

	2009	2008
Metrobus II	$ 13,654,546	$ 23,200,000
Metrobus I	13,574,363	5,568,799
Other	-	938,731
Total	$ 27,228,909	$ 29,707,530

As authorized by Resolution 2007-40, the Authority contracted the Metropolitan Bus Authority (AMA), a public corporation of the Commonwealth of Puerto Rico, to operate the service known as Metrobus II which consists of a feeder bus service of 21 AMA routes that were changed to service the Urban Train stations. This feeder bus service is considered a key strategy for increasing rail ridership.

On April 8, 2009, by Resolution 2009-06, the Authority cancelled the contract with AMA related to Metrobus II service.

Metrobus I service consist of two express routes, Metrobus Route I and Metrobus Expreso, which provides service between the University of Puerto Rico and Old San Juan. The Authority contracted First Transit to operate this service. The service is provided seven days a week using 24 buses owned by First Transit.

(14) Impact fee and other:

Impact fee and other for the years ended June 30, 2009 and 2008 consist of:

	2009	2008
Impact fee	$ 6,220,122	$ 11,935,457
Electronic toll label sales and fines fees	2,462,060	2,242,252
Metrobus fare fees	569,766	885,486
Other	2,226,274	1,227,538
Total	$ 11,478,222	$ 16,290,733

The Authority charges a fee to real estate developers for the impact the new development will have on the Authority's transportation facilities.

(15) Transfers and construction work performed for other government agencies:

During the years ended June 30, 2009 and 2008, the Authority transferred cash and performed construction work on behalf of other government agencies, which are related mainly to repairs, maintenance and improvements of government buildings and other areas in the amount of $3,051,415 and $55,782,979, respectively.

(16) Subsequent events:

a) On July 8, 2009, the Authority extended the maturity date to September 30, 2010 of the non-revolving line of credits that matured on June 30, 2009.

b) On August 27, 2009, the Authority extended the maturity date of the $400,000,000 LIBOR based interest rate bonds (See note 8) as follows; $300,000,000 maturing December 21, 2009 and $100,000,000 maturing August 30, 2011. On December 21, 2009 the maturing date of the $300,000,000 was extended to August 30, 2011 with an option to extend the maturity until August 30, 2013.

c) On August 31, 2009 the Bankruptcy Court entered judgment in favor of Redondo Construction for approximately $22.2 million plus prejudgment interest at 6% to 6.5%. The Authority filed several post judgment motions to amend judgment and to oppose prejudgment interests.

On December 11, 2009, the Bankruptcy Court concluded that one of the cases where judgment was entered against the Authority for approximately $10 million, was not related to the bankruptcy proceedings. Therefore, the case was referred to the Federal District Court. The Federal District Court will review the case and determine if the judgment entered by the Bankruptcy Court will prevail otherwise, additional hearings may be scheduled. See related Note 12 (iii).

During December, 2009 the Authority was served with another claim from Redondo Construction for economic damages of approximately $40.0 million, however this claim is in a very preliminary stage.

The Authority, based on legal advice, has recorded an adequate provision to cover probable losses on these claims.

d) Since October, 2009 the Authority has received approximately $4.5 million from the American Recovery and Reinvestment Act of 2009 (ARRA). ARRA has authorized $105 million for the Puerto Rico Highway Program and $14 million for Transit Projects. Such funds are available for disbursements for fiscal years 2009 through 2011.

Puerto Rico Highways and Trasnportation Authority

(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Funding Progress for Retiree Health Plan
Year ended June 30, 2009

Actuarial valuation date - June 30, 2008

Actuarial accrued liability		
Active participants	$	6,615,104
Retires participants		453,303
Total		7,068,407
Actuarial value of plan assets		-
Unfunded actuarial accrued liability	$	7,068,407
Funded ratio		0%
Covered payroll	$	76,659,320
Ratio of unfunded actuarial accrued liability to covered payroll		9%

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

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Hon. Ruben Hernandez Gregorat, Secretary
Department of Transportation and Public Works,
Commonwealth of Puerto Rico

We have audited the financial statements of the Puerto Rico Highways and Transportation Authority (the Authority) as of and for the year ended June 30, 2009 and have issued our report thereon dated December 22, 2009. 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

In planning and performing our audit, we considered Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiencies described in items 09-01 through 09-05 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiency described in item 09-01 is also material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of Authority, in a separate letter dated December 22, 2009.

This report is intended solely for the information and use of the Authority's management, the audit committee, the U.S. Department of Transportation and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kevane Grant Thornton LLP

San Juan, Puerto Rico,
December 22, 2009.

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