# Commonwealth of Puerto Rico

Comprehensive Annual Financial Report
Year Ended June 30, 2009

# *COMPREHENSIVE ANNUAL FINANCIAL REPORT*

***Fiscal Year Ended June 30, 2009***

## *Commonwealth of Puerto Rico*

***Honorable Luis Fortuño Burset***
***Governor***

*Prepared by:*

***Puerto Rico Department of the Treasury***

***Juan C. Puig Morales***
*Secretary of the Treasury*

**Alejandro Sánchez Rivera, CPA**
Assistant Secretary of Central Accounting

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## COMMONWEALTH OF PUERTO RICO

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# INTRODUCTORY SECTION

October 22, 2010

The Honorable Governor of Puerto Rico
Members of the Legislature, and People of Puerto Rico:

It is a pleasure to submit, for your information, the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Puerto Rico (the Commonwealth) as of and for the fiscal year ended June 30, 2009. This report, presented in three sections, Introductory, Financial, and Statistical, is the primary means of reporting the Commonwealth's financial activities.

The introductory section, which is not audited, includes this letter of transmittal, general information about the Commonwealth, a list of the Commonwealth's principal elected and appointed officials at the balance sheet date, and an organizational chart. The financial section contains the independent auditors' report, management's discussion and analysis (MD&A), and the basic financial statements as listed in the table of contents. The financial section also includes the notes to the basic financial statements, required supplementary information, and other supplementary information. The statistical section, which is not audited, includes selected financial and demographic information, generally presented on a multiyear basis.

**Profile of the Commonwealth**

The Puerto Rico Department of the Treasury is responsible for the preparation of this report. The responsibility for the accuracy of presented data and the completeness and fairness of the presentation, including all of the disclosures, rests on the Commonwealth's management. To the best of our knowledge and belief, the following data, as presented, is accurate in all material respects and is presented in a manner designed to set forth the financial position and the results of operations of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth as of June 30, 2009 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. We have included all the necessary disclosures to enable the reader to gain a thorough understanding of the Commonwealth's activities.

The financial reporting entity includes all funds of the Commonwealth, which comprises the primary government, as well as all its component units. In accordance with Governmental Accounting Standards Board's Statement No. 14, *The Financial Reporting Entity*, as amended by Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Commonwealth's financial reporting entity includes 50 component units: 4 are blended component units including 3 fiduciary component units, 6 major discretely presented component units, and 40 non-major discretely presented component units. Component units are legally separate entities for which the primary government is financially accountable, or other organizations; the nature and significance of whose relationship with the Commonwealth are such that exclusion would cause the Commonwealth's basic financial statements to be misleading and incomplete. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary

government. Discretely presented component units, both major and non-major, are reported in a separate column in the government-wide financial statements to emphasize that they are not part of the primary government and to differentiate their financial position and results of operations from those of the primary government.

Generally, each component unit issues audited financial statements, which can be obtained from the component unit's administrative offices. The basic financial statements included in the financial section of this CAFR provide descriptions of the operations of each of the following component units of the Commonwealth:

***Blended Component Units:***

Public Buildings Authority
Puerto Rico Maritime Shipping Authority
Puerto Rico Sales Tax Financing Corporation
The Children's Trust

***Discretely Presented Component Units:***

Agricultural Services and Development Administration
Automobile Accidents Compensations Administration
Cardiovascular Center Corporation of Puerto Rico and the Caribbean
Company for the Integral Development of the "Península de Cantera"
Corporation for the "Caño Martín Peña" ENLACE Project
Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico
Culebra Conservation and Development Authority
Economic Development Bank for Puerto Rico
Employment and Training Enterprises Corporation
Farm Insurance Corporation of Puerto Rico
Fine Arts Center Corporation
Governing Board of the 9-1-1 Service
Government Development Bank for Puerto Rico
Institute of Puerto Rican Culture
Institutional Trust of the National Guard of Puerto Rico
Land Authority of Puerto Rico
Musical Arts Corporation
National Parks Company of Puerto Rico
Ports of the Americas Authority
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
Puerto Rico Aqueduct and Sewer Authority
Puerto Rico Conservatory of Music Corporation
Puerto Rico Convention Center District Authority
Puerto Rico Council on Higher Education
Puerto Rico Electric Power Authority
Puerto Rico Health Insurance Administration
Puerto Rico Highways and Transportation Authority
Puerto Rico Industrial Development Company
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority

Puerto Rico Infrastructure Financing Authority
Puerto Rico Land Administration
Puerto Rico Maritime Transportation Authority
Puerto Rico Medical Services Administration
Puerto Rico Metropolitan Bus Authority
Puerto Rico Municipal Finance Agency
Puerto Rico Ports Authority
Puerto Rico Public Broadcasting Corporation
Puerto Rico School of Plastic Arts
Puerto Rico Solid Waste Authority
Puerto Rico Telephone Authority
Puerto Rico Tourism Company
Puerto Rico Trade and Export Company
Right to Employment Administration
Special Communities Perpetual Trust
State Insurance Fund Corporation
University of Puerto Rico

***Fiduciary Component Units:***

Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities
Puerto Rico Judiciary Retirement System
Puerto Rico System of Annuities and Pensions for Teachers

**Independent Auditors**

Commonwealth statutes require an annual audit by independent certified public accountants. The firm of Deloitte & Touche LLP was selected by the Commonwealth to perform the audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America for the fiscal year 2009. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Commonwealth for the fiscal year ended June 30, 2009 are fairly stated in accordance with U.S. generally accepted accounting principles. The independent auditors' report on the basic financial statements is included in the financial section of this report.

**Internal Controls**

The management of the Commonwealth is responsible for establishing and maintaining internal controls to ensure that assets of the Commonwealth are protected from loss, theft, or misuse, and that adequate accounting data is compiled for the preparation of financial statements in conformity with U.S. generally accepted accounting principles. The internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal assistance, the Commonwealth is also responsible for ensuring that internal controls are in place to ensure that documents and processes are in compliance with applicable laws and regulations related to such federal financial assistance programs.

Certain departments, agencies, and political subdivisions are subject to the requirements of the U.S. Office of Management and Budget Circular A-133. As a result, these entities are audited for

compliance with the requirements of the federal financial assistance programs. These audits are performed at the department or agency level. The Commonwealth has provided for the possible cost disallowance that may arise from these audits, as well as from other audits that may be performed by federal grantors.

**Budget and Fiscal Policy**

The fiscal year of the Commonwealth begins each July 1. The Governor is constitutionally required to submit to the Legislature an annual balanced budget of capital improvements and operating expenses of the central government for the ensuing fiscal year.

The annual budget is prepared by the Puerto Rico Office of Management and Budget (OMB), working with the Puerto Rico Planning Board, the Puerto Rico Department of the Treasury, and other government offices and agencies. Section 7 of Article 6 of the Constitution provides that "*The appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for the said fiscal year unless the imposition of taxes sufficient to cover the said appropriations is provided by law.*"

The Commonwealth maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Legislature. Activities of the general fund are included in the annual appropriated budget. Budgetary control resides at the department level. The Commonwealth also maintains an encumbrance accounting system as one method of maintaining budgetary control.

The annual budget, which is developed using elements of program budgeting, includes an estimate of revenue and other resources for the ensuing fiscal year under laws existing at the time the budget is submitted and legislative measures proposed by the Governor and submitted with the proposed budget, as well as the Governor's recommendations as to appropriations that in his judgment are necessary, convenient, and in conformity with the four-year investment plan prepared by the Puerto Rico Planning Board.

The Legislature may amend the budget submitted by the Governor, but may not increase items that would cause a deficit without imposing additional taxes to cover such deficit. Once approved by the Legislature, the budget is referred to the Governor, who may decrease or eliminate any item, but may not increase or insert new items in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with his objections. The Legislature, by a two-thirds majority in each house, may override the Governor's veto. If a budget is not adopted prior to the end of the fiscal year, as originally approved by the Legislature and the Governor, it is automatically renewed for the ensuing fiscal year until a new budget is approved by the Legislature and the Governor. This allows the Commonwealth to continue to pay operating and other expenses until a new budget is approved.

**Governmental Activities**

General governmental activities of the Commonwealth are accounted for in four governmental funds. These funds are: general, special revenue, debt service, and capital project. The general fund is the primary operating fund of the Commonwealth. The general fund is used to account for resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund. Included are transactions for services such as general government, public safety, health, public housing and welfare, education, and economic development. Other major funds are the debt service fund, which accounts for the accumulation of resources

predominantly for, and the payment of, the Commonwealth general long-term bonds' principal, interest, and related costs; the pledged sales and use tax fund, which accounts for the sales and use tax revenue and the corresponding transfer to COFINA debt service fund for the payment of debt; COFINA special revenue fund, which accounts for all financial resources of COFINA, except those required to be accounted for in another fund; and the COFINA debt service fund, which accounts for the Commonwealth sales tax deposited in the dedicated sales tax fund for the payment of interest and principal on long-term obligations. Non-major governmental funds are combined in a single column in the governmental fund financial statements, and individually identified in the supplementary combining non-major governmental funds' financial statements of this report.

**Business-Type Activities**

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the government is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the government has decided that periodic determination of net income is appropriate for accountability purposes.

The Commonwealth's major proprietary funds operations comprise the following: the Unemployment Insurance Trust Fund and the Lotteries of Puerto Rico. The Puerto Rico Water Pollution Control Revolving Fund, the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, the Disability Insurance Fund, and the Drivers' Insurance Fund are all non-major proprietary funds combined in a single column in the proprietary funds financial statements, and individually identified in the supplementary combining non-major proprietary funds' financial statements of this report.

**Fiduciary Operations**

Fiduciary funds are used to account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations, and other governmental units. These include the pension trust and agency funds. Pension trust funds are established through trust agreements specifying how the fund will operate. Agency funds are custodial in nature and do not report fund balances. The pension trust funds include the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities, the Puerto Rico Judiciary Retirement System, and the Puerto Rico System of Annuities and Pensions for Teachers.

Agency funds consist of the Special Deposits Fund. This agency fund includes deposits under the custody of the Courts of Justice for alimony payments, deposits under the custody of the Commissioner of Insurance of the Commonwealth for escheated property, and for insurance companies under bankruptcy and an allocated share of the sales and use tax corresponding to the municipalities.

**Cash Management Policies and Practices**

The Commonwealth maintains a cash pool for its cash and cash equivalents. The balance in the pooled cash accounts is available to meet current operating requirements and any excess is invested in various interest-bearing accounts in the Government Development Bank for Puerto Rico (GDB), a discretely presented component unit. In addition, the Puerto Rico Government Investment Trust Fund (PRGITF) was created by the Commonwealth pursuant to Act No. 176 of August 11, 1995, and began operations on December 4, 1995. PRGITF is a no-load diversified collective investment trust that was created for the purpose of providing eligible investors with a convenient and economical way to invest in a professionally managed money market portfolio. The deposits on hand and the investments purchased are

not collateralized, secured, or guaranteed by the Commonwealth or any of its agencies, instrumentalities, or political subdivisions.

The Commonwealth's investment policy is to minimize credit and market risk while maintaining a competitive yield on its portfolio. The cash temporarily idle during this year was invested mainly in U.S. government securities, stocks, corporate bonds, repurchase agreements, Commonwealth securities other trading securities, and short-term investments. These are primary government investments that are restricted and unrestricted.

**Capital Assets**

These basic financial statements include the capital assets of the Commonwealth. A discussion of capital assets accounting is included in the MD&A that is part of the basic financial statements. More detailed information about capital assets can be found in the notes to the basic financial statements.

**Debt Administration**

As of June 30, 2009, the Commonwealth had a number of debt issues outstanding. The Commonwealth has a "BBB-" credit rating from Standard and Poor's Rating Services and a "Baa3" from Moody's Investment Service (Moody's) on general obligation bond issues. However, on April 19, 2010, Moody's announced the results of the recalibration of certain U.S. debts, and as a result, the Commonwealth's general obligation debt was rated "A3" with a stable outlook by Moody's. In addition, on August 10, 2010, Moody's reaffirmed its "A3" rating on the Commonwealth's general obligation bonds. Moody's also changed its outlook on the credit from stable to negative, indicating that the funded status of the Puerto Rico Government Employee Retirement System represents a challenge that could affect Puerto Rico's credit rating in the future; these classifications may vary in future years. Section 2 of Article VI of the Constitution of Puerto Rico provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit and taxing power of the Commonwealth shall not be issued if the amount of the principal of and interest on such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceeds 15% of the average annual revenue raised under the provisions of the Commonwealth Legislation and covered into the Treasury of Puerto Rico in the two fiscal years preceding the current fiscal year. Section 2 of Article VI does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded. See the computation of the legal debt margin in the statistical section of this report. More detailed information about long-term debt can be found in the notes to the basic financial statements.

**Risk Financing**

The Commonwealth purchases commercial insurance to cover casualty, theft, tort claims, and other losses. The current insurance policies have not been canceled or terminated. As it relates to workers' compensation, the Commonwealth's discretely presented component unit, the State Insurance Fund Corporation, provides workers' compensation to both public and private employees.

**Financial Advisor and Fiscal Agent**

The principal functions of GDB are to act as financial advisor to and fiscal agent for the Commonwealth, its municipalities, and public corporations, in connection with the issuance of bonds and notes, and to make loans to private enterprises to aid the economic development of Puerto Rico.

## Major Initiatives

### *Tax Regime for Companies Doing Business in Puerto Rico*

One of the benefits enjoyed by the Commonwealth is that corporations operating in Puerto Rico (other than corporations organized in the United States with a local branch) and individuals residing in Puerto Rico generally are not subject to federal income taxes on income derived in Puerto Rico. This enables the Commonwealth to utilize local tax legislation as a tool for stimulating economic development, and it has done so many years.

In order to enhance the desirability for U.S. companies to establish operations in Puerto Rico, after the elimination of Section 936 of the U.S. Internal Revenue Code (IRC), the Commonwealth has tried different efforts to improve its tax treatment to foreign companies. It pursued an amendment to Section 956 of the IRC during 2001 to 2003, and it introduced several changes to the tax incentive law of 1997.

### *Public Sector Debt*

Historically, the Commonwealth has maintained, as a matter of fiscal policy, a prudent relationship between the growth of public sector debt and the growth of the economic base required to service that debt. During certain fiscal years, however, public sector debt increased at a greater rate than the rate of gross product primarily due to an increase in the amount of debt incurred to finance certain key infrastructure projects, which are important to the development of the economy and are expected to produce long-term economic benefits, and debt incurred to refinance outstanding debt to enable Puerto Rico to benefit from the historically low levels of interest rates and realize debt service savings. During fiscal year 2009, public sector debt increased 12%.

## Economic and Financial Conditions

The MD&A, which can be found immediately following the independent auditors' report, provides an overview of the economic factors affecting the Commonwealth, including the Fiscal Stabilization Plan and the Economic Reconstruction Plan implemented during 2009 that seeks to achieve fiscal balance and restore economic growth in the near future. In addition, the MD&A provides an overview of the Commonwealth's financial activities addressing both governmental and business-type activities reported in the government wide financial statements. Furthermore, the MD&A focuses on the Commonwealth's major funds. Component units and fiduciary activities are excluded from the MD&A.

## Other Information

### *Acknowledgements*

The preparation of this report requires the collective efforts of numerous finance personnel throughout the Commonwealth and is made possible only with the cooperation and support of the Executive, Legislative, and Judicial branch agencies, and component units of the Commonwealth. We sincerely appreciate the dedicated efforts of all these individuals.

The report could not have been accomplished without the professionalism and dedication of Alejandro Sánchez, Omar Rodríguez and Reylam Guerra from our accounting team as well as the rest of the personnel of the Central Government Accounting area. Also, we would like to give special thanks to our independent auditors, Deloitte & Touche LLP, for their advice and commitment.

This report continues our commitment to the people of the Commonwealth of Puerto Rico, the Governor, the Legislature, and the financial community to maintain our basic financial statements in conformance with the highest standards of financial accountability.

Respectfully submitted,

Hon. Juan C. Puig Morales
Secretary of the Treasury

## COMMONWEALTH OF PUERTO RICO

### PRINCIPAL OFFICIALS

**Luis G. Fortuño Burset**
Governor

**Members of Cabinet**

**Marcos Rodríguez - Ema**
Chief of Staff

**Kenneth McClintock**
Secretary of State

**Jesús Rivera Sánchez**
Secretary of Education

**Javier Rivera Aquino**
Secretary of Agriculture

**Yanitsia Irizarry**
Secretary of Family Affairs

**Luis G. Rivera Marín**
Secretary of Consumer Affairs

**Guillermo Somoza Colombani**
Secretary of Justice

**Miguel Romero Lugo**
Secretary of Labor and Human Resources

**Rubén A. Hernández Gregorat**
Secretary of Transportation and Public Works

**Miguel Hernández Vivoni**
Secretary of Housing

**Henry Neuman**
Secretary of Sports and Recreation

**Juan C. Puig Morales**
Secretary of the Treasury

**Lorenzo González**
Secretary of Health

**José R. Pérez Riera**
Secretary of Economic Development and Commerce

**Daniel Galán Kercadó**
Secretary of Natural and Environmental Resources

**Carlos M. Molina Rodríguez**
Secretary of Corrections and Rehabilitation

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**LEGISLATIVES OFFICERS**

**Thomas Rivera Schatz**
President, Senate

**Jenniffer González Colón**
Speaker, House of Representatives

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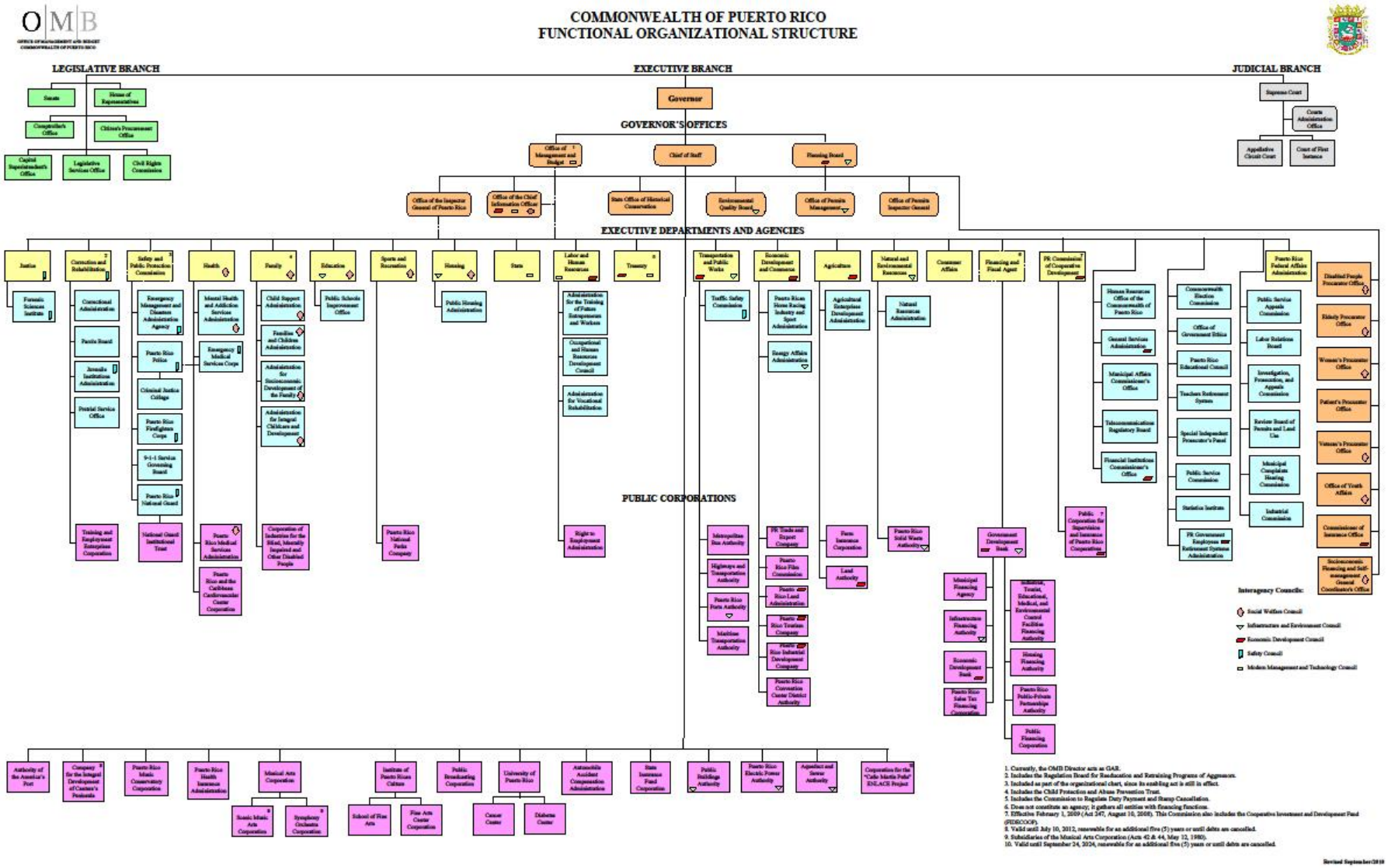
**FISCAL OFFICE**

**Maria Sánchez Bras**
Director, Office of Management and Budget

**Carlos M. García**
President, Government Development Bank for Puerto Rico


COMMONWEALTH OF PUERTO RICO
FUNCTIONAL ORGANIZATIONAL STRUCTURE
LEGISLATIVE BRANCH
EXECUTIVE BRANCH
JUDICIAL BRANCH
Governor
GOVERNOR'S OFFICES
EXECUTIVE DEPARTMENTS AND AGENCIES
PUBLIC CORPORATIONS
Interagency Councils:
Revised September 2010

# FINANCIAL SECTION

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Governor and Legislature
Commonwealth of Puerto Rico
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico (the "Commonwealth"), as of and for the year ended June 30, 2009, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the following activities, funds, and component units:

- Puerto Rico Public Housing Administration, Human Resources and Occupational Development Council, and the Office for the Administration of the Assets of the Urban Renovation and Housing Corporation of the Commonwealth of Puerto Rico, which collectively represent 20% and 5%, respectively, of the assets and revenues of the general fund and 18% and 4%, respectively, of the assets and revenues of the governmental activities;
- The Additional Lottery System, which represents 54% and 44%, respectively, of the assets and revenues of the lotteries fund and 10% and 29%, respectively, of the assets and revenues of the business-type activities;
- Public Buildings Authority special revenue, debt service, and capital project funds, which collectively represent 5% and 3%, respectively, of the assets and revenues of the aggregate remaining fund information and 3% and 0%, respectively, of the assets and revenues of the governmental activities;
- Entities identified in note 2 that are presented as discretely presented component units, which collectively represent 60% and 83%, respectively, of the assets and revenues of the aggregate discretely presented component units.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the activities, funds, and component units indicated above, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the Commonwealth, as of June 30, 2009, and the respective changes in financial position and respective cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 14 through 35 and the schedules of funding progress on pages 193 and 194 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Commonwealth's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the respective financial statements that collectively comprise the Commonwealth's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Commonwealth's management. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

As discussed in Note 6 to the basic financial statements, the Pension Trust Funds held investments valued at approximately $1,765,921,000 (24.12% of total assets of the pension trust funds) as of June 30, 2009, whose fair values have been estimated in the absence of readily determinable fair values. This estimate is based on information provided by the underlying fund managers.

As discussed in Note 20 to the basic financial statements, the Pension Trust Funds' unfunded actuarial accrued liability and funded ratio as of June 30, 2009, were approximately $23,939 million and 14.47%, respectively. In the opinion of management, based on information prepared by consulting actuaries, the Pension Trust Funds will not be able to fully fund pensions after the fiscal year 2020, if measures are not taken to reduce the unfunded actuarial accrued liability and increase the funded ratio of the Pension Trust Funds.

Deloitte & Touche LLP

October 22, 2010

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affixed to original.

Management of the Commonwealth of Puerto Rico (the Commonwealth) provides this Management's Discussion and Analysis (MD&A) for the readers of the Commonwealth's basic financial statements. This MD&A provides a narrative overview and analysis of the financial activities of the Commonwealth for the fiscal year ended June 30, 2009, and is intended to serve as an introduction to the basic financial statement, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A is designed to: (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the Commonwealth financial activities, (c) identify any material changes from the original budget, and (d) highlight individual fund matters. We encourage readers to consider this information with the Commonwealth's basic financial statements that follow.

## FINANCIAL HIGHLIGHTS – Primary Government

### *General Fund Highlights*

- Total General Fund revenues (excluding other financing sources) for fiscal year 2009 were $7.6 billion, representing a decrease of approximately $1.8 billion, or 18.8%, from the original budgeted revenues and an increase of approximately $131 million, or 1.8%, over the revised estimate presented by the current administration in February 2009.

- Total budgeted expenditures for fiscal year 2009 were approximately $10.9 billion, consisting of $9.9 billion of total expenditures plus $962 million of other uses.

- Total budgeted expenditures of $10.9 billion represented an increase of approximately $1.4 billion, or 14.8%, of original budgeted expenditures and represented a budget deficit of $3.3 billion, or 43.6%.

- The cash shortfall for fiscal year 2009 was approximately $4.5 billion as a result of a $3.3 billion budget deficit and a $1.2 billion cash shortfall. Total budgeted expenditures and cash shortfall for fiscal year 2009 were approximately $12 billion.

### *Government-wide Highlights*

- The Commonwealth reported a deficit in net assets of $26.4 billion, comprised of $17.4 billion in total assets offset by $43.8 billion in total liabilities.

- The Commonwealth's net deficit increased by $9.3 billion as a result of this year's operations and restatements. The net deficit for governmental activities increased by $9.4 billion while net assets of business-type activities have a slight decrease after restatements.

- Total liabilities at year end were $43.8 billion, comprised of $43.4 billion in governmental activities and approximately $399 million in business-type activities.

- Total short term and long term obligations outstanding at year end was $39 billion, comprised of $38.6 billion in governmental activities and $367 million in business-type activities.

- The Commonwealth's governmental activities had total revenues and transfers of $15.3 billion, which were less than total expenses of $19.1 billion.

- The total expense of all the Commonwealth's programs, which includes $1.2 billion in business-type activities, was $20.3 billion.

***Long Term Debt***

- The total long-term obligations as of June 30, 2009 were $38.6 billion, from which $1.7 billion are due within one year. The long-term obligation of the governmental activities increased by $12.3 billion (46.8%) when compared to the prior year, while the business-type activities decreased by $28.9 million (9.7%) when compared to the prior year. The increase in governmental activities' long-term obligations was mainly due to the inclusion of the Puerto Rico Sales Tax Financing Corporation as a blended component unit.

## MAJOR FINANCIAL ELEMENTS

*Revenues*- The General Fund is the primary operating fund of the Commonwealth. General Fund revenues are broadly based and include revenues raised internally as well as those from non-Puerto Rico sources. Internal revenues consist principally of income, sales and use and excise taxes. Revenues from non-Puerto Rico sources are derived from federal excise taxes and customs duties returned to the Commonwealth. The major source of revenue for the component units are charges for services.

*Expenditures*- Expenditures consist principally of grants and subsidies, personal services, other services, materials and supplies, equipment purchases, capital outlays, debt service and transfers.

*Debt*- Comprises bonds and notes of the Commonwealth and component units. The Commonwealth's policy has been and continues to maintain the amount of such debt prudently below the constitutional limitation. Debt of component units, other than bond anticipation notes, is generally supported by the revenues of such units from rates charged for services or products and Commonwealth's pledge revenues. However, certain debt of component units is supported, in whole or in part, directly or indirectly, by Commonwealth appropriations or taxes. Direct debt of the Commonwealth is issued pursuant to specific legislation approved in each particular case. Debt of component units is issued in accordance with their enabling statutes. GDB, as fiscal agent of the Commonwealth, must approve the specific terms of each issuance.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commonwealth's basic financial statements. The Commonwealth's basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains additional required supplementary information in addition to the basic financial statements themselves. These components are described below.

The basic financial statements include two kinds of financial statements that present different views of the Commonwealth, the government-wide financial statements and the fund financial statements and combining major component units financial statements. These financial statements also include the notes to the basic financial statements that explain some of the information in the financial statements and provide more detail.

### Government-wide Financial Statements

The government-wide financial statements provide a broad view of the Commonwealth's operations in a manner similar to a private sector business. The statements provide both short and long term information

about the Commonwealth's financial position, which assists in assessing the Commonwealth's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

- ***Statement of Net Assets (Deficit)*** – This presents all of the government's assets and liabilities with the difference between the two reported as net assets (deficit). Over time, increases or decreases in the Commonwealth's net assets (deficit) may serve as a useful indicator of whether the financial position of the Commonwealth is improving or deteriorating.

- ***Statement of Activities*** – This presents information showing how the government's net assets (deficit) changed during the most recent fiscal year. All changes in net assets (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenue for each function of the Commonwealth.

Both of the above financial statements have separate sections for three different types of Commonwealth programs or activities. These three types of activities are as follows:

- ***Governmental Activities*** – The activities in this section are mostly supported by taxes and intergovernmental revenue (federal grants). Most services normally associated with Commonwealth government fall into this category, including general government, public safety, health, public housing and welfare, education, and economic development.

- ***Business Type Activities*** – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business type activities of the Commonwealth include the operations of the following major funds: unemployment insurance trust fund (administered by the Commonwealth Employment Security Bureau) and the lotteries.

- ***Component Units*** – These are organizations that are legally separate from the Commonwealth, but either the Commonwealth is financially accountable for them or the nature and significance of their relationship with the Commonwealth are such that their exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The Commonwealth has both blended and discretely presented component units.

- ***Blended Component Units*** – Although legally separate entities, these are in substance part of the primary government's operations. Therefore, data from blended component units are integrated into the appropriate funds for reporting purposes. The Commonwealth's four blended component units are:

    - Public Buildings Authority
    - Puerto Rico Maritime Shipping Authority
    - The Children's Trust
    - Puerto Rico Sales Tax Financing Corporation

- ***Discretely Presented Component Units*** – These are operations for which the Commonwealth has financial accountability, but they have certain independent qualities as well. For the most part, these

entities operate similar to private sector businesses and the business type activities described above. The Commonwealth's discretely presented component units are presented in two categories, major and non-major. This separation is determined by the relative size of the entities' assets, liabilities, revenue, and expenses in relation to the total of all component units.

The Commonwealth's discretely presented component units are combined into a single column for reporting in the government-wide financial statements. Complete financial statements of the individual component units can be obtained from their respective administrative offices. Addresses and other additional information about the Commonwealth's component units are presented in note 1 to the basic financial statements.

The Commonwealth's six discretely presented major component units are:

- Government Development Bank for Puerto Rico
- Puerto Rico Highways and Transportation Authority
- Puerto Rico Electric Power Authority
- Puerto Rico Aqueduct and Sewer Authority
- Puerto Rico Health Insurance Administration
- University of Puerto Rico

The government-wide financial statements can be found immediately following this discussion and analysis.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other states and local governments, uses fund accounting to help ensure and demonstrate compliance with finance related legal requirements. The fund financial statements focus on individual parts of the Commonwealth government, reporting the Commonwealth's operations in more detail than the government-wide financial statements. All of the funds of the Commonwealth can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are the following:

- ***Governmental Funds Financial Statements*** – Most of the basic services provided by the Commonwealth are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Commonwealth's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Commonwealth. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing

decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances (deficit) provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

- The Commonwealth has five major governmental funds. That is, each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances (deficit). The Commonwealth's five major governmental funds are the General Fund, the Pledge Sales and Use Tax Fund, the Debt Service Fund, the COFINA Special Revenue Fund, and the COFINA Debt Service Fund. The remaining nonmajor governmental funds are grouped and presented in a single column in the governmental funds financial statements. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

- ***Proprietary Funds Financial Statements*** – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The Commonwealth has two major proprietary funds: (i) the unemployment insurance trust fund (administered by the Commonwealth's Employment Security Bureau); (ii) and the lotteries. Other non-major proprietary funds are grouped and presented in a separate column in the proprietary funds financial statements. The basic proprietary funds financial statements can be found immediately following the governmental fund financial statements.

- ***Fiduciary Funds and Similar Component Units Financial Statements*** – These funds are used to account for resources held for the benefit of parties outside the Commonwealth government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Commonwealth's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. They use the accrual basis of accounting. The Commonwealth's fiduciary funds are the pension trust funds (three separate retirement systems for employees, which are fiduciary component units of the Commonwealth) and the agency funds (which account for the assets held for distribution by the Commonwealth as an agent for other governmental units, other organizations, or individuals). The basic fiduciary funds and similar component units' financial statements can be found immediately following the proprietary funds financial statements.

**Component Units Financial Statements**

As mentioned above, these are operations, for which the Commonwealth has financial accountability, but they have certain independent qualities as well, and they operate similar to private sector businesses. The government-wide financial statements present information for the component units in a single column on the statement of net assets (deficit). Also, some information on the statement of net assets (deficit) is aggregated for component units. The combining statements of net assets and the combining statement of activities provide detail for each major component unit and the non-major component units in aggregate. The basic combining financial statements for major component units can be found immediately following the fiduciary funds financial statements.

**Notes to Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the major component units' combining financial statements.

**Required Supplementary Information**

The basic financial statements include immediately following its notes a section of required supplementary information. This section includes information of funding progress for the Commonwealth's three separate retirement systems.

## GENERAL FUND FINANCIAL ANALYSIS

Since 2000, the Commonwealth has experienced a structural imbalance between recurring government revenues and expenditures. One of the main reasons for this structural imbalance is the overestimation of economic growth by the Puerto Rico Planning Board ("Planning Board"), which led to the overestimation of revenues by the Department of the Treasury ("Treasury") and the corresponding increase in budgeted expenditures by the Office of Management and Budget ("OMB"). This structural imbalance was exacerbated during fiscal years 2008 and 2009, with recurring government expenditures being significantly higher than recurring revenues, which have declined as a result of a multi-year economic recession that began in the fourth quarter of fiscal year 2006. In order to bridge the deficit resulting from the structural imbalance, prior administrations used non-recurring measures, such as borrowings from Government Development Bank for Puerto Rico ("GDB") or in the bond market, postponing payment of various government expenses, such as payments to suppliers and utilities providers, and other onetime measures, such as the use of derivatives and borrowings collateralized with government owned real estate.

The current administration, which commenced on January 2, 2009, inherited a budget based on overestimated assumptions. Given the expected reduction in revenues due to prevailing economic conditions, General Fund projections of revenues from non-financing sources for the fiscal year 2009 were adjusted in February 2009 to $7.5 billion, a reduction of $1.9 billion from original the budgeted revenues of $9.3 billion. Budgeted expenditures were adjusted to approximately $9.5 billion (consisting of budgeted total expenditures of $8.9 billion plus $587.9 million of other uses).

*Results for Fiscal Year 2009*

Total General Fund revenues (excluding other financing sources) for fiscal year 2009 were $7.6 billion, representing a decrease of approximately $1.8 billion, or 18.8%, from the original budgeted revenues and an increase of approximately $131 million, or 1.8%, over the revised estimate presented by the current administration in February 2009. Total expenditures for fiscal year 2009 were approximately $10.9 billion, consisting of $9.9 billion of total expenditures plus $962 million of other uses. Total expenditures of $10.9 billion represented an increase of approximately $1.4 billion, or 14.8%, of original budgeted expenditures and exceeded total General Fund revenues (excluding other financing sources) by $3.3 billion, or 43.6%. The difference between total expenditures and total General Fund revenues (excluding other financing sources) is referred to herein as the "deficit."

| | Fiscal Year 2009 (in thousands) |
|---|---|
| Budget Deficit: | |
| Revenues from non-financing sources | $ 7,583,494 |
| Total budget expenditures | 10,889,897 |
| Budget Deficit | $ (3,306,403) |

The deficit for fiscal year 2009 is mainly due to the prior administration's adoption of a General Fund budget based on projected recurring revenues developed on the basis of overestimated economic growth projections provided by the Planning Board. Specifically, the Planning Board projected that real gross national product would grow by 2.1% during fiscal year 2009 when in fact real gross national product decreased by 3.7%.

Based on the Planning Board's overestimated economic growth projection, Treasury projected that revenues from non-financing sources for fiscal year 2009 would be $9.3 billion while OMB projected budgeted expenditures of $9.5 billion (consisting of budgeted total expenditures of $8.8 billion plus $647.6 million of other uses). As a result, the deficit for fiscal year 2009 is mainly composed of the $1.8 billion by which total General Fund revenues were overestimated and the $1.4 billion in excess expenditures that the prior administration did not include in the original budget.

The following table shows originally budgeted revenues and expenditures compared against actual revenues and expenditures for fiscal year 2009:

**COMMONWEALTH'S STATEMENT OF REVENUE AND EXPENDITURES –**
**BUDGET AND ACTUAL BUDGET BASIS – GENERAL FUND**
**YEAR ENDED JUNE 30, 2009**
**(In thousands)**

| | Original Budget | Actual | Variance |
|---|---|---|---|
| Revenue: | | | |
| Income taxes | $ 5,628,000 | $ 5,188,219 | $ (439,781) |
| Excise taxes | 898,000 | 780,860 | (117,140) |
| Other taxes | 101,000 | 101,487 | 487 |
| Sales and use taxes | 977,000 | 797,194 | (179,806) |
| Charge for services | 195,000 | 132,483 | (62,517) |
| Intergovernmental | 377,000 | 407,534 | 30,534 |
| Revenue from component units | 24,000 | 23,764 | (236) |
| Other | 1,140,000 | 151,953 | (988,047) |
| Total revenue | 9,340,000 | 7,583,494 | (1,756,506) |
| Expenditures: | | | |
| General government | 543,254 | 886,368 | 343,114 |
| Public safety | 2,167,565 | 2,278,218 | 110,653 |
| Health | 1,472,104 | 1,542,889 | 70,785 |
| Public housing and welfare | 501,760 | 662,904 | 161,144 |
| Education | 3,434,816 | 3,738,043 | 303,227 |
| Economic development | 337,204 | 435,260 | 98,056 |
| Intergovernmental | 383,697 | 383,788 | 91 |
| Total expenditures | 8,840,400 | 9,927,470 | 1,087,070 |
| Excess (deficiency) of revenues over (under) expenditures | 499,600 | (2,343,976) | (2,843,576) |
| Other financing sources (uses): | | | |
| Notes payable issued | - | 171,480 | 171,480 |
| Transfer in mostly from COFINA to cover deficit | 148,000 | 3,455,064 | 3,307,064 |
| Transfer out | (647,600) | (962,427) | (314,827) |
| Total other financing sources (uses) | (499,600) | 2,664,117 | 3,163,717 |
| Excess of revenues and other financing sources over expenditures and other financing uses | $ - | $ 320,141 | $ 320,141 |
| Total revenues from non-financing sources | $ 9,340,000 | $ 7,583,494 | $ (1,756,506) |
| Total expenditures and other uses | 9,488,000 | 10,889,897 | 1,401,897 |
| Deficiency of revenues from non-financing sources under expenditures and other financing uses | $ (148,000) | $ (3,306,403) | $ (3,158,403) |

During fiscal year 2009, the current administration also faced a cash shortfall of $1.2 billion, which was mainly due to a $960 million cash insufficiency inherited from the prior administration. This cash insufficiency was due to the practice of issuing but withholding checks at the Treasury Department for lack of available funds. These checks included payments to suppliers and utilities, among others, that corresponded to fiscal year 2008 but were paid during fiscal year 2009.

As a result, the current administration was required to raise funds immediately in order to cover account payables and ongoing expenditures. The cash shortfall added approximately $1.2 billion that were covered with other financing sources. The budget deficit and cash shortfall for fiscal year 2009 of approximately $4.5 billion was principally paid from proceeds of Puerto Rico Sales Tax Financing Corporation ("COFINA" by its Spanish-language acronym) bond issues pursuant to Act No.1 and Act No. 7 of 2009 and the restructuring of the corpus account of the Puerto Rico Infrastructure Financing Authority pursuant to Act No. 3 of 2009.

The following table shows a breakdown of budgeted expenditures and cash shortfalls for fiscal year 2009:

**COMMONWEALTH'S BUDGETED EXPENDITURES**
**AND CASH SHORTFALL**
**FOR FISCAL YEAR 2009**
**(In thousands)**

| | |
|---|---|
| Total budgeted expenditures | $ 10,889,897 |
| Cash Shortfall: | |
| Fiscal year 2008 cash shortfall | 960,000 |
| Accounts receivables from federal funds disbursements[1] | 192,606 |
| Total cash shortfall | 1,152,606 |
| Total expenditures (budgeted) and cash shortfall | 12,042,503 |
| Total revenue from non-financing sources | 7,583,494 |
| Total Excess Expenditures and Cash Shortfall[2] | $ 4,459,009 |

[1] Attributable to money advanced by the Treasury to cover disbursements under federal programs. The corresponding federal agency typically reimburses the amounts advanced by Treasury within three to four business days.

[2] Excludes $241 million reserved as a contingency in connection with certain derivative transactions executed between 2004 and 2007 associated to general obligation bonds issued by the Commonwealth.

### *Fiscal Stabilization Plan*

In January 2009, the current administration inherited a General Fund that lacked liquidity and had a significant deficit of approximately 45%. In order to address the General Fund's immediate situation and provide a long-term solution to the recurring deficit, the administration implemented a multi-year Fiscal Stabilization Plan (the "Fiscal Plan") and Economic Reconstruction Plan (the "Economic Plan") to achieve fiscal balance and restore economic growth. The Fiscal Plan and the Economic Plan were central to safeguarding the Commonwealth's investment-grade credit rating and restoring Puerto Rico's economic growth and development. In January 2009, the Legislative Assembly enacted four bills to stabilize the short term fiscal situation and provide liquidity to the Government. In March 2009, the Legislative Assembly enacted three bills providing for the implementation of the Fiscal Plan and the Economic Plan.

In addition, the administration designed and began to implement the *Strategic Model for a New Economy*, a series of economic development initiatives to enhance Puerto Rico's overall economic competitiveness and strengthen specific industry sectors. These economic development initiatives are intended to support the prospects of long-term and sustainable growth.

The Fiscal Plan had three main objectives: (i) stabilize the short-term fiscal situation, (ii) safeguard and strengthen the Commonwealth's investment-grade credit rating, and (iii) achieve budgetary balance. The Fiscal Plan, which was generally contained in Act No. 7 of March 9, 2009, as amended ("Act No. 7"), included operating expense reduction measures, tax revenue enforcement measures, temporary and permanent revenue raising measures, and financial measures, as discussed below.

*Expense Reduction Measures.* A significant portion of Puerto Rico's budget deficit was attributable to the accumulated effect of high operating expenses in the government. The Fiscal Plan sought to reduce the government's recurring expense base to make it consistent with the level of government revenues. The Fiscal Plan established a government-wide operating expense-reduction program aimed at reducing operating expenses, including payroll, by $2 billion.

Payroll expense is the most significant component of the government's recurring expense base. The reduction in payroll expenses contemplated by the Fiscal Plan was implemented in three phases and included certain benefits conferred to participating employees, as follows:

- *Phase I: Incentivized Voluntary Resignation and Voluntary Permanent Workday Reduction Programs:* The Incentivized Voluntary Resignation Program offered public employees a compensation incentive based on the time of service in the government. The Voluntary Permanent Workday Reduction Program was available to public employees with 20 or more years of service. The Workday Reduction Program consisted of a voluntary reduction of one regular workday every fifteen calendar days, which is equivalent to approximately a 10% reduction in annual workdays. Phase I commenced in March 2009 and public employees had until April 27, 2009 to submit the required information to participate in the voluntary programs available under Phase I and be eligible for the Public Employees Alternatives Program. Under Phase I, 2,553 employees resigned under the Incentivized Voluntary Resignation Program and 27 employees took advantage of the Voluntary Permanent Workday Reduction Program.

- *Phase II: Involuntary Layoff Plan:* As provided in Act No. 7, Phase II went into effect because the objective of reducing $2 billion in expenses was not achieved after implementation of Phase I and Phase III (see below). Under Phase II, subject to certain exceptions, employees with transitory or non-permanent positions were laid-off. In addition, Phase II provided for one or more rounds of involuntary layoffs providing non essential services and applied to most central government public employees, unless excluded pursuant to Act No. 7, based on seniority in public service. The plan provided for the exclusion of certain employees providing "essential" services, certain employees whose compensation was paid for

with federal funds, those on military leave, and political appointees and their trust employees (political appointees and their trust employees, who do not hold a permanent or career position in the government, are referred to herein as "non-career" employees). Employees in Phase II received a severance package that included health coverage payment for up to a maximum of six months or until the former public employee became eligible for health insurance coverage at another job. The full implementation of Phase II, however, was delayed as a result of the seniority certification and termination notification process followed by certain central government agencies, and completed during fiscal year 2010.

- *Phase III: Temporary Suspension of Certain Provisions of Laws, Collective Bargaining Agreements, and Other Agreements:* Phase III went into effect on March 9, 2009 and imposed a temporary freeze on salary increases and other economic benefits included in laws, collective bargaining agreements, and any other agreements. Phase III will remain in effect for a period of two years.

- *Public Employees Alternatives Program:* The employees that elected to participate in the Incentivized Voluntary Resignation Program under Phase I or that were subject to involuntary layoffs under Phase II, were eligible to participate in the Public Employees Alternatives Program. This program assists public employees in their transition to other productive alternatives, and offers vouchers for college education, technical education, and professional training, as well as for establishing a business and for relocation.

The second element of the expense-reduction measures, which pertained to other operating expenses, was conducted through an austerity program in combination with other measures, such as reduction in expenses of the public health plan, Executive Branch reorganization, and efficiency measures supported by budgeting and accounting processes, and information technology. The austerity program mandated a 10% reduction in other operational expenses.

*Tax Revenue Enforcement Measures.* The Fiscal Plan also sought to increase tax revenues by implementing a more rigorous and ongoing tax enforcement and compliance strategy. Specific tax enforcement initiatives included: (i) enhancements to the administration of federal grants and fund receipts, (ii) stronger collections and auditing efforts on Puerto Rico's sales and use tax, and (iii) a voluntary tax compliance program.

*Revenue Raising Measures.* The goal of achieving fiscal and budgetary balance required a combination of measures that included the introduction of permanent and temporary tax increases. The Fiscal Plan included six temporary and four permanent revenue increasing measures. With respect to temporary revenue increasing measures, the administration implemented: (i) a 5% surtax on income of certain individuals, (ii) a 5% surtax on income of certain corporations, (iii) a 5% income tax on credit unions (commonly known as "cooperativas" in Puerto Rico), (iv) a 5% income tax on Puerto Rico international banking entities, (v) a special property tax on residential real estate, and (vi) a moratorium on certain tax credits. The temporary measures will be in effect for up to three fiscal years beginning in fiscal year 2010. The permanent measures include (i) modifications to the alternative minimum tax for individuals and corporations, (ii) an increase in the excise taxes on cigarettes, (iii) an increase in the excise taxes on alcoholic beverages.

*Financial Measures.* The administration has also carried out several financial measures designed to achieve fiscal stability throughout the Fiscal Plan implementation period. These measures included, among others, (i) a financing or bond issuance program, the proceeds of which were used to bridge the structural budgetary imbalance during the Fiscal Plan implementation period and fund some of the Economic Plan initiatives, (ii) the restructuring of the securities held in the Corpus Account of the Infrastructure Development Fund (the "Corpus Account"), which is under the custody and control of the Puerto Rico Infrastructure Financing Authority ("PRIFA"), and (iii) a multi-year restructuring of a portion of the Commonwealth's debt service.

These financial measures were anchored on the bond-issuance program of COFINA. Act No. 7, in conjunction with Act No. 91 of May 13, 2006, as amended ("Act 91"), and Act No. 1 of January 14, 2009

("Act 1"), allocated to COFINA, commencing on July 1, 2009, 2.75% (one-half of the tax rate of 5.5%) of the sales and use tax imposed by the central government, thus increasing COFINA's financing capacity and allowing the Commonwealth to achieve fiscal stability throughout the implementation period of the Fiscal Plan.

During fiscal years 2009, COFINA issued approximately $5.6 billion of revenue bonds payable from sales and use tax collections transferred to COFINA. The proceeds from these bond issues have been used for the payment of Commonwealth obligations that did not have a designated source of repayment, paying or financing operational expenses constituting a portion of the Commonwealth's deficit, and fund the Local Stimulus Fund (described below) with $500 million.

Act No. 3, approved by the Legislative Assembly of the Commonwealth on January 14, 2009 ("Act 3"), and authorized the sale of the securities held in the Corpus Account. PRIFA sold the securities in January 2009 and used the proceeds to, among other things, make a deposit to the General Fund of approximately $308 million, which was applied to cover a portion of the Commonwealth's budget deficit and make a transfer to GDB of approximately $154 million as a capital contribution. The Corpus Account retained an amount of $300 million that was invested to provide a value of $1.2 billion by the year 2040. The gross proceeds resulting from the sale were approximately $884 million.

The Fiscal Plan has provided more fiscal stability, thereby safeguarding and strengthening Puerto Rico's credit. The fiscal structure resulting from the full implementation of the plan will be conducive to long-term economic growth and development.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### *Net Assets (Deficit)*

Net assets (deficit) may serve over time as a useful indicator of a government's financial position. Total assets and total liabilities of the Commonwealth's primary government at June 30, 2009 amounted to $17.4 billion and $43.8 billion, respectively, for a net deficit of $26.4 billion, compared to a $22.7 billion net deficit at the beginning of the current year, as restated.

A portion of the Commonwealth's net assets (deficit) reflects its investment in capital assets such as land, buildings, and equipment, less any related debt used to acquire those assets that are still outstanding. The Commonwealth uses these capital assets to provide services to its residents; consequentially, these assets are not available for future spending. Although the Commonwealth's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Commonwealth's net assets (deficit) represents resources that are subject to external restrictions on how they may be used. An otherwise positive remaining balance would be used to meet the Commonwealth's ongoing obligations to its residents and creditors. Internally imposed designations of resources are not presented as restricted net assets. At the end of the current fiscal year, the Commonwealth is able to report positive balances in two categories of net assets, and a deficit, both for the government as a whole as well as for its separate governmental and business-type activities.

The net deficit of the primary government primarily results from the Commonwealth's practice of issuing debt and transferring such funds to the component units so that they can carry out the construction projects. The primary government retains the debt while the component units report the corresponding asset financed by such debt.

Total assets increased by $3.7 billion during fiscal year 2009 when compared to the prior fiscal year. This increase is the net effect of various increases and decreases as follows:

- Unrestricted and restricted cash increased by $1.2 billion when compared to the prior year. The increase was mainly due to an increase of approximately $1.3 billion in operating grants and contributions when compared to the prior year.
- Net increase of $349 million in the receivables was mainly related to an increase in tax receivable and intergovernmental grants amounting to $203 million and $115 million respectively.
- Additions to capital assets, retirements, and depreciation expense amounted to approximately $351 million, $169 million, and $251.4 million, respectively.
- Total liabilities increased by $13.1 billion during the current fiscal year when compared to the prior fiscal year. This fluctuation is mainly prompted by a net increase of Commonwealth's bonds amounting to $11 billion primarily related to blending of the Puerto Rico Sales Tax Financing Corporation (COFINA).

**COMMONWEALTH'S NET ASSETS (DEFICIT) – PRIMARY GOVERNMENT**
**JUNE 30, 2009**
**(Expressed in thousands)**

| | Governmental activities | Business-type activities | Total |
|---|---|---|---|
| Current assets | $ 5,554,107 | $ 865,201 | $ 6,419,308 |
| Capital assets | 7,534,102 | 682 | 7,534,784 |
| Other assets | 3,069,628 | 373,535 | 3,443,163 |
| Total assets | 16,157,837 | 1,239,418 | 17,397,255 |
| Current liablities | 6,348,528 | 200,848 | 6,549,376 |
| Noncurrent liabilities | 36,995,558 | 198,641 | 37,194,199 |
| Total liabilities | 43,344,086 | 399,489 | 43,743,575 |
| Invested in capital assets, net of related debt | 3,888,495 | 682 | 3,889,177 |
| Restricted | 979,094 | 29,209 | 1,008,303 |
| Unrestricted | (32,053,838) | 810,038 | (31,243,800) |
| Total net assets (deficit) | $ (27,186,249) | $ 839,929 | $ (26,346,320) |

## COMMONWEALTH'S NET ASSETS (DEFICIT) – PRIMARY GOVERNMENT

**JUNE 30, 2008**

**(Expressed in thousands)**

| | Governmental activities | Business-type activities | Total |
|---|---|---|---|
| Current assets | $ 2,680,800 | $ 805,396 | $ 3,486,196 |
| Capital assets | 7,551,707 | 674 | 7,552,381 |
| Other assets | 2,226,368 | 358,225 | 2,584,593 |
| Total assets | 12,458,875 | 1,164,295 | 13,623,170 |
| | | | |
| Current liablities | 4,289,357 | 31,618 | 4,320,975 |
| Noncurrent liabilities | 25,984,848 | 408,514 | 26,393,362 |
| Total liabilities | 30,274,205 | 440,132 | 30,714,337 |
| | | | |
| Invested in capital assets, net of related debt | 3,979,308 | 674 | 3,979,982 |
| Restricted | 721,521 | 33,803 | 755,324 |
| Unrestricted | (22,516,159) | 689,686 | (21,826,473) |
| Total net assets (deficit) | $ (17,815,330) | $ 724,163 | $ (17,091,167) |

The net assets (deficit) of the governmental activities as of June 30, 2008 were restated by $5.4 billion mainly as a result of the blending of the Puerto Rico Sales Tax Financing Corporation (COFINA).

***Changes in Net Assets (Deficit)***

The Commonwealth's net deficit increased by $9.3 billion or 55% from last year's total net deficit. Approximately 46.6% of the Commonwealth's total revenue came from taxes, while 35.6% resulted from grants and contributions (primarily federal financial assistance). Charges for services provided represented 11.8% of the total revenue. The Commonwealth's expenses cover a range of services. The largest expenses were for education, public housing and welfare, health, general government and public safety, which presented a combined increase of 9.0% when compared with prior year. In 2009, governmental activities' expenses exceeded program revenue by $12.7 billion, resulting in the use of $8.9 billion in general revenue (mostly taxes and transfers). On the other hand, program revenue from business type activities in 2009 exceeded expenses by approximately $228 million.

Governmental activities increased the Commonwealth's net deficit by $3.7 billion.

Business type activities increased the Commonwealth's net deficit by $2.3 million.

## COMMONWEALTH OF PUERTO RICO
### CHANGES IN NET ASSETS (DEFICIT) - PRIMARY GOVERNMENT
### YEAR ENDED JUNE 30, 2009
### (Expressed in thousands)

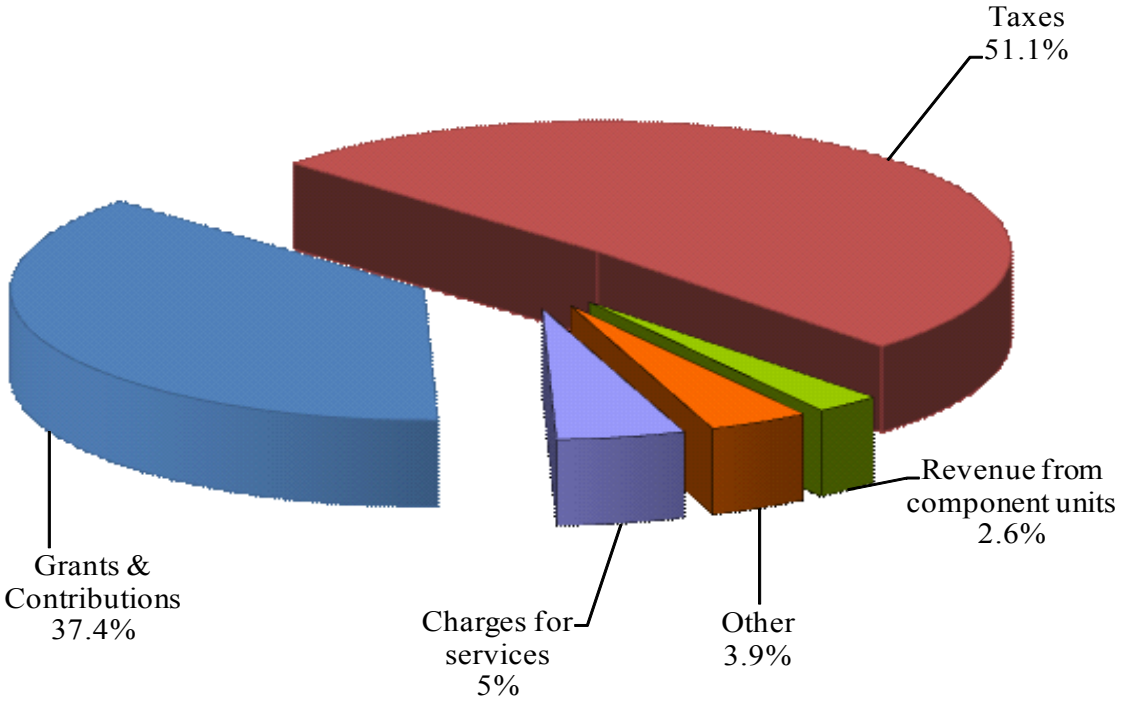
| | Governmental activities | Busines-type activities | Total |
|---|---|---|---|
| Revenue: | | | |
| Program revenue: | | | |
| Charges for services | $ 758,427 | $ 1,206,080 | $ 1,964,507 |
| Operating grants and contributions | 5,541,715 | 245,770 | 5,787,485 |
| Capital grants and contributions | 110,847 | - | 110,847 |
| | 6,410,989 | 1,451,850 | 7,862,839 |
| General revenue: | | | |
| Income taxes | 5,424,476 | - | 5,424,476 |
| Sales and use tax | 1,089,073 | - | 1,089,073 |
| Excise taxes | 1,118,283 | - | 1,118,283 |
| Other taxes | 103,348 | - | 103,348 |
| Revenue from component units | 386,182 | - | 386,182 |
| Other taxes | 591,746 | 20,036 | 611,782 |
| | 8,713,108 | 20,036 | 8,733,144 |
| Total revenue | 15,124,097 | 1,471,886 | 16,595,983 |
| Expenses: | | | |
| General government | 2,460,391 | - | 2,460,391 |
| Public safety | 2,247,480 | - | 2,247,480 |
| Health | 2,858,750 | - | 2,858,750 |
| Public housing and welfare | 3,560,871 | - | 3,560,871 |
| Education | 5,280,249 | - | 5,280,249 |
| Economic develoment | 779,449 | - | 779,449 |
| Payment of obligations of component units | 136,415 | - | 136,415 |
| Intergovernmental | 613,033 | - | 613,033 |
| Interest and other | 1,128,918 | 31,947 | 1,160,865 |
| Lotteries | - | 723,287 | 723,287 |
| Unemployment | - | 467,788 | 467,788 |
| Total expenses | 19,065,556 | 1,223,022 | 20,288,578 |
| Increase (decrease) in net assets before transfers | (3,941,459) | 248,864 | (3,692,595) |
| Transfers | 251,170 | (251,170) | - |
| Change in net assets (deficit) | (3,690,289) | (2,306) | (3,692,595) |
| Net assets (deficit), beginning of year (as restated) | (23,495,960) | 842,235 | (22,653,725) |
| Net assets (deficit), end of year | ($27,186,249) | $ 839,929 | ($26,346,320) |

## COMMONWEALTH OF PUERTO RICO
### CHANGES IN NET ASSETS (DEFICIT) - PRIMARY GOVERNMENT
### YEAR ENDED JUNE 30, 2008
### (Expressed in thousands)

| | Governmental activities | Busines-type activities | Total |
|---|---|---|---|
| Revenue: | | | |
| Program revenue: | | | |
| Charges for services | $ 664,505 | $ 1,161,084 | $ 1,825,589 |
| Operating grants and contributions | 4,311,592 | 77,803 | 4,389,395 |
| Capital grants and contributions | 137,916 | - | 137,916 |
| | 5,114,013 | 1,238,887 | 6,352,900 |
| General revenue: | | | |
| Income taxes | 5,493,881 | - | 5,493,881 |
| Excise taxes | 1,318,866 | - | 1,318,866 |
| Sales and use tax | 910,609 | - | 910,609 |
| Other taxes | 11,356 | - | 11,356 |
| Revenue from component units | 156,997 | - | 156,997 |
| Special items | 3,749,348 | - | 3,749,348 |
| Other | 580,563 | 35,423 | 615,986 |
| | 12,221,620 | 35,423 | 12,257,043 |
| Total revenue | 17,335,633 | 1,274,310 | 18,609,943 |
| Expenses: | | | |
| General government | 2,592,834 | - | 2,592,834 |
| Public safety | 2,161,265 | - | 2,161,265 |
| Health | 2,471,960 | - | 2,471,960 |
| Public housing and welfare | 3,194,945 | - | 3,194,945 |
| Education | 4,571,722 | - | 4,571,722 |
| Economic develoment | 471,640 | - | 471,640 |
| Intergovernmental | 474,023 | - | 474,023 |
| Interest and other | 1,086,906 | 28,738 | 1,115,644 |
| Lotteries | - | 699,005 | 699,005 |
| Unemployment | - | 269,924 | 269,924 |
| Total expenses | 17,025,295 | 997,667 | 18,022,962 |
| Increase in net assets before transfers | 310,338 | 276,643 | 586,981 |
| Transfers | 309,815 | (309,815) | - |
| Change in net assets (deficit) | 620,153 | (33,172) | 586,981 |
| Net assets (deficit), beginning of year (as restated) | (18,435,483) | 757,335 | (17,678,148) |
| Net assets (deficit), end of year | ($17,815,330) | $ 724,163 | ($17,091,167) |

**Revenue – Governmental Activities**

Year ended June 30, 2009



**Governmental Activities**

Governmental activities increased the Commonwealth's net deficit by $3.7 billion. A comparison of the cost of services by function for the Commonwealth's governmental activities is shown below, along with the revenue used to cover the net expenses of the governmental activities (expressed in thousands).

**COMMONWEALTH'S GOVERNMENTAL ACTIVITIES - EXPENSES NET OF PROGRAM REVENUE**
**Year ended June 30, 2009**
**(Expressed in thousands)**

| | |
|---|---|
| Net expense: | |
| General government | ($1,818,729) |
| Public safety | (2,137,244) |
| Heatlh | (1,320,401) |
| Public housing and welfare | (420,991) |
| Education | (4,594,502) |
| Economic development | (490,193) |
| Payment of obligations of component units | (136,415) |
| Intergovernmental | (607,174) |
| Interest and other | (1,128,918) |
| Total governmental activities expenses, net of program revenue | (12,654,567) |
| General revenue: | |
| Taxes | 7,735,180 |
| Revenue from component units | 386,182 |
| Transfers from business-type activities | 251,170 |
| Other revenue | 591,746 |
| Total governmental activities general revenue | 8,964,278 |
| Increase in governmental activities net deficit | (3,690,289) |

***Business Type Activities***

The business type activities increased the Commonwealth's net deficit by $2.3 million.

***Financial Analysis of the Commonwealth's Individual Funds***

As noted earlier, the Commonwealth uses fund accounting to help ensure and demonstrate compliance with finance related legal requirements.

## GOVERNMENTAL FUNDS

The focus of the Commonwealth's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Commonwealth's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of fiscal year 2009, the Commonwealth's governmental funds reported combined ending fund balance of $1.9 billion. The expenditures exceeded the revenues by $3.5 billion. However, this was offset by other financing sources amounting to $6.4 billion in the governmental funds. This year, the excess of expenditures over revenue decreased by $1.2 billion compared with the prior year. Other financing sources increased by $2.7 billion. There is $3.3 billion of fund balance reserved to indicate that it is not available for new spending because it

has already been committed: (1) to liquidate contracts and purchase orders of the prior fiscal year or (2) for a variety of other restricted purposes.

The general fund is the chief operating fund of the Commonwealth. At the end of the current fiscal year, unreserved fund deficit of the general fund was $2.7 billion, while the total general fund balance has a total deficit of $1.5 billion. The fund's deficit of the Commonwealth's general fund decreased by $634 million as a result of the current fiscal year's change in financial position. This is a 29.5% decrease when compared to total general fund deficit reported in fiscal year 2008, as restated.

The debt service fund is the fund in which the Commonwealth accumulates the resources for the payment of the long-term debt. At end of the fiscal year, the fund balance of the debt service fund increased by $309 million when compared to prior year. Bonds and interest payable increased by $175.5 million compared with the prior year mainly due to the accumulation of resources for the payment of debt.

## PROPRIETARY FUNDS

The Commonwealth's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As discussed in the business type activities above, the Commonwealth's net deficit increased by $2.3 million as a result of operations in the proprietary funds. This resulted from a $23 million increase in net assets by the lotteries fund, an increase in net assets of $68.2 million by the unemployment insurance fund including restatement, and an increase of net assets of $24.5 million by the Commonwealth's other proprietary funds.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### *Capital Assets*

The Commonwealth's investment in capital assets for its governmental and business type activities as of June 30, 2009 amounts to $10.6 billion, less accumulated depreciation of $3.1 billion, leaving a book value of $7.5 billion. This investment in capital assets includes land, construction in progress, buildings, building improvements and equipment as infrastructure.

The net book value of capital assets at June 30, 2009 is distributed by function/activity in the following proportions: general government, 39.7%; public safety, 7.4%; health, 2.1%; public housing and welfare, 31.7%; education, 6%; and economic development, 13.1%. Actual capitalized assets were approximately $580 million for the year. Depreciation charges for the year totaled $251.4 million.

The infrastructure assets representing items that are normally immovable and of value only to the Commonwealth as roads, highways, bridges, toll facilities, water and sewer systems, lighting production, transmission and distribution systems, and similar items are principally owned by the component units of the Commonwealth. Therefore, the infrastructure assets are reported within depreciable capital assets under the discretely presented component units column. Additional information on the Commonwealth's capital assets can be found in note 13 to the basic financial statements that accompany this report.

**COMMONWEALTH'S CAPITAL ASSETS - PRIMARY GOVERNMENT**
**JUNE 30, 2009**
**(Expressed in thousands)**

| | Governmental activities | Business-type activities |
|---|---|---|
| Land | $ 881,877 | $ - |
| Construction in progress | 1,322,447 | - |
| Buildings and building improvements, net | 4,780,442 | - |
| Equipment, furniture, fixtures and vehicles, net | 215,689 | 682 |
| Infrastructure, net | 333,647 | - |
| Total capital assets | $ 7,534,102 | $ 682 |

***Debt Administration***

General obligation bonds are backed by the full faith and credit of the Commonwealth, including the Commonwealth's power to levy additional taxes to help ensure repayment of the debt.

The Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth are not to be issued if the amount of the principal of, and interest on, such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenue raised under the provisions of Commonwealth legislation and conveyed into the treasury (internal revenues) in the two fiscal years preceding the current fiscal year. Section 2, Article VI of the Constitution of the Commonwealth does not limit the amount of debt that the Commonwealth may guarantee as long as the 15% limitation is not exceeded through payments by the Commonwealth on such guaranteed debt. At June 30, 2009, the Commonwealth is in compliance with the debt limitation requirement.

Internal revenues consist principally of income taxes, property taxes, sales and use taxes and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products and customs duties, which are collected by the United States Government and returned to the Treasury Department of Puerto Rico and motor vehicle fuel taxes and license fees, which are allocated to the Highway and Transportation Authority, are not included as internal revenues for the purpose of calculating the debt limit, although they may be available for the payment of debt service. In addition, the portion of the sales and use Tax allocated to COFINA is not included as internal revenues since the legislation that created COFINA transferred ownership of such portion of the sales and use Tax to COFINA and provided that such portion was not available resources under the Constitutional provisions relating to full faith and credit bonds.

On April 19, 2010, Moody's Investors Service announced the results of the recalibration of certain U.S. municipal bond issues and issuers in order to enhance the comparability of credit ratings across its portfolio of rated securities. As a result of this recalibration, the Commonwealth's general obligation debt is now rated "A3" with a negative outlook by Moody's, which is three categories above the previous "Baa3" rating.

## GLOBAL ECONOMIC FACTORS AFFECTING THE COMMONWEALTH AND OTHER

Commonwealth's economy entered into a recession that began in the fourth quarter of fiscal year 2006. Although the Commonwealth's economy is closely linked to the United States economy, for fiscal years 2007, 2008 and 2009, Puerto Rico's real gross national product decreased by 1.2%, 2.8%, and 3.7%, respectively, while the United States economy grew at a rate of 1.8% and 2.8%, respectively, and contracted during fiscal year 2009 at a rate of 2.5%. Based on the projections of the Puerto Rico Planning Board, the Puerto Rico economy is expected to reflect another decrease of 3.6% for the fiscal year 2010, while the United States economy is expected to grow at a rate of .6%.

The United States economy started the contraction in fiscal year 2009 principally due to the downturn in the housing market and the world-wide financial crisis. These crises have made it more difficult for U.S. businesses and consumers to access credit, and have significantly reduced the value of financial assets. As a result of the declines in home values and assets prices, the U.S. Federal Reserve reported that the net worth of American households was reduced by nearly $11 trillion over the course of 2008. These developments in the United States have had a significant and negative impact on the Commonwealth economy. In addition, other variables contributing to the decrease of the Commonwealth's gross national product was the continuous contraction of the manufacturing and construction sectors, the significant oil prices increases experienced during the last years, and the budgetary pressures on government finances.

In terms of budgetary pressures, the Commonwealth has experienced a structural deficiency between recurring government revenues and expenditures. The structural deficiency was exacerbated during fiscal years 2009, 2008 and 2007, with recurring government expenditures significantly exceeding recurring revenues. Prior to the current fiscal year, the government bridged the deficit resulting from the structural deficiency through the use of non-recurring measures, such as borrowing from Government Development Bank for Puerto Rico (GDB) or in the bond market, postponing the payment of various government expenses, such as payments to suppliers and utilities providers, and other onetime measures such as the use of derivatives and borrowings collateralized with government owned real estate.

The Commonwealth has significant dependence on oil for power generation and gasoline, the high level of oil prices accounted for an increased outflow of local income in fiscal year 2008. Although the situation improved significantly during fiscal year 2009, oil prices remained at relatively high levels and the impact of the increases of previous years were still adversely felt in fiscal year 2009.

The current difficulties associated with the financial crisis resulted in lower short-term interest rates, but this did not translate into a significant improvement in the construction sector due to the high level of inventory of residential housing units (downturn in the housing market).

The dominant sectors of the Puerto Rico economy in terms of production and income are manufacturing and services. The manufacturing sector has undergone fundamental changes over the years as a result of increased emphasis on higher-wage, high-technology industries, such as pharmaceuticals, biotechnology, computers and others. The service sector, which includes finance, insurance, real estate, wholesale and retail trade, transportation, communications and public utilities, and other services, plays a major role in the economy. It ranks second to manufacturing in contribution to gross domestic product and leads all sectors in providing employment.

The economy of Puerto Rico is closely linked to the United States economy, as most of the external factors that affect the Puerto Rico economy (other than oil prices) are determined by the policies and performance of the mainland economy. These external factors include exports, direct investment, federal transfer payments, the level of interest rates, the rate of inflation, and tourist expenditures. During fiscal year 2009, approximately 71.6% of Puerto Rico's exports went to the United States mainland, which was also the source

of approximately 46.9% of Puerto Rico's imports. In fiscal year 2009, Puerto Rico experienced a positive merchandise trade balance of $24.5 billion.

The average unemployment rate for the Commonwealth in 2009 was 13.4%, an increase from 11% for fiscal year 2008. In terms of production, the real gross national product registered a decrease of 3.7%. For fiscal year 2009, the number of persons employed averaged 1,349,000, a decrease of 1.4% compared to previous fiscal year. During the first nine months of fiscal year 2010, total employment averaged 1,108,600, a decline of 6.0% with respect to the same period of the prior year; and the unemployment rate averaged 15.8%.

The consolidated budget for fiscal year 2010 amounts to $29.5 billion, of which $24.1 billion are assigned to operating expenses, $1.9 billion to the capital improvements program, and $3.5 billion to debt service.

## OTHER MATTERS

***Insurance matters***- Government owned property is insured through policies obtained by the Secretary of the Treasury and through self-insured, except for property owned by the Puerto Rico Electric Power Authority and the Puerto Rico Aqueduct and Sewer Authority, whose properties are insured through arrangements and policies obtained by the respective Authorities. Personal injury against the Commonwealth is limited by law to $150,000 per occurrence.

***Differences between budget and basic financial statements***- Revenues and expenditures, as reported by the Treasury Department in its basic financial statements, may differ substantially from resources and appropriations in its annual budget for a number of reasons, including the following:

- The budgetary accounts are on a budgetary basis, while financial statements prepared by the Treasury Department include adjustments as required by government accounting standards.

- Expenditures for current purposes in a particular year may include amounts appropriated for earlier periods but not previously expended or amounts not budgeted for a particular fiscal year, but expended during that year, and, conversely, may exclude amounts appropriated for such fiscal year but not expended until later periods.

- Bonds are authorized by the Commonwealth in accordance with a four year capital improvement program. Since bond sale are determined by bond market conditions and other factors, the amounts for bonds sold for these improvements are financed by advances from the General Fund to the Capital Projects Fund, which are later reimbursed from proceeds of a bond or notes sales.

### Requests for Information

This financial report is designed to provide a general overview of the Commonwealth's finances for all of the Commonwealth's residents, taxpayers, customers, investors, and creditors. This financial report seeks to demonstrate the Commonwealth's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Department of the Treasury of the Commonwealth of Puerto Rico, Área de Contabilidad Central, P.O. Box 9024140, San Juan, PR 00902-4140.

# COMMONWEALTH OF PUERTO RICO

## STATEMENT OF NET ASSETS (DEFICIT)
## JUNE 30, 2009
## (In thousands)

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Totals Primary Government | Component Units |
| ASSETS: | | | | |
| Cash and cash equivalents in commercial banks | $ 249,252 | $ 628,368 | $ 877,620 | $ 2,977,308 |
| Cash and cash equivalents in governmental banks | 655,690 | 151,158 | 806,848 | 547,911 |
| Investments | 2,282,372 | - | 2,282,372 | 3,580,170 |
| Receivables — net of allowance for uncollectibles: | | | | |
| Taxes | 1,468,506 | - | 1,468,506 | - |
| Sales and Use tax | 99,469 | - | 99,469 | - |
| Unemployment and other insurance premiums | - | 68,565 | 68,565 | 84,631 |
| Intergovernmental | 373,044 | 6,392 | 379,436 | 23,327 |
| Accounts | 168,956 | - | 168,956 | 908,825 |
| Loans | 248 | - | 248 | 4,212,127 |
| Accrued interest | 4,523 | 3,991 | 8,514 | 157,602 |
| Other | 46,296 | 578 | 46,874 | 91,359 |
| Due from: | | | | |
| Primary government | - | - | - | 514,298 |
| Component units — net of allowance for doubtful accounts amounting to $145.5 million in Governmental Activities | 188,822 | 14,813 | 203,635 | 1,228,843 |
| Other governmental entities | 8,265 | - | 8,265 | 328,969 |
| Internal balances | 8,664 | (8,664) | - | - |
| Inventories | 20,869 | - | 20,869 | 461,749 |
| Prepaid expenses | 28,794 | - | 28,794 | 34,508 |
| Other assets | 15,061 | - | 15,061 | - |
| Restricted assets: | | | | |
| Cash and cash equivalents in commercial banks | 737,285 | - | 737,285 | 2,489,674 |
| Cash and cash equivalents in governmental banks | 1,797,388 | - | 1,797,388 | 479,955 |
| Investments | - | 29,830 | 29,830 | 4,458,180 |
| Other restricted assets | 19,200 | - | 19,200 | 94,782 |
| Long-term investments | - | - | - | 1,839,911 |
| Long-term receivables from: | | | | |
| Loans | - | - | - | 185,903 |
| Other | 119,588 | - | 119,588 | 13,637 |
| Long term amounts due from: | | | | |
| Primary government | - | - | - | 74,890 |
| Component units | - | 306,402 | 306,402 | 1,602,642 |
| Other governmental entities | - | - | - | 7,780 |
| Real estate held for sale or future development | 59,543 | - | 59,543 | 380,989 |
| Deferred expenses and other assets | 271,900 | 37,303 | 309,203 | 501,112 |
| Capital assets (net of accumulated depreciation): | | | | |
| Land and other nondepreciable assets | 2,204,324 | - | 2,204,324 | 9,305,638 |
| Depreciable assets | 5,329,778 | 682 | 5,330,460 | 20,615,926 |
| TOTAL ASSETS | $ 16,157,837 | $ 1,239,418 | $ 17,397,255 | $57,202,646 |

(Continued)

# COMMONWEALTH OF PUERTO RICO

## STATEMENT OF NET ASSETS (DEFICIT)
## JUNE 30, 2009
## (In thousands)

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Totals Primary Government | Component Units |
| LIABILITIES: | | | | |
| Accounts payable and accrued liabilities | $ 1,502,265 | $ 12,380 | $ 1,514,645 | $ 2,752,161 |
| Deposits and escrow liabilities | - | - | - | 8,217,992 |
| Tax refunds payable | 426,534 | - | 426,534 | - |
| Due to: | | | | |
| Primary government | - | - | - | 307,642 |
| Component units | 439,920 | - | 439,920 | 1,228,843 |
| Other governmental entities | 143,558 | - | 143,558 | 108,622 |
| Securities lending transactions and reverse repurchase agreements | - | - | - | 612,311 |
| Interest payable | 264,704 | - | 264,704 | 517,236 |
| Deferred revenue | 299,407 | 20,060 | 319,467 | 107,797 |
| Termination benefits payable | 64,095 | - | 64,095 | - |
| Tax revenue anticipation notes payable | 1,500,000 | - | 1,500,000 | - |
| Due to primary government — long term portion | - | - | - | 347,961 |
| Due to component units — long term portion | 60,799 | - | 60,799 | 1,602,642 |
| Securities lending transactions and reverse repurchase agreements — long term portion | - | - | - | 544,800 |
| Deferred revenue — long term portion | - | - | - | 5,040 |
| Insurance benefits payable | - | 98,726 | 98,726 | - |
| Liability for automobile accident insurance and workmen compensation claims | - | - | - | 353,652 |
| Liabilities payable within one year: | | | | |
| Commonwealth appropriation bonds | - | - | - | 8,275 |
| Bonds | 194,110 | - | 194,110 | 689,110 |
| Notes | 479,778 | - | 479,778 | 1,286,619 |
| Capital leases | 5,474 | - | 5,474 | - |
| Compensated absences | 794,989 | 2,391 | 797,380 | 271,454 |
| Lottery prizes | - | 67,291 | 67,291 | - |
| Other long term liabilities | 233,694 | - | 233,694 | 148,420 |
| Liabilities payable after one year: | | | | |
| Commonwealth appropriation bonds | 737,345 | - | 737,345 | 826,355 |
| Bonds | 24,827,632 | - | 24,827,632 | 21,022,614 |
| Notes | 1,513,699 | - | 1,513,699 | 3,400,390 |
| Capital leases | 234,610 | - | 234,610 | - |
| Net pension obligation | 6,754,230 | - | 6,754,230 | - |
| Net postemployment benefit obligation | 76,606 | - | 76,606 | - |
| Compensated absences | 821,936 | 2,341 | 824,277 | 362,351 |
| Lottery prizes | - | 196,300 | 196,300 | - |
| Other long term liabilities | 1,968,701 | - | 1,968,701 | 1,155,214 |
| Total liabilities | 43,344,086 | 399,489 | 43,743,575 | 45,877,501 |
| NET ASSETS (DEFICIT): | | | | |
| Invested in capital assets — net of related debt | 3,888,495 | 682 | 3,889,177 | 7,803,968 |
| Restricted for: | | | | |
| Trust — nonexpendable | - | - | - | 300,000 |
| Capital projects | 147,586 | - | 147,586 | 354,916 |
| Debt service | 799,556 | - | 799,556 | 1,851,522 |
| Payment of insurance benefits | - | 29,209 | 29,209 | - |
| Affordable housing and related loan insurance programs | 31,952 | - | 31,952 | 450,492 |
| Student loans and other educational purposes | - | - | - | 62,352 |
| Other | - | - | - | 202,383 |
| Unrestricted net assets (deficit) | (32,053,838) | 810,038 | (31,243,800) | 299,512 |
| TOTAL NET ASSETS (DEFICIT) | $ (27,186,249) | $ 839,929 | $ (26,346,320) | $11,325,145 |

See accompanying notes to basic financial statements. (Concluded)

# COMMONWEALTH OF PUERTO RICO

## STATEMENT OF ACTIVITIES
## YEAR ENDED JUNE 30, 2009
## (In thousands)

| | | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Primary Government | | | |
| | Expenses | Charges for Services | Operating Grants and Contributions | Earnings and Investments | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total | Component Units |
| PRIMARY GOVERNMENT: | | | | | | | | | |
| Functions | | | | | | | | | |
| Governmental activities: | | | | | | | | | |
| General government | $ 2,460,391 | $ 470,225 | $ 171,437 | $ - | $ - | $ (1,818,729) | $ - | $ (1,818,729) | $ - |
| Public safety | 2,247,480 | 53,090 | 57,146 | - | - | (2,137,244) | - | (2,137,244) | - |
| Health | 2,858,750 | 166,854 | 1,371,495 | - | - | (1,320,401) | - | (1,320,401) | - |
| Public housing and welfare | 3,560,871 | 7,584 | 3,021,449 | - | 110,847 | (420,991) | - | (420,991) | - |
| Education | 5,280,249 | - | 685,747 | - | - | (4,594,502) | - | (4,594,502) | - |
| Economic development | 779,449 | 60,674 | 228,582 | - | - | (490,193) | - | (490,193) | - |
| Payment of obligations of component units | 136,415 | - | - | - | - | (136,415) | - | (136,415) | - |
| Intergovernmental | 613,033 | - | 5,859 | - | - | (607,174) | - | (607,174) | - |
| Interest and other | 1,128,918 | - | - | - | - | (1,128,918) | - | (1,128,918) | - |
| Total governmental activities | 19,065,556 | 758,427 | 5,541,715 | - | 110,847 | (12,654,567) | - | (12,654,567) | - |
| Business-type activities: | | | | | | | | | |
| Unemployment Insurance | 467,788 | 225,756 | 216,247 | - | - | - | (25,785) | (25,785) | - |
| Lotteries | 723,287 | 954,991 | - | - | - | - | 231,704 | 231,704 | - |
| Other | 31,947 | 25,333 | 29,523 | - | - | - | 22,909 | 22,909 | - |
| Total business-type activities | 1,223,022 | 1,206,080 | 245,770 | - | - | - | 228,828 | 228,828 | - |
| TOTAL PRIMARY GOVERNMENT | $ 20,288,578 | $ 1,964,507 | $ 5,787,485 | $ - | $ 110,847 | $ (12,654,567) | $ 228,828 | $ (12,425,739) | $ - |

(Continued)

# COMMONWEALTH OF PUERTO RICO

## STATEMENT OF ACTIVITIES
## YEAR ENDED JUNE 30, 2009
## (In thousands)

| Functions | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Earnings and Investments | Program Revenues: Capital Grants and Contributions | Net (Expenses) Revenues and Changes in Net Assets (Deficit) — Primary Government: Governmental Activities | Primary Government: Business-type Activities | Primary Government: Total | Component Units |
|---|---|---|---|---|---|---|---|---|---|
| COMPONENT UNITS: | | | | | | | | | |
| Government Development Bank for Puerto Rico | $ 658,618 | $ 468,943 | $ 127,411 | $ - | $ - | $ - | $ - | $ - | $ (62,264) |
| Puerto Rico Highways and Transportation Authority | 1,040,353 | 265,470 | - | - | 176,436 | - | - | - | (598,447) |
| Puerto Rico Electric Power Authority | 4,191,066 | 4,002,713 | - | - | - | - | - | - | (188,353) |
| Puerto Rico Aqueduct and Sewer Authority | 953,633 | 762,921 | - | - | 22,133 | - | - | - | (168,579) |
| University of Puerto Rico | 1,488,729 | 182,033 | 138,331 | - | 17,240 | - | - | - | (1,151,125) |
| Puerto Rico Health Insurance Administration | 1,861,120 | 767,243 | - | - | - | - | - | - | (1,093,877) |
| Other component units | 3,521,906 | 1,668,455 | 295,276 | 555,108 | 63,487 | - | - | - | (939,580) |
| TOTAL COMPONENT UNITS | $13,715,425 | $8,117,778 | $ 561,018 | $555,108 | $279,296 | - | - | - | (4,202,225) |
| GENERAL REVENUES: | | | | | | | | | |
| Taxes: | | | | | | | | | |
| Income taxes | | | | | | 5,424,476 | - | 5,424,476 | - |
| Sales and use tax | | | | | | 1,089,073 | - | 1,089,073 | - |
| Excise taxes | | | | | | 1,118,283 | - | 1,118,283 | 305,947 |
| Other taxes | | | | | | 103,348 | - | 103,348 | - |
| Revenue from global tobacco settlement agreement | | | | | | 90,073 | - | 90,073 | - |
| Revenue from Puerto Rico Infrastructure Financing Authority | | | | | | 308,451 | - | 308,451 | - |
| Revenue from State Insurance Fund Corporation | | | | | | 42,438 | - | 42,438 | - |
| Revenue from Puerto Rico Tourism Company | | | | | | 25,743 | | 25,743 | - |
| Revenue from Governing Board of 9-1-1 Services | | | | | | 9,550 | | 9,550 | - |
| Grants and contributions not restricted to specific programs | | | | | | 115,176 | - | 115,176 | 176,563 |
| Payments from primary government | | | | | | - | - | - | 2,084,408 |
| Unrestricted investment earnings | | | | | | 114,699 | 20,036 | 134,735 | 179,097 |
| Other | | | | | | 96,696 | - | 96,696 | 109,191 |
| Special item — Escrow restructuring | | | | | | 175,102 | - | 175,102 | - |
| Transfers | | | | | | 251,170 | (251,170) | - | - |
| Total general revenues and transfers | | | | | | 8,964,278 | (231,134) | 8,733,144 | 2,855,206 |
| CHANGE IN NET ASSETS (DEFICIT) | | | | | | (3,690,289) | (2,306) | (3,692,595) | (1,347,019) |
| NET ASSETS (DEFICIT) — Beginning of year (as restated) | | | | | | (23,495,960) | 842,235 | (22,653,725) | 12,672,164 |
| NET ASSETS (DEFICIT) — End of year | | | | | | $ (27,186,249) | $ 839,929 | $ (26,346,320) | $11,325,145 |

See accompanying notes to basic financial statements.

(Concluded)

# COMMONWEALTH OF PUERTO RICO

## BALANCE SHEET — GOVERNMENTAL FUNDS
## JUNE 30, 2009
## (In thousands)

| ASSETS | General | Pledged Sales and Use Tax | Debt Service | COFINA Special Revenue | COFINA Debt Service | Other Governmental | Total Governmental |
|---|---|---|---|---|---|---|---|
| CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS | $ 128,164 | $ - | $ - | $ - | $ - | $ 121,088 | $ 249,252 |
| CASH AND CASH EQUIVALENTS IN GOVERNMENTAL BANKS | - | - | 185,812 | 89,019 | 16,475 | 364,384 | 655,690 |
| INVESTMENTS | - | - | - | 1,957,796 | 175,265 | 149,311 | 2,282,372 |
| RECEIVABLES: | | | | | | | |
| Taxes | 1,468,506 | 92,314 | - | - | - | - | 1,560,820 |
| Intergovernmental | 337,561 | - | 32,063 | - | - | 3,420 | 373,044 |
| Accounts | 167,628 | - | - | - | - | 1,328 | 168,956 |
| Loans | 209 | - | - | - | - | 39 | 248 |
| Accrued interest | 2,947 | - | 1,100 | 26 | - | 450 | 4,523 |
| Other | 4 | - | - | - | - | 5,763 | 5,767 |
| DUE FROM: | | | | | | | |
| Other funds | 87,878 | - | - | - | 92,314 | 202,959 | 383,151 |
| Component units | 141,597 | - | - | - | - | 47,225 | 188,822 |
| Other governmental entities | 273 | - | - | - | - | 7,992 | 8,265 |
| OTHER ASSETS | 15,061 | - | - | - | - | - | 15,061 |
| RESTRICTED ASSETS: | | | | | | | |
| Cash and cash equivalents in commercial banks | 470,022 | - | 66,621 | - | - | 200,642 | 737,285 |
| Cash and cash equivalents in governmental banks | 1,564,249 | - | 186,670 | - | - | 46,469 | 1,797,388 |
| Other restricted assets | 19,200 | - | - | - | - | - | 19,200 |
| REAL ESTATE HELD FOR SALE OR FUTURE DEVELOPMENT | 42,950 | - | - | - | - | 16,593 | 59,543 |
| TOTAL ASSETS | $ 4,446,249 | $ 92,314 | $ 472,266 | $ 2,046,841 | $ 284,054 | $ 1,167,663 | $ 8,509,387 |

(Continued)

# COMMONWEALTH OF PUERTO RICO

## BALANCE SHEET — GOVERNMENTAL FUNDS
## JUNE 30, 2009
## (In thousands)

| LIABILITIES AND FUND BALANCES (DEFICIT) | General | Pledged Sales and Use Tax | Debt Service | COFINA Special Revenue | COFINA Debt Service | Other Governmental | Total Governmental |
|---|---|---|---|---|---|---|---|
| LIABILITIES: | | | | | | | |
| Accounts payable and accrued liabilities | $ 1,377,115 | $ - | $ 11,724 | $ 20 | $ 1,890 | $ 143,392 | $ 1,534,141 |
| Tax refunds payable | 426,534 | - | - | - | - | - | 426,534 |
| Due to: | | | | | | | |
| Other funds | 282,173 | 92,314 | - | - | - | - | 374,487 |
| Other governmental entities | 140,548 | - | - | - | - | - | 140,548 |
| Component units | 377,986 | - | - | - | - | 61,934 | 439,920 |
| Notes payable | 175,464 | - | - | - | - | - | 175,464 |
| Bonds payable | - | - | 78,650 | - | - | 79,535 | 158,185 |
| Interest payable | 30,683 | - | 123,418 | - | - | 74,349 | 228,450 |
| Deferred revenue | 1,507,278 | - | - | - | - | - | 1,507,278 |
| Termination benefits payable | 64,095 | - | - | - | - | - | 64,095 |
| Tax revenue anticipation notes payable | 1,500,000 | - | - | - | - | - | 1,500,000 |
| Total liabilities | 5,881,876 | 92,314 | 213,792 | 20 | 1,890 | 359,210 | 6,549,102 |
| FUND BALANCES (DEFICIT): | | | | | | | |
| Reserved for: | | | | | | | |
| Encumbrances | 589,684 | - | - | - | - | 6,595 | 596,279 |
| Debt service fund | 378,905 | - | - | - | - | - | 378,905 |
| Capital projects | 81,952 | - | - | - | - | - | 81,952 |
| Assets in liquidation | 76,461 | - | - | - | - | - | 76,461 |
| Low income housing assistance | 5,838 | - | - | - | - | - | 5,838 |
| Other specified purposes | 114,371 | - | - | 2,046,814 | - | - | 2,161,185 |
| Unreserved (deficit): | | | | | | | |
| General fund | (2,682,838) | - | - | - | - | - | (2,682,838) |
| Debt service fund | - | - | 258,474 | - | 282,164 | 127,494 | 668,132 |
| Special revenue funds | - | - | - | 7 | - | 249,884 | 249,891 |
| Capital project funds | - | - | - | - | - | 424,480 | 424,480 |
| Total fund balances (deficit) | (1,435,627) | - | 258,474 | 2,046,821 | 282,164 | 808,453 | 1,960,285 |
| TOTAL LIABILITIES AND FUND BALANCES (DEFICIT) | $ 4,446,249 | $ 92,314 | $472,266 | $ 2,046,841 | $284,054 | $ 1,167,663 | $ 8,509,387 |

See accompanying notes to basic financial statements. (Concluded)

## COMMONWEALTH OF PUERTO RICO

### RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS (DEFICIT) — GOVERNMENTAL FUNDS
### JUNE 30, 2009
### (In thousands)

| | |
|---|---|
| TOTAL FUND BALANCE OF GOVERNMENTAL FUNDS | $ 1,960,285 |
| AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS (DEFICIT) ARE DIFFERENT THAN THE AMOUNTS REPORTED IN THE GOVERNMENTAL FUNDS BECAUSE: | |
| Accounts receivable for the global tobacco settlement agreement | 40,529 |
| Accounts receivable for sales and use tax | 7,155 |
| Note receivable from third party | 119,588 |
| Inventories and prepaid expenses that are not reported in governmental funds and are reported in the statement of net assets (deficit) | 49,663 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds | 7,534,102 |
| Deferred revenue for governmental funds that are recorded as revenue in the statement of net assets (deficit) | 1,207,871 |
| Debt issued by the Commonwealth have associated costs that are paid from current available resources in the funds. However, these costs are deferred in the statement of net assets (deficit) | 271,900 |
| Long-term liabilities are not due in the current period and therefore are not reported in the funds: | |
| Appropriation bonds | (737,345) |
| Bonds payable | (24,863,557) |
| Notes payable | (1,818,013) |
| Due to component units | (60,799) |
| Due to other governmental entities | (3,010) |
| Capital leases payable | (240,084) |
| Compensated absences | (1,585,049) |
| Net pension obligation | (6,754,230) |
| Net postemployment benefit obligation | (76,606) |
| Interest payable | (36,254) |
| Other long-term liabilities | (2,202,395) |
| TOTAL NET DEFICIT OF GOVERNMENTAL ACTIVITIES | $ (27,186,249) |

See accompanying notes to basic financial statements.

# COMMONWEALTH OF PUERTO RICO

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT)
## GOVERNMENTAL FUNDS
## YEAR ENDED JUNE 30, 2009
## (In thousands)

| | General | Pledged Sales and Use Tax | Debt Service | COFINA Special Revenue | COFINA Debt Service | Other Governmental | Total Governmental |
|---|---|---|---|---|---|---|---|
| REVENUES: | | | | | | | |
| Taxes: | | | | | | | |
| Income taxes | $ 5,191,042 | $ - | $ - | $ - | $ - | $ - | $ 5,191,042 |
| Sales and use tax | 797,194 | 284,724 | - | - | - | - | 1,081,918 |
| Excise taxes | 1,118,283 | - | - | - | - | - | 1,118,283 |
| Other taxes | 103,348 | - | - | - | - | - | 103,348 |
| Charges for services | 758,427 | - | - | - | - | - | 758,427 |
| Revenue from global tobacco settlement agreement | 93,409 | - | - | - | - | - | 93,409 |
| Revenues from component units | 386,182 | - | - | - | - | - | 386,182 |
| Intergovernmental | 5,580,153 | - | 115,176 | - | - | 72,409 | 5,767,738 |
| Interest and investment earnings | 25,928 | - | 73,753 | 1,931 | 1,565 | 11,522 | 114,699 |
| Other | 61,263 | - | - | - | - | - | 61,263 |
| Total revenues | 14,115,229 | 284,724 | 188,929 | 1,931 | 1,565 | 83,931 | 14,676,309 |
| EXPENDITURES: | | | | | | | |
| Current: | | | | | | | |
| General government | 1,363,118 | - | - | 391 | 211 | 149,189 | 1,512,909 |
| Public safety | 2,071,001 | - | - | - | - | - | 2,071,001 |
| Health | 2,761,868 | - | - | - | - | 608 | 2,762,476 |
| Public housing and welfare | 3,428,546 | - | - | - | - | - | 3,428,546 |
| Education | 5,048,612 | - | - | - | - | 4,893 | 5,053,505 |
| Economic development | 687,183 | - | - | - | - | 1,277 | 688,460 |
| Payment of obligations of component units | - | - | - | 136,415 | - | - | 136,415 |
| Intergovernmental | 425,418 | - | - | - | - | 187,615 | 613,033 |
| Capital outlay | 60,684 | - | - | - | - | 291,898 | 352,582 |
| Debt service: | | | | | | | |
| Principal | 284,925 | - | 78,650 | - | 3,477 | 115,690 | 482,742 |
| Interest | 219,135 | - | 408,362 | - | 200,901 | 209,494 | 1,037,892 |
| Other — debt issuance costs | - | - | - | - | 54,277 | 1,973 | 56,250 |
| Total expenditures | 16,350,490 | - | 487,012 | 136,806 | 258,866 | 962,637 | 18,195,811 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (2,235,261) | 284,724 | (298,083) | (134,875) | (257,301) | (878,706) | (3,519,502) |

(Continued)

# COMMONWEALTH OF PUERTO RICO

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT)
## GOVERNMENTAL FUNDS
## YEAR ENDED JUNE 30, 2009
## (In thousands)

| | General | Pledged Sales and Use Tax | Debt Service | COFINA Special Revenue | COFINA Debt Service | Other Governmental | Total Governmental |
|---|---|---|---|---|---|---|---|
| OTHER FINANCING SOURCES (USES): | | | | | | | |
| Transfers in | $ 3,455,064 | $ - | $ 607,305 | $ 5,206,778 | $ 284,724 | $ 420,497 | $ 9,974,368 |
| Transfers out | (1,033,680) | (284,724) | - | (3,192,516) | (5,206,778) | (5,500) | (9,723,198) |
| Long term debt issued | 222,198 | - | - | - | 5,336,070 | 407,657 | 5,965,925 |
| Issuance of refunding bonds | - | - | - | - | 237,875 | - | 237,875 |
| Sale of capital assets | 129,241 | - | - | - | - | 29,699 | 158,940 |
| Bond issue discount | - | - | - | - | (63,715) | - | (63,715) |
| Capital leases | 292 | - | - | - | - | - | 292 |
| Termination fee on swap agreements | - | - | - | - | (74,671) | - | (74,671) |
| Upfront fee on swap agreements | - | - | - | - | 35,980 | - | 35,980 |
| Payment for refunding of bonds | - | - | - | - | (183,000) | - | (183,000) |
| Bond proceeds — premium | - | - | - | - | 32,293 | 2,549 | 34,842 |
| Total other financing sources (uses) | 2,773,115 | (284,724) | 607,305 | 2,014,262 | 398,778 | 854,902 | 6,363,638 |
| SPECIAL ITEM — Escrow restructuring | 80,207 | - | - | 88,946 | 5,949 | - | 175,102 |
| NET CHANGE IN FUND BALANCES (DEFICIT) | 618,061 | - | 309,222 | 1,968,333 | 147,426 | (23,804) | 3,019,238 |
| FUND BALANCES (DEFICIT) — Beginning of of year — as restated | (2,053,688) | - | (50,748) | 78,488 | 134,738 | 832,257 | (1,058,953) |
| FUND BALANCES (DEFICIT) — End of year | $ (1,435,627) | $ - | $ 258,474 | $ 2,046,821 | $ 282,164 | $ 808,453 | $ 1,960,285 |

See accompanying notes to basic financial statements. (Concluded)

## COMMONWEALTH OF PUERTO RICO

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) TO THE STATEMENT OF ACTIVITIES — GOVERNMENTAL FUNDS
### YEAR ENDED JUNE 30, 2009
### (In thousands)

| | |
|---|---|
| NET CHANGE IN FUND BALANCES (DEFICIT) — Total governmental funds | $ 3,019,238 |
| AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of $352,582 exceeded depreciation expense of $(251,430) in the current period. | 101,152 |
| The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of of these differences in the treatment of long-term debt and related items. | (5,687,511) |
| Bond issuance costs are expenditures in governmental funds, but are deferred assets in the statement of net assets. | 41,159 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | 363,513 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This is the amount by which other long-term liabilities and accrued interest expense decreased. | (1,344,226) |
| The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets. | (176,101) |
| Generally, inventory and prepayments are recorded as expenditures in the governmental funds when purchased rather than capitalized as an asset. However, these assets are capitalized in the statement of net assets. | (7,513) |
| CHANGE IN NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES | $ (3,690,289) |

See accompanying notes to basic financial statements.

# COMMONWEALTH OF PUERTO RICO

## STATEMENT OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL — BUDGET BASIS — GENERAL FUND
## YEAR ENDED JUNE 30, 2009
## (In thousands)

| | Original Budget | Amended Budget | Actual |
|---|---|---|---|
| REVENUES: | | | |
| Income taxes | $ 5,628,000 | $ 4,935,000 | $ 5,188,219 |
| Excise taxes | 898,000 | 806,000 | 780,860 |
| Other taxes | 101,000 | 99,000 | 101,487 |
| Sales and use tax | 977,000 | 911,000 | 797,194 |
| Charges for services | 195,000 | 137,000 | 132,483 |
| Intergovernmental | 377,000 | 397,000 | 407,534 |
| Revenues from component units | 24,000 | 24,000 | 23,764 |
| Other | 1,140,000 | 143,000 | 151,953 |
| Total revenues | 9,340,000 | 7,452,000 | 7,583,494 |
| EXPENDITURES — Current: | | | |
| General government | 543,254 | 445,031 | 886,368 |
| Public safety | 2,167,565 | 2,167,420 | 2,278,218 |
| Health | 1,472,104 | 1,509,958 | 1,542,889 |
| Public housing and welfare | 501,760 | 518,251 | 662,904 |
| Education | 3,434,816 | 3,501,675 | 3,738,043 |
| Economic development | 337,204 | 367,086 | 435,260 |
| Intergovernmental | 383,697 | 384,538 | 383,788 |
| Total expenditures | 8,840,400 | 8,893,959 | 9,927,470 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 499,600 | (1,441,959) | (2,343,976) |
| OTHER FINANCING SOURCES (USES): | | | |
| Notes payable issued | - | - | 171,480 |
| Transfer in mostly from COFINA to cover deficit | 148,000 | 1,148,000 | 3,455,064 |
| Transfer out | (647,600) | (587,856) | (962,427) |
| Total other financing sources (uses) | (499,600) | 560,144 | 2,664,117 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES | $ - | $ (881,815) | $ 320,141 |

See accompanying notes to basic financial statements.

# COMMONWEALTH OF PUERTO RICO

## STATEMENT OF NET ASSETS (DEFICIT) — PROPRIETARY FUNDS
**June 30, 2009**
**(In thousands)**

| | Business-Type activities — Enterprise Funds | | | |
|---|---|---|---|---|
| | Unemployment Insurance | Lotteries | Other Proprietary | Total Proprietary |
| ASSETS: | | | | |
| Current assets: | | | | |
| Cash and cash equivalents in commercial banks | $480,028 | $ 148,213 | $ 127 | $ 628,368 |
| Cash and cash equivalents in governmental banks | - | - | 151,158 | 151,158 |
| Insurance premiums receivables — net | 64,286 | - | 4,279 | 68,565 |
| Intergovernmental receivable | 6,392 | - | - | 6,392 |
| Due from component units | - | - | 14,813 | 14,813 |
| Accrued interest receivable | 769 | - | 3,222 | 3,991 |
| Other receivables | - | 422 | 156 | 578 |
| Total current assets | 551,475 | 148,635 | 173,755 | 873,865 |
| Noncurrent assets: | | | | |
| Loans receivable from component units | - | - | 306,402 | 306,402 |
| Due from other funds | - | 53,208 | 26,006 | 79,214 |
| Capital assets — net | - | 682 | - | 682 |
| Restricted investments | - | - | 29,830 | 29,830 |
| Other | - | 35,817 | 1,486 | 37,303 |
| Total assets | 551,475 | 238,342 | 537,479 | 1,327,296 |
| LIABILITIES AND NET ASSETS (DEFICIT): | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | - | 9,947 | 2,433 | 12,380 |
| Due to other funds | 11,456 | 76,422 | - | 87,878 |
| Deferred revenue | 5,038 | 14,994 | 28 | 20,060 |
| Compensated absences | - | 2,043 | 348 | 2,391 |
| Lottery prizes | - | 67,291 | - | 67,291 |
| Insurance benefits payable | 97,785 | - | 941 | 98,726 |
| Total current liabilities | 114,279 | 170,697 | 3,750 | 288,726 |
| Noncurrent liabilities: | | | | |
| Lottery prizes, excluding current portion | - | 196,300 | - | 196,300 |
| Compensated absences, excluding current portion | - | 1,479 | 862 | 2,341 |
| Total liabilities | 114,279 | 368,476 | 4,612 | 487,367 |
| NET ASSETS (DEFICIT): | | | | |
| Invested in capital assets — net of related debt | - | 682 | - | 682 |
| Restricted for — payment of insurance benefits | - | - | 29,209 | 29,209 |
| Unrestricted | 437,196 | (130,816) | 503,658 | 810,038 |
| TOTAL NET ASSETS (DEFICIT) | $437,196 | $ (130,134) | $532,867 | $ 839,929 |

See accompanying notes to basic financial statements.

# COMMONWEALTH OF PUERTO RICO

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS (DEFICIT)
## PROPRIETARY FUNDS
## YEAR ENDED JUNE 30, 2009
## (In thousands)

| | Business-Type activities — Enterprise Funds | | | |
|---|---|---|---|---|
| | Unemployment Insurance | Lotteries | Other Proprietary | Total Proprietary |
| OPERATING REVENUES: | | | | |
| Insurance premiums | $225,756 | $ - | $ 18,570 | $ 244,326 |
| Lottery ticket sales | - | 954,939 | - | 954,939 |
| Interest | - | - | 6,763 | 6,763 |
| Other | - | 52 | - | 52 |
| Total operating revenues | 225,756 | 954,991 | 25,333 | 1,206,080 |
| OPERATING EXPENSES: | | | | |
| Insurance benefits | 467,788 | - | 4,089 | 471,877 |
| Lottery awards | - | 594,440 | - | 594,440 |
| General, administrative, and other operating expenses | - | 128,847 | 27,858 | 156,705 |
| Total operating expenses | 467,788 | 723,287 | 31,947 | 1,223,022 |
| OPERATING INCOME (LOSS) | (242,032) | 231,704 | (6,614) | (16,942) |
| NONOPERATING REVENUES: | | | | |
| Contributions from U.S. government | 216,247 | - | 29,523 | 245,770 |
| Interest and investment earnings (losses) | 23,813 | 448 | (4,225) | 20,036 |
| Total nonoperating revenues | 240,060 | 448 | 25,298 | 265,806 |
| INCOME (LOSS) BEFORE TRANSFERS | (1,972) | 232,152 | 18,684 | 248,864 |
| TRANSFERS FROM OTHER FUNDS | - | - | 5,878 | 5,878 |
| TRANSFERS TO OTHER FUNDS | (47,906) | (209,142) | - | (257,048) |
| NET CHANGE IN NET ASSETS (DEFICIT) | (49,878) | 23,010 | 24,562 | (2,306) |
| NET ASSETS (DEFICIT) — Beginning of year — as restated | 487,074 | (153,144) | 508,305 | 842,235 |
| NET ASSETS (DEFICIT) — End of year | $437,196 | $ (130,134) | $532,867 | $ 839,929 |

See accompanying notes to basic financial statements.

# COMMONWEALTH OF PUERTO RICO

## STATEMENT OF CASH FLOWS — PROPRIETARY FUNDS
## YEAR ENDED JUNE 30, 2009
## (In thousands)

| | Business-Type Activities — Enterprise Funds | | | |
|---|---|---|---|---|
| | Unemployment Insurance | Lotteries | Other Proprietary | Total Proprietary |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Receipts from customers and users | $ 215,083 | $ 960,660 | $ 19,493 | $1,195,236 |
| Other receipts | - | 320 | - | 320 |
| Payments to suppliers | - | (97,292) | (14,173) | (111,465) |
| Payments to employees | - | - | (13,647) | (13,647) |
| Payments of lottery prizes | - | (613,053) | - | (613,053) |
| Payments of insurance benefits | (483,394) | - | (4,332) | (487,726) |
| Other payments | - | (922) | (683) | (1,605) |
| Net cash provided by (used in) operating activities | (268,311) | 249,713 | (13,342) | (31,940) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | | |
| Intergovernmental grants and contributions | 209,855 | - | 29,523 | 239,378 |
| Transfers from other funds | - | - | 5,878 | 5,878 |
| Transfers to other funds | (47,906) | (196,270) | - | (244,176) |
| Net cash provided by (used in) noncapital financing activities | 161,949 | (196,270) | 35,401 | 1,080 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES — | | | | |
| Capital expenditures | - | (16) | - | (16) |
| Net cash used in capital and related financing activities | - | (16) | - | (16) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Interest received on deposits and investments | 23,813 | 448 | 7,854 | 32,115 |
| Loans originated | - | - | (65,764) | (65,764) |
| Principal collected on loans | - | - | 11,942 | 11,942 |
| Proceeds from sales and maturities of investments | - | - | 24,795 | 24,795 |
| Purchase of investments | - | - | (25,482) | (25,482) |
| Net cash provided by (used in) investing activities | 23,813 | 448 | (46,655) | (22,394) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (82,549) | 53,875 | (24,596) | (53,270) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR, As restated | 562,577 | 94,338 | 175,881 | 832,796 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 480,028 | $ 148,213 | $151,285 | $ 779,526 |

(Continued)

# COMMONWEALTH OF PUERTO RICO

## STATEMENT OF CASH FLOWS — PROPRIETARY FUNDS
## YEAR ENDED JUNE 30, 2009
## (In thousands)

| | Business-Type Activities — Enterprise Funds | | | |
|---|---|---|---|---|
| | Unemployment Insurance | Lotteries | Other Proprietary | Total Proprietary |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES: | | | | |
| Operating income (loss) | $ (242,032) | $ 231,704 | $ (6,614) | $ (16,942) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Interests earned on deposits loans and investments | - | - | (6,763) | (6,763) |
| Changes in operating assets and liabilities: | | | | |
| Decrease (increase) in accounts and loans receivable | (4,840) | 7,515 | 923 | 3,598 |
| Decrease in due to other funds | (2,176) | - | - | (2,176) |
| Increase in due to (from) other funds | - | 30,665 | - | 30,665 |
| Decrease in obligation for unpaid lottery awards | - | (19,280) | - | (19,280) |
| Increase (decrease) in deferred revenues | (3,657) | (1,795) | 9 | (5,443) |
| Decrease in compensated absences | - | - | (946) | (946) |
| Decrease in liability for insurance benefits payable | (15,606) | - | (243) | (15,849) |
| Increase in accounts payable and accrued liabilities | - | 583 | 292 | 875 |
| Decrease in other assets | - | 321 | - | 321 |
| Total adjustments | (26,279) | 18,009 | (6,728) | (14,998) |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | $ (268,311) | $ 249,713 | $ (13,342) | $ (31,940) |

See accompanying notes to basic financial statements. (Concluded)

## COMMONWEALTH OF PUERTO RICO

**STATEMENT OF FIDUCIARY NET ASSETS — FIDUCIARY FUNDS**
**JUNE 30, 2009**
**(In thousands)**

| | Pension Trust | Special Deposits-Agency |
|---|---|---|
| ASSETS: | | |
| Cash and cash equivalents in commercial banks and U.S. Treasury — unrestricted | $ 390,208 | $ 662,714 |
| Cash and cash equivalents in governmental banks: | | |
| Unrestricted | 85,579 | 1,135,401 |
| Restricted | 1,028,878 | - |
| Investments: | | |
| Debt and equity securities — at fair value | 3,795,830 | - |
| Other | 61,061 | 5,936 |
| Receivables — net: | | |
| Accounts | 312,658 | - |
| Loans and advances | 1,497,354 | - |
| Accrued interests and dividends | 12,599 | - |
| Other | 58,440 | - |
| Capital assets — net | 35,338 | - |
| Other assets | 44,130 | - |
| Total assets | 7,322,075 | 1,804,051 |
| LIABILITIES: | | |
| Accounts payable and accrued liabilities | 104,664 | 1,804,051 |
| Securities lending transactions | 151,760 | - |
| Other liabilities | 53,990 | - |
| Bonds payable | 2,961,359 | - |
| Total liabilities | 3,271,773 | 1,804,051 |
| NET ASSETS — held in trust for pension and other benefits | $4,050,302 | $ - |

See accompanying notes to basic financial statements.

## COMMONWEALTH OF PUERTO RICO

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS — PENSION TRUST FUNDS**
**YEAR ENDED JUNE 30, 2009**
**(In thousands)**

| | |
|---|---|
| ADDITIONS: | |
| Contributions: | |
| Sponsor | $ 535,540 |
| Participants | 501,483 |
| Special | 287,784 |
| Total contributions | 1,324,807 |
| Interest income and investment loss: | |
| Interest | 266,974 |
| Dividends | 29,186 |
| Net change in fair value of investments | (1,094,154) |
| Investment expenses | (12,419) |
| Net interest income and investment loss | (810,413) |
| Other income | 38,372 |
| Total additions | 552,766 |
| DEDUCTIONS: | |
| Pension and other benefits | 1,656,019 |
| Refunds of contributions | 39,843 |
| General and administrative | 268,345 |
| Total deductions | 1,964,207 |
| NET CHANGE IN NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS | (1,411,441) |
| NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS: | |
| Beginning of year | 5,461,743 |
| End of year | $ 4,050,302 |

See accompanying notes to basic financial statements.

# COMMONWEALTH OF PUERTO RICO

## COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
## JUNE 30, 2009
## (In thousands)

| | Major Component Units | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Government Development Bank for Puerto Rico | Puerto Rico Highways and Transportation Authority | Puerto Rico Electric Power Authority | Puerto Rico Aqueduct and Sewer Authority | University of Puerto Rico | Puerto Rico Health Insurance Administration | Major Component Units Totals | Nonmajor Component Units Totals | All Component Units Totals |
| **ASSETS** | | | | | | | | | |
| CURRENT ASSETS: | | | | | | | | | |
| Cash and cash equivalents in commercial banks | $ 2,455,106 | $ 15,529 | $ 75,259 | $ 2,183 | $ 3,055 | $ 74,524 | $ 2,625,656 | $ 351,652 | $ 2,977,308 |
| Cash and cash equivalents in governmental banks | - | 15,189 | 935 | - | - | 6,883 | 23,007 | 524,904 | 547,911 |
| Investments | 2,580,994 | - | - | - | 111,232 | - | 2,692,226 | 887,944 | 3,580,170 |
| Receivables — net: | | | | | | | | | |
| Insurance premium | - | - | - | - | - | - | - | 84,631 | 84,631 |
| Intergovernmental | - | - | - | 3,170 | - | 13,888 | 17,058 | 6,269 | 23,327 |
| Accounts | - | 22,834 | 583,463 | 118,209 | 12,493 | 21,223 | 758,222 | 150,603 | 908,825 |
| Loans | 4,137,340 | - | - | - | - | - | 4,137,340 | 74,787 | 4,212,127 |
| Accrued interest | 137,872 | - | 2,785 | - | - | - | 140,657 | 16,945 | 157,602 |
| Other governmental entities | - | - | 193,566 | 37,968 | 16,043 | - | 247,577 | 81,392 | 328,969 |
| Other | - | - | 37,045 | - | 12,972 | - | 50,017 | 41,342 | 91,359 |
| Due from: | | | | | | | | | |
| Primary government | 52,659 | - | 176,941 | 34,642 | 77,394 | 71,166 | 412,802 | 101,496 | 514,298 |
| Component units | 974,099 | - | 133,057 | 24,637 | 29,121 | - | 1,160,914 | 67,929 | 1,228,843 |
| Inventories | - | - | 410,346 | 22,431 | 4,698 | - | 437,475 | 24,274 | 461,749 |
| Prepaid expenses | - | 1,993 | 2,177 | 5,800 | 1,532 | 38 | 11,540 | 22,968 | 34,508 |
| Total current assets | 10,338,070 | 55,545 | 1,615,574 | 249,040 | 268,540 | 187,722 | 12,714,491 | 2,437,136 | 15,151,627 |

(Continued)

# COMMONWEALTH OF PUERTO RICO

## COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
## JUNE 30, 2009
## (In thousands)

| | Major Component Units | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Government Development Bank for Puerto Rico | Puerto Rico Highways and Transportation Authority | Puerto Rico Electric Power Authority | Puerto Rico Aqueduct and Sewer Authority | University of Puerto Rico | Puerto Rico Health Insurance Administration | Major Component Units Totals | Nonmajor Component Units Totals | All Component Units Totals |
| **ASSETS (Cont'd)** | | | | | | | | | |
| NONCURRENT ASSETS: | | | | | | | | | |
| Restricted assets: | | | | | | | | | |
| Cash and cash equivalents in commercial banks | $ 47,603 | $ 1,808 | $ 321,662 | $ 140,308 | $ 22,686 | $ 2,327 | $ 536,394 | $ 1,953,280 | $ 2,489,674 |
| Cash and cash equivalents in governmental banks | - | 40,157 | 112 | 42,049 | - | - | 82,318 | 397,637 | 479,955 |
| Investments | 1,792,596 | 786,113 | 336,119 | - | 155,316 | - | 3,070,144 | 1,388,036 | 4,458,180 |
| Other restricted assets | 22,552 | - | - | - | - | - | 22,552 | 72,230 | 94,782 |
| Investments | - | - | - | - | - | - | - | 1,839,911 | 1,839,911 |
| Receivables: | | | | | | | | | |
| Loans, interest, and other | - | - | - | - | 2,748 | - | 2,748 | 183,155 | 185,903 |
| Other governmental entities | - | - | - | - | - | - | - | 7,780 | 7,780 |
| Other | - | - | - | - | 3,854 | - | 3,854 | 9,783 | 13,637 |
| Due from: | | | | | | | | | |
| Primary government | - | - | - | - | 74,890 | - | 74,890 | - | 74,890 |
| Component units | 1,594,010 | - | - | - | - | - | 1,594,010 | 8,632 | 1,602,642 |
| Real estate held for sale or future development | 203,396 | - | - | - | - | - | 203,396 | 177,593 | 380,989 |
| Capital assets, not being depreciated | 2,845 | 2,747,666 | 1,790,773 | 1,652,301 | 220,957 | - | 6,414,542 | 2,891,096 | 9,305,638 |
| Capital assets, depreciable — net | 14,607 | 8,555,909 | 4,619,400 | 4,340,446 | 683,729 | 209 | 18,214,300 | 2,401,626 | 20,615,926 |
| Deferred expenses and other assets | 23,476 | 124,047 | 97,965 | 59,544 | 57,039 | - | 362,071 | 139,041 | 501,112 |
| Total noncurrent assets | 3,701,085 | 12,255,700 | 7,166,031 | 6,234,648 | 1,221,219 | 2,536 | 30,581,219 | 11,469,800 | 42,051,019 |
| TOTAL | $14,039,155 | $12,311,245 | $8,781,605 | $6,483,688 | $1,489,759 | $190,258 | $43,295,710 | $13,906,936 | $57,202,646 |

(Continued)

# COMMONWEALTH OF PUERTO RICO

## COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
## JUNE 30, 2009
## (In thousands)

| | Major Component Units | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Government Development Bank for Puerto Rico | Puerto Rico Highways and Transportation Authority | Puerto Rico Electric Power Authority | Puerto Rico Aqueduct and Sewer Authority | University of Puerto Rico | Puerto Rico Health Insurance Administration | Major Component Units Totals | Nonmajor Component Units Totals | All Component Units Totals |
| **LIABILITIES AND NET ASSETS (DEFICIT)** | | | | | | | | | |
| LIABILITIES: | | | | | | | | | |
| Current liabilities: | | | | | | | | | |
| Accounts payable and accrued liabilities | $ 57,832 | $ 217,879 | $ 737,728 | $ 396,649 | $ 105,671 | $353,149 | $ 1,868,908 | $ 883,253 | $ 2,752,161 |
| Deposits and escrow liabilities | 7,554,807 | - | 169,992 | 5,719 | 38 | - | 7,730,556 | 487,436 | 8,217,992 |
| Due to: | | | | | | | | | |
| Primary government | - | - | - | 14,813 | - | 13,889 | 28,702 | 278,940 | 307,642 |
| Component units | - | - | 176,929 | 308,634 | 15,335 | - | 500,898 | 727,945 | 1,228,843 |
| Other governmental entities | - | - | - | - | - | - | - | 108,622 | 108,622 |
| Securities lending transactions and reverse repurchase agreements | 419,053 | - | - | - | - | - | 419,053 | 193,258 | 612,311 |
| Interest payable | 25,188 | 156,982 | 148,910 | 60,293 | 2,052 | - | 393,425 | 123,811 | 517,236 |
| Deferred revenue | - | - | - | 18,615 | 71 | - | 18,686 | 89,111 | 107,797 |
| Notes payable, current portion | 72,660 | - | 989,270 | 2,748 | - | - | 1,064,678 | 221,941 | 1,286,619 |
| Commonwealth appropriation bonds, current portion | - | - | - | 8,275 | - | - | 8,275 | - | 8,275 |
| Bonds payable, current portion | 64,019 | 104,090 | 346,079 | 2,780 | 22,445 | - | 539,413 | 149,697 | 689,110 |
| Accrued compensated absences, current portion | - | 16,574 | 83,123 | 15,865 | 31,327 | 369 | 147,258 | 124,196 | 271,454 |
| Liability for automobile accident insurance and workmen compensation claims | - | - | - | - | - | - | - | 353,652 | 353,652 |
| Current portion of other long-term liabilities | 1,748 | - | 91,808 | - | 33,067 | - | 126,623 | 21,797 | 148,420 |
| Total current liabilities | 8,195,307 | 495,525 | 2,743,839 | 834,391 | 210,006 | 367,407 | 12,846,475 | 3,763,659 | 16,610,134 |

(Continued)

# COMMONWEALTH OF PUERTO RICO

## COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
## JUNE 30, 2009
## (In thousands)

| | Major Component Units | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Government Development Bank for Puerto Rico | Puerto Rico Highways and Transportation Authority | Puerto Rico Electric Power Authority | Puerto Rico Aqueduct and Sewer Authority | University of Puerto Rico | Puerto Rico Health Insurance Administration | Major Component Units Totals | Nonmajor Component Units Totals | All Component Units Totals |
| **LIABILITIES AND NET ASSETS (DEFICIT) (Cont'd)** | | | | | | | | | |
| LIABILITIES: | | | | | | | | | |
| Noncurrent liabilities: | | | | | | | | | |
| Due to: | | | | | | | | | |
| Primary government | $ - | $ - | $ - | $ 306,402 | $ - | $ - | $ 306,402 | $ 41,559 | $ 347,961 |
| Component units | - | 351,313 | - | 207,195 | 71,080 | - | 629,588 | 973,054 | 1,602,642 |
| Securities lending transactions and reverse repurchase agreements | 440,000 | - | - | - | - | - | 440,000 | 104,800 | 544,800 |
| Deferred revenue | - | - | - | - | - | - | - | 5,040 | 5,040 |
| Notes payable | 2,026,065 | - | 65,521 | 244,688 | - | - | 2,336,274 | 1,064,116 | 3,400,390 |
| Commonwealth appropriation bonds | 4,812 | - | - | 668,519 | - | - | 673,331 | 153,024 | 826,355 |
| Bonds payable | 895,114 | 6,929,341 | 5,662,306 | 1,887,454 | 675,594 | - | 16,049,809 | 4,972,805 | 21,022,614 |
| Accrued compensated absences | - | 16,261 | 136,544 | 47,375 | 138,404 | 245 | 338,829 | 23,522 | 362,351 |
| Other long-term liabilites | 27,175 | 62,404 | 134,176 | 71,836 | 88,471 | - | 384,062 | 771,152 | 1,155,214 |
| Total noncurrent liabilities | 3,393,166 | 7,359,319 | 5,998,547 | 3,433,469 | 973,549 | 245 | 21,158,295 | 8,109,072 | 29,267,367 |
| Total liabilities | 11,588,473 | 7,854,844 | 8,742,386 | 4,267,860 | 1,183,555 | 367,652 | 34,004,770 | 11,872,731 | 45,877,501 |
| NET ASSETS (DEFICIT): | | | | | | | | | |
| Invested in capital assets — net of related debt | 17,452 | 3,842,733 | 19,433 | 2,963,993 | 300,279 | 209 | 7,144,099 | 659,869 | 7,803,968 |
| Restricted for: | | | | | | | | | |
| Trust — nonexpendable | - | - | - | - | - | - | - | 300,000 | 300,000 |
| Capital projects | - | 41,763 | 233,208 | - | 11,061 | - | 286,032 | 68,884 | 354,916 |
| Debt service | 29,080 | 595,340 | - | - | 51,869 | - | 676,289 | 1,175,233 | 1,851,522 |
| Affordable housing and related loan insurance programs | 236,345 | - | - | - | - | - | 236,345 | 214,147 | 450,492 |
| Student loans and other educational purposes | - | - | - | - | 60,026 | - | 60,026 | 2,326 | 62,352 |
| Other specified purposes | - | - | - | 14,481 | 5,268 | - | 19,749 | 182,634 | 202,383 |
| Unrestricted | 2,167,805 | (23,435) | (213,422) | (762,646) | (122,299) | (177,603) | 868,400 | (568,888) | 299,512 |
| Total net assets (deficit) | 2,450,682 | 4,456,401 | 39,219 | 2,215,828 | 306,204 | (177,394) | 9,290,940 | 2,034,205 | 11,325,145 |
| TOTAL | $14,039,155 | $12,311,245 | $8,781,605 | $6,483,688 | $1,489,759 | $190,258 | $43,295,710 | $13,906,936 | $57,202,646 |

See acompanying notes to basic financial statements. (Concluded)

## COMMONWEALTH OF PUERTO RICO

### COMBINING STATEMENT OF ACTIVITIES — MAJOR COMPONENT UNITS
### YEAR ENDED JUNE 30, 2009
### (In thousands)

| | | Program Revenues | | | | | General Revenues and Transfers | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Earnings on Investments | Capital Grants and Contributions | Net Revenues (Expenses) and Changes in Net Assets (Deficit) | Payments From Primary Government | Payments From (To) Other Component Units | Grants and Contributions not Restricted to Specific Programs | Excise Taxes | Interest and Investment Earnings | Other | Change in Net Assets (Deficit) | Net Assets (Deficit), Beginning of Year (As Restated) | Net Assets (Deficit), End of Year |
| Major component units: | | | | | | | | | | | | | | | |
| Government Development Bank for Puerto Rico | $ 658,618 | $ 468,943 | $127,411 | $ - | $ - | $ (62,264) | $ - | $ 154,222 | $ - | $ - | $ - | $ - | $ 91,958 | $ 2,358,724 | $ 2,450,682 |
| Puerto Rico Highways and Transportation Authority | 1,040,353 | 265,470 | - | - | 176,436 | (598,447) | - | - | - | 289,594 | 38,586 | - | (270,267) | 4,726,668 | 4,456,401 |
| Puerto Rico Electric Power Authority | 4,191,066 | 4,002,713 | - | - | - | (188,353) | 776 | - | 14,788 | - | 25,326 | - | (147,463) | 186,682 | 39,219 |
| Puerto Rico Aqueduct and Sewer Authority | 953,633 | 762,921 | - | - | 22,133 | (168,579) | 18,233 | - | - | - | 5,202 | 5,104 | (140,040) | 2,355,868 | 2,215,828 |
| University of Puerto Rico | 1,488,729 | 182,033 | 138,331 | - | 17,240 | (1,151,125) | 856,013 | 71,321 | 137,527 | - | 2,429 | 27,416 | (56,419) | 362,623 | 306,204 |
| Puerto Rico Health Insurance Administration | 1,861,120 | 767,243 | - | - | - | (1,093,877) | 1,004,873 | - | - | - | 6,715 | - | (82,289) | (95,105) | (177,394) |
| Nonmajor component units | 3,521,906 | 1,668,455 | 295,276 | 555,108 | 63,487 | (939,580) | 204,513 | (225,543) | 24,248 | 16,353 | 100,839 | 76,671 | (742,499) | 2,776,704 | 2,034,205 |
| | $13,715,425 | $8,117,778 | $561,018 | $555,108 | $ 279,296 | $(4,202,225) | $ 2,084,408 | $ - | $176,563 | $ 305,947 | $ 179,097 | $109,191 | $(1,347,019) | $12,672,164 | $11,325,145 |

See accompanying notes to basic financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Commonwealth of Puerto Rico (the Commonwealth) was constituted on July 25, 1952, under the provisions of its Constitution as approved by the people of Puerto Rico and the U.S. Congress. The Commonwealth's Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government. The Commonwealth assumes responsibility for general government, public safety, health, public housing and welfare, education, and economic development.

The accompanying basic financial statements of the Commonwealth have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying basic financial statements present the financial position of the Commonwealth and its various funds, the results of operations of the Commonwealth and its various funds and fund types, and the cash flows of the proprietary funds. The basic financial statements are presented as of June 30, 2009 and for the year then ended. The basic financial statements include the various departments, agencies, boards, commissions, public trusts and public corporations, and any other organizational units governed by the Puerto Rico Legislature and/or officers of the Commonwealth.

### (a) The Financial Reporting Entity

The accompanying basic financial statements include all departments, agencies, and governmental entities whose funds are under the custody and control of the Secretary of the Treasury of the Commonwealth and the Commonwealth's component units pursuant to Act No. 230 of July 23, 1974, as amended, known as Commonwealth of Puerto Rico Accounting Law. The Commonwealth has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth's basic financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include: (i) appointing a voting majority of an organization's governing body and the ability of the Commonwealth to impose its will on that organization or (ii) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth.

As required by U.S. GAAP, these basic financial statements present the Commonwealth and its component units.

### (b) Component Units

Component units are entities that are legally separate organizations for which the Commonwealth's elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth's basic financial statements to be misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Commonwealth's balances and

transactions; or discrete presentation of the component units' financial data in columns separate from the Commonwealth's balances and transactions. The Commonwealth is financially accountable because it appoints the members of the governing authorities of each of the component units and because it is able to impose its will on these organizations or because the organizations provide specific financial benefits or impose specific financial burdens on, the Commonwealth. The financial statements of the component units discussed below have been included in the financial reporting entity either as blended component units or as discretely presented component units in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organization are Component Units*.

**Blended Component Units**

The following entities, while legally separate from the Commonwealth, meet the criteria to be reported as part of the primary government because they provide services entirely or almost entirely to the Commonwealth.

*Public Buildings Authority (PBA)* — PBA is governed by a seven member board comprised by the Secretary of the Department of Transportation and Public Works (DTPW), the Secretary of the Department of Education of the Commonwealth, the President of the Government Development Bank for Puerto Rico (GDB), and four members appointed by the Governor of Puerto Rico with the advice and consent of the Senate. It is a legally separate entity, whose activities are blended within the primary government because it exists to construct, purchase, or lease office, school, health, correctional, social welfare, and other facilities for lease to the Commonwealth's departments, component units, and instrumentalities. Bonds issued by PBA to finance such facilities are payable from lease collections, which are largely derived from Commonwealth appropriations and are further secured by the Commonwealth's guaranty.

*Puerto Rico Sales Tax Financing Corporation (Known as COFINA by its Spanish Acronym)* — was created under Act No. 91 of the Legislative Assembly of the Commonwealth, approved on May 13, 2006, as amended by Act No. 291, approved on December 26, 2006, Act No. 56, approved on July 6, 2007, Act No. 1, approved on January 14, 2009, Act No. 7, approved on March 9, 2009 ("Act 7"), and Act No. 18, approved on May 22, 2009 (collectively, "Act 91"). COFINA was originally created for the purpose of financing the payment, retirement or defeasance of certain debt obligations of the Commonwealth outstanding as of June 30, 2006 (the "2006 Appropriation Debt"). The members of the board of directors of COFINA are the same as the ones of GDB.

During 2009, the Legislative Assembly of the Commonwealth expanded the purposes of COFINA and increased COFINA's dedicated revenues from 1% to 2.75% (out of total sales tax of 5.5%) the portion of the Commonwealth sales tax transferred to COFINA. COFINA is now authorized to pay or finance, in whole or in part, or fund, in addition to the 2006 Appropriation Debt: (i) the debt of the Secretary of the Treasury of the Commonwealth with GDB in the amount of $1 billion, a portion of the proceeds of which were used to cover the budgetary deficit of the Commonwealth for fiscal year 2009, (ii) certain financing granted to the Secretary of the Treasury by GDB payable from future Commonwealth general obligation bonds, and any debt of the Commonwealth outstanding as of December 31, 2008 that did not have a source of repayment or was payable from budgetary appropriations (iii) a portion of the accounts payable to suppliers of the Commonwealth, (iv) operational expenses of the Commonwealth for fiscal years 2009, 2010, and 2011, (v) operational expenses of the Commonwealth for fiscal year 2012, to the extent included in the annual budget of the Commonwealth, (vi) the Puerto Rico Economic Stimulus Fund, (vii) the

Commonwealth Emergency Fund in order to cover expenses resulting from catastrophic events such as hurricanes or floods, and (viii) the Economic Cooperation and Public Employees Alternatives Fund (all such uses, together with the 2006 Appropriation Debt, the "Authorized Uses").

*Puerto Rico Maritime Shipping Authority (PRMSA)* — PRMSA is governed by the President of GDB. The operations of PRMSA consist of servicing the long term liability to third parties that resulted from the sale of certain maritime operations formerly owned and operated by PRMSA. The Commonwealth is required to annually appropriate funds in its general operating budget to provide for the payment of principal and interest on such debt [see note 15 (d)].

*The Children's Trust (the Trust)* — The Trust is governed by a seven member board comprised by the Governor, who designates the president of the board, the President of GDB, the Director of the Office of Management and Budget (OMB) of the Commonwealth, the Secretary of Justice of the Commonwealth, and three private citizens appointed by the Governor with the advice and consent of the Senate. The Trust's sole operation consists of providing financial assistance principally to the Commonwealth's departments to carry out projects aimed at promoting the well being of families, children and youth of Puerto Rico, especially in the areas of education, recreation, and health. The operation of the Trust is financed with the moneys being received by the Commonwealth from a global settlement agreement (GSA) dated November 23, 1998 between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The GSA calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. After 2025, the tobacco companies shall continue making contributions in perpetuity.

The blended component units are composed of various funds. COFINA debt service fund and COFINA special revenue fund are presented as major governmental funds. All other funds are reported in the other governmental funds column. Complete financial statements of the blended component units can be obtained directly by contacting their respective administrative offices at:

Public Buildings Authority
P.O. Box 41029–Minillas Station
San Juan, PR 00940-1029

Puerto Rico Maritime
Shipping Authority
P.O. Box 42001
San Juan, PR 00940-2001

The Children's Trust
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Sales Tax Financing
Corporation
P.O. Box 42001
San Juan PR 00940-2001

**Discretely Presented Component Units**

The following component units, consistent with GASB No. 14, as amended by GASB No. 39, are discretely presented in the basic financial statements because of the nature of the services they provide, the Commonwealth's ability to impose its will, principally through the appointment of their governing authorities, and because the component units provide specific financial benefits to, or impose financial burdens on, the Commonwealth. These have been classified by management between major and nonmajor component units. A major discretely presented component unit is defined by management as a component unit that meets ten percent or more of total assets, liabilities, net assets, revenue or expenses of all discretely presented component units. If a component unit is expected to meet the minimum criteria for inclusion as major component unit in a future year, the Commonwealth may elect to report as a major component unit.

**Major Component Units**

*Government Development Bank for Puerto Rico (GDB)* — GDB is governed by a seven member board appointed by the Governor. GDB acts as fiscal agent, depository of funds, disbursing agent, investor and financial advisor for the Commonwealth, its public corporations, and municipalities in connection with the issuance of bonds and notes; and it also makes loans and advances funds predominantly to the Commonwealth's departments, component units, and municipalities. GDB's boards of directors' members are executives on a trustworthy position, named and supervised by the Governor.

*Puerto Rico Aqueduct and Sewer Authority (PRASA)* — PRASA is governed by a nine member board comprising five members appointed by the Governor and confirmed by the Senate of Puerto Rico; the Executive President of PREPA, the President of the Puerto Rico Planning Board, the Executive Director of Mayors' Federation, and the Executive Director of Mayors' Association. PRASA owns and operates the system of public water supply and sanitary sewer facilities. PRASA is authorized, among other things, to borrow money and issue revenue bonds for any of its corporate purposes. As discussed in note 16(a), the Commonwealth guarantees the principal and interest payments of certain outstanding bonds and of all future bonds issued to refinance those outstanding bonds at the date of refinancing. Act No. 45 of July 28, 1994 was later amended to include other loans under the State Revolving Fund Program (SRFP). The Commonwealth provides financial support to PRASA through legislative appropriations.

*Puerto Rico Electric Power Authority (PREPA)* — PREPA is governed by a nine member board comprising the Secretary of DTPW, and six members appointed by the Governor with the advice and consent of the Senate, and two members representing the consumers' interest elected in a referendum carried out by the Puerto Rico Consumer Affairs Department. Board members are appointed or elected for a period of four years. PREPA is responsible for conserving, developing, and utilizing the power resources in order to promote the general welfare of Puerto Rico and owns and operates the Commonwealth's electrical power generation, transmission, and distribution system. The Commonwealth provides financial support to PREPA through legislative appropriations.

*Puerto Rico Health Insurance Administration (PRHIA)* — PRHIA is governed by a Board of Directors, which, by law, is composed of nine (9) members (four compulsory members and five discretionary members). The compulsory members are the Secretary of Health of the Commonwealth, the Secretary of the Treasury of the Commonwealth, the Insurance Commissioner of Puerto Rico, and the Administrator of the Mental Health and Anti–Addiction Services Administration. The five discretionary members are appointed by the Governor, with the advice and consent of the Senate. PRHIA was created for implementing, administering, and negotiating a health insurance system through contracts with insurance underwriters to provide quality medical and hospital care to low income individuals, employees of the Commonwealth, and policemen who voluntarily subscribe to the Puerto Rico health insurance medical plan. The board of directors' president is designated by the Governor and all board of directors' members are executives on a trustworthy position. The Commonwealth provides financial support to PRHIA through legislative appropriations.

*Puerto Rico Highways and Transportation Authority (PRHTA)* — PRHTA is governed by the Secretary of DTPW. PRHTA has broad powers to carry out its responsibilities in accordance with DTPW's overall transportation policies. These powers include, among other things, the complete control and supervision of any highway facilities constructed, owned, or operated by PRHTA, the ability to set tolls for the use of the highway facilities, and the power to issue bonds, notes, or other

obligations. PRHTA plans and manages the construction of all major projects relating to the Commonwealth's toll highway system, undertakes major repairs, and maintains the toll ways. The Commonwealth has the ability to significantly influence the toll rates charged by PRHTA.

*University of Puerto Rico (UPR)* — UPR is governed by a thirteen member board of trustees comprising one full time student, two permanent professors, and ten community citizens of the private sector, of which at least one must be graduated from the institution. Community citizens are designated by the Governor with the advice and consent of the Senate. Members designated by the Governor are appointed for a period of four to eight years. The terms for the student and professors are one year. The Commonwealth provides financial support to UPR through legislative appropriations.

**Non-major Component Units**

*Agricultural Services and Development Administration (ASDA)* — ASDA is governed by the Secretary of Agriculture of the Commonwealth. The purpose of ASDA is to provide a wide variety of services and incentives to the agricultural sector. The Commonwealth has the ability to impose its will on ASDA. The Commonwealth provides financial support to ASDA through legislative appropriations.

*Automobile Accidents Compensation Administration (AACA)* — AACA is governed by a Cabinet Member, and a four member board appointed by the Governor with the advice and consent of the Senate. AACA operates a system of compulsory insurance coverage for all registered motor vehicles and compensates citizens for injuries arising from motor vehicle accidents. The Commonwealth has the ability to significantly influence rates charged by AACA.

*Cardiovascular Center Corporation of Puerto Rico and the Caribbean (CCCPRC)* — CCCPRC is governed by a seven member board comprising of the Secretary of Health of the Commonwealth, the Director of the Medical Sciences Campus of the UPR, the Executive Director of the Puerto Rico Medical Services Administration, and four additional members appointed by the Governor with the consent of the Senate, one of which should be from the Cardiology Society of Puerto Rico and another a member of a cardiology foundation properly registered in the Department of State of the Commonwealth. The purpose of the CCCPRC is to provide special treatment to patients suffering from cardiovascular diseases. The Commonwealth provides financial support to CCCPRC through legislative appropriations.

*Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico (CDASFIPR)* — CDASFIPR was created for the development of the arts and the film industry in Puerto Rico and is governed by a seven-member board comprising of the Secretary of Economic Development and Commerce, who is the president, the President of the board of Directors of the Puerto Rico Public Broadcasting Corporation, the Secretary of Treasury, the Executive Director of the Puerto Rico Institute of Culture, the Executive Director of the Puerto Rico Tourism Company and two additional members appointed by the Governor with the consent of the Senate.

*Company for the Integral Development of the "Península de Cantera" (CIDPC)* — CIDPC is governed by an eleven-member board, of which six are appointed by the Governor, and five appointed by the Mayor of the Municipality of San Juan. CIDPC was created to establish and implement a comprehensive development plan for the "Península de Cantera" area. Its main function is to supervise and coordinate governmental efforts and also promote and manage private sector initiatives for the improvements and rehabilitation of the aforementioned area.

*Corporation for the "Caño Martín Peña" ENLACE Project (CPECMP)* — CPECMP was created for the purpose of coordinate the public policy related to the rehabilitation of the Caño Martín Peña area. CPECMP is governed by a board of directors of thirteen members of which seven are appointed by the Governor and six appointed by the Mayor of the Municipality of San Juan.

*Culebra Conservation and Development Authority (CCDA)* — CCDA was created to formulate and administer the program and plan for the conservation, use, and development of natural resources of the municipality of Culebra. CCDA is administered through a board of directors composed of seven members, including the Mayor of Culebra and six additional members appointed by the Mayor of Culebra and confirmed by the municipal legislature. The administration and operations of the CCDA are conducted by an executive director elected by the board of directors. The Commonwealth provides financial support to CCDA through legislative appropriations.

*Economic Development Bank for Puerto Rico (EDB)* — EDB is governed by a nine member board comprising the President of GDB, who is the Chairman, the Secretary of Agriculture of the Commonwealth, the Secretary of the Department of Economic Development and Commerce of the Commonwealth, the Executive Director of the Puerto Rico Industrial Development Company, the Executive Director of the Tourism Company of Puerto Rico, and four other members representing the private sector and appointed by the Governor with the consent of the Senate. Private sector members are appointed for a maximum period of three years. EDB is responsible for the promotion and development of the private sector economy of the Commonwealth. This purpose is to be met by granting direct loans, loan guarantees, loan participation, and/or direct investments to any person or business organization devoted to manufacturing, agriculture, trade, tourism, or other service enterprises with preference, but not limited, to economic activities that may have the effect of substituting imports. The Commonwealth has the ability to impose its will on EDB.

*Employment and Training Enterprises Corporation (ETEC)* — ETEC is governed by a thirteen-member consulting board, which includes two private citizens appointed by the Governor with the consent of the Senate. The purpose of ETEC is to provide training for management, business development, and employment for inmates of the correctional institutions of the Commonwealth. The Commonwealth generally provides financial support to ETEC through legislative appropriations.

*Farm Insurance Corporation of Puerto Rico (FICPR)* — FICPR is governed by a five member board consisting of the Secretary of Agriculture of the Commonwealth, the Dean of the Agricultural Sciences Faculty of the UPR Mayaguez Campus, a representative of GDB, and two bona fide farmers appointed by the Governor with the consent of the Senate. The purpose of the FICPR is to provide insurance to farmers against losses in their farms caused by natural disasters. The Commonwealth has the ability to impose its will on FICPR.

*Fine Arts Center Corporation (FACC)* — FACC is governed by a nine member board comprising the President of the Musical Arts Corporation and eight members named by the Governor. FACC was created with the purpose of administering the Fine Arts Center. The Commonwealth provides financial support to FACC through legislative appropriations.

*Governing Board of the 9-1-1 Service (911 Service)* — The 911 Service is governed by a five member board comprising the Chief of Police, the Executive Director of the Medical Emergency Services, the Director of the State Emergency Management Agency, the Chief of the Puerto Rico Firefighters Corps, and one member appointed by consensus of the four ex-officio members to represent the public interest. The 911 Service is responsible for providing an efficient service of fast

response to emergency calls through the 911 number and transferring these to the appropriate response agencies using technological and human resources to safeguard lives and properties. The Commonwealth has access to 911 Service resources.

*Institute of Puerto Rican Culture (IPRC)* — The IPRC is governed by a nine member board comprising the President of Musical Arts Corporation and eight members appointed by the Governor with the advice and consent of the Senate. The IPRC is responsible for implementing the public policy related to the development of Puerto Rican arts, humanities and culture. The Commonwealth provides financial support to IPRC through legislative appropriations.

*Institutional Trust of the National Guard of Puerto Rico (ITNGPR)* — ITNGPR is governed by a seven member board comprising of the Adjutant General of the Puerto Rico National Guard, the President of GDB, the Secretary of Justice of the Commonwealth, three militaries from the Puerto Rico National Guard, and one representative from the community appointed by the Governor. ITNGPR's purpose is to provide life insurance, retirement benefits, and economic assistance to the active members of the Puerto Rico National Guard and their families. The Commonwealth generally provides financial support to ITNGPR through legislative appropriations.

*Land Authority of Puerto Rico (LAPR)* — LAPR is governed by a five members' board consisting of the Secretary of Agriculture of the Commonwealth and four members appointed by the Governor. LAPR was created to carry out the provisions of the Land Law of Puerto Rico. LAPR maintains debt that is paid with Commonwealth's appropriations and funds generated by LAPR operations.

*Musical Arts Corporation (MAC)* — MAC is governed by a seven-member board appointed by the Governor with the consent of the Senate. MAC was created to promote the development of the arts and cultural programs of the Commonwealth. The Commonwealth provides financial support to MAC through legislative appropriations.

*National Parks Company of Puerto Rico (NPCPR)* — NPCPR is governed by a nine member board comprising the Secretary of Recreation and Sports Department of the Commonwealth (the Secretary), who is the chairman, the Secretary of Education of the Commonwealth, the Executive Director of the Puerto Rico Tourism Company, the Secretary of Natural and Environmental Resources of the Commonwealth, and five members appointed by the Governor with the recommendation from the Secretary and with known interest in the development and preservation of parks in the private sector. NPCPR is responsible for the operation of all national parks and the protection, conservation, maintenance and use of parks, beaches, forests, and natural and historical monuments for the optimum enjoyment of present and future generations. The Commonwealth provides financial support to NPCPR through legislative appropriations.

*Port of the Americas Authority (PAA)* — PAA is governed by a nine-member board comprising of the Secretary of Transportation and Public Works, the Secretary of Economic Development and Commerce, the Executive Director of Puerto Rico Industrial Development Company, the Major of the Municipality of Ponce and five private citizens appointed by the Governor with the consent of the Senate. The purpose of the PAA is to provide an alternative to container transshipment port in the south of Puerto Rico.

*Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (PCSDIPRC)* — PCSDIPRC is governed by a nine member board consisting of the Administrator of the Cooperative Development Administration, the Commissioner of Financial Institutions of Puerto Rico (the Commissioner of Financial Institutions), the Secretary of the Treasury of the Commonwealth, the Inspector of Cooperatives, three citizens representing the cooperative

movement, one representative of the Puerto Rico Cooperatives League, and one private citizen representing the public interest. PCSDIPRC has the responsibility of providing to all the cooperatives and the Federation of Cooperatives of Puerto Rico insurance coverage over the stocks and deposits, and for monitoring the financial condition of the insured cooperatives, and the uninsured cooperatives when requested by the Inspector of Cooperatives. The Commonwealth has the ability to impose its will on PCSDIPRC.

*Puerto Rico Conservatory of Music Corporation (PRCMC)* — PRCMC is governed by a seven-member board appointed by the Governor, with the consent of the Senate. PRCMC is responsible for providing the Puerto Rican community and especially its youths with the required facilities to educate and perfect their musical skills, including secondary education programs for developing musical arts. It prepares the artistic element that nourishes the Puerto Rico Symphony Orchestra and other musical organizations, and coordinates the governmental efforts to interested industries, private enterprises, and particular citizens. The Commonwealth provides financial support to PRCMC through legislative appropriations.

*Puerto Rico Convention Center District Authority (PRCCDA)* — PRCCDA is governed by a board comprising of nine members, four of which shall be from the public sector and five from the private sector. The public sector members comprise the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, the Executive Director of the PRTC, the president of GDB, and one member from the public sector. The private sector members are individuals having experience in the areas of hospitality, tourism, real estate, or convention centers who are appointed by the Governor with the advice and consent of the Senate. PRCCDA was created to develop, own, finance, plan, design, construct, operate, manage, and promote the new Puerto Rico Convention Center and the Puerto Rico Convention District. The PRCCDA also has the ownership interest as well as other rights and obligations related to the development and operations of the Jose Miguel Agrelot Coliseum. The Commonwealth provides financial support to PRCCDA through legislative appropriations.

*Puerto Rico Council on Higher Education (PRCHE)* — PRCHE is governed by a board comprising eight members appointed by the Governor with the consent of the Senate and the Secretary of Education of the Commonwealth as an ex-officio member. Its purpose is to develop higher education, to administer the licensing and certification of institutions of higher education, and to administer scholarship funds. The Commonwealth provides financial support to PRCHE through legislative appropriations.

*Puerto Rico Government Investment Trust Fund (PRGITF)* — PRGITF is governed by the Secretary of the Treasury of the Commonwealth. GDB is its trustee, custodian, and administrator. PRGITF's main objective is to provide investment opportunities in a professionally managed money market portfolio by investing in high quality securities with minimal credit risk. Qualified investors include the Commonwealth's central government, its public corporations, instrumentalities and agencies, and the municipalities of Puerto Rico. In conformity with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*, the financial statements of the PRGITF are not included in the accompanying basic financial statements because the primary government and each component unit investor is already presenting as cash or investment their corresponding share of the assets of the PRGITF (see note 5).

*Puerto Rico Infrastructure Financing Authority (PRIFA)* — PRIFA is governed by the board of directors of GDB and the Secretary of the Treasury of the Commonwealth. Its responsibilities are to provide financial, administrative, consulting, technical, advisory, and other types of assistance to other component units and governmental instrumentalities of the Commonwealth, which are

authorized to develop infrastructure facilities and to establish alternate means for financing them. PRIFA's boards of directors' members are executives on a trustworthy position, named and supervised by the Governor. The Commonwealth provides financial support to PRIFA through legislative appropriations.

*Puerto Rico Industrial Development Company (PRIDCO)* — PRIDCO is governed by a seven member board comprising the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, the Secretary of the Treasury of the Commonwealth, the President of GDB, the President of the Planning Board of Puerto Rico, and three members from the private sector appointed by the Governor with the advice and consent of the Senate. The private sector members are appointed for a period of four years. PRIDCO administers the Commonwealth sponsored economic development program by providing facilities, general assistance, and special incentive grants to manufacturing companies operating in Puerto Rico. PRIDCO has issued interim notes and revenue bonds to finance manufacturing plants and other facilities. Rentals derived from the leasing of specified facilities of PRIDCO are pledged for the payment of PRIDCO's revenue bonds. PRIDCO maintains debt that is paid with Commonwealth's appropriations. The Commonwealth provides financial support to PRIDCO through legislative appropriations.

*Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (known as AFICA by its Spanish Acronym)* — AFICA is governed by a seven member board consisting of the Executive Director of PRIDCO, the President of GDB, the Executive Director of PRIFA, the Executive Director of the PRTC, the President of the Environmental Quality Board, and two private citizens appointed by the Governor. AFICA is authorized to issue revenue bonds to finance industrial, tourist, environmental control, medical, and educational facilities in Puerto Rico and the United States of America for use by private companies, nonprofit entities, or governmental agencies. The bonds are payable solely from collections from such private companies, nonprofit entities, or governmental agencies, and do not constitute debt of the Commonwealth or any of its other component units.

*Puerto Rico Land Administration (PRLA)* — PRLA is governed by an eleven member board comprising the Governor of Puerto Rico, who serves as President, the President of the Planning Board of Puerto Rico, who serves as Vicepresident, the Secretary of Economic Development and Commerce of the Commonwealth, the Secretary of the Treasury of the Commonwealth, the Secretary of Agriculture of the Commonwealth, the Secretary of DTPW of the Commonwealth, the Secretary of Housing of the Commonwealth, the Executive Director of Puerto Rico Industrial Development Corporation and four other members appointed by the Governor with the consent of the Senate. PRLA acquires parcels of land on behalf of government instrumentalities through negotiation or expropriation for future development or for reserve. The Commonwealth provides financial support to the PRLA through legislative appropriations.

*Puerto Rico Maritime Transportation Authority (PRMTA)* — PRMTA is governed by a five-member board comprising the Secretary of DTPW of the Commonwealth, who serves as President, the Executive Director of the Ports Authority, the Mayors of Vieques and Culebra, and one additional member appointed by the Governor. The operations of PRMTA consist of administer and operate the maritime transportation services between San Juan, Fajardo, Vieques and Culebra. The Commonwealth provides financial support to PRMTA through legislative appropriations.

*Puerto Rico Medical Services Administration (PRMeSA)* — PRMeSA is governed by a ten member board comprising the Secretary of Health of the Commonwealth, who is the Chairman, the Dean of the Medical Sciences Faculty of the UPR, the President of the Board of the Puerto Rican Cancer Society, the Mayor of the municipality of San Juan, the Administrator of the State Insurance Fund

Corporation, the Administrator of the Mental Health and Anti – Addiction Services Administration the President of the Medical Policy and Administration Committee, the Secretary of the Family, and two users appointed by the Secretary of Health of the Commonwealth. Its purpose is to plan, organize, operate, and administer the centralized health services, provided in support of the hospital and other functions, offered by the member institutions and users of the medical complex known as the Puerto Rico Medical Center. The Commonwealth provides financial support to PRMeSA through legislative appropriations.

*Puerto Rico Metropolitan Bus Authority (PRMBA)* — PRMBA is governed by the Secretary of DTPW of the Commonwealth. PRMBA provides bus transportation to passengers within the San Juan Metropolitan Area. The Commonwealth provides financial support to PRMBA through legislative appropriations.

*Puerto Rico Municipal Finance Agency (PRMFA)* — PRMFA is governed by a five member board comprising the President of GDB, who is the Chairman, the Commissioner of Municipal Affairs, and three additional members appointed by the Governor, one of whom shall be either the mayor or chief financial officer of a municipality. PRMFA was organized to create a capital market to assist the municipalities of Puerto Rico in financing their public improvement programs.

*Puerto Rico Ports Authority (PRPA)* — PRPA is governed by a five member board consisting of the Secretary of DTPW of the Commonwealth, who is the Chairman, the Secretary of Economic Development and Commerce of the Commonwealth, the Executive Director of the PRTC, the Executive Director of Puerto Rico Industrial Development Company and one private citizen appointed by the Governor with the consent of the Senate. The purpose of PRPA is to administer all ports and aviation transportation facilities of the Commonwealth and to render other related services. The Commonwealth generally provides financial support to PRPA through legislative appropriations.

*Puerto Rico Public Broadcasting Corporation (PRPBC)* — PRPBC is governed by an eleven member board of directors comprising the Secretary of Education of the Commonwealth, the President of the UPR, the Executive Director of IPRC, and eight private citizens appointed by the Governor with the advice and consent of the Senate. At least three of these private citizens must have proven interest, knowledge, and experience in education, culture, art, science, or radio and television. PRPBC was created for the purpose of integrating, developing, and operating the radio, television, and electronic communication facilities that belong to the Commonwealth. The Commonwealth provides financial support to PRPBC through legislative appropriations.

*Puerto Rico School of Plastic Arts (PRSPA)* — PRSPA is governed by a seven member board. Four members are appointed by the board of directors of IPRC, representing the public educational and cultural interests. Board members may not be employees of the PRSPA. The remaining three members are elected from among the members of the board of directors of IPRC, one of whom will serve as president. PRSPA was created to develop, promote, plan, and coordinate programs of study in higher education oriented to the plastic arts, teaching, artistic techniques, and to help students to develop humanistic values. The Commonwealth generally provides financial support to PRSPA through legislative appropriations.

*Puerto Rico Solid Waste Authority (PRSWA)* — PRSWA is governed by a government board appointed by the Secretary of the Department of Natural Resources, whereby, the Secretary and the Executive Director of PRSMA periodically meet. PRSWA provides alternatives for processing of solid waste and encourages recycling, reuse, and recovery of resources from waste. The Commonwealth provides financial support to PRSWA through legislative appropriations.

*Puerto Rico Telephone Authority (PRTA)* — PRTA is governed by a five member board comprising the President of GDB and four members that are appointed by the board of directors of GDB. PRTA is the legal entity responsible to account for the equity interest in Telecommunications de Puerto Rico, Inc., for the benefit of the Employees' Retirement System of the Government of Puerto Rico and its instrumentalities (ERS). The Commonwealth generally provides financial support to PRTA through legislative appropriations.

*Puerto Rico Tourism Company (PRTC)* — PRTC is governed by a seven member board comprising of representatives of different tourist related sectors appointed by the Governor with the consent of the Senate. At least one member must represent internal tourism and two must not be residents of the metropolitan area. Its purpose is to promote the tourism industry of Puerto Rico. The Commonwealth generally provides financial support to PRTC through legislative appropriations.

*Puerto Rico Trade and Export Company (PRTEC)* — PRTEC is governed by a nine member board comprising the Secretary of the Department of Economic Development and Commerce, who is the Chairman, the Executive Director of the Ports Authority, the Secretary of the Department of Agriculture, the President of EDB, the Executive Director of PRIDCO, the Legal Division Director of PRTEC, and three private citizens. PRTEC has the responsibility to promote the highest efficiency in the services provided to the commercial sector, with emphasis on small and medium sized enterprises while promoting the export of products and services from Puerto Rico to other countries. The Commonwealth provides financial support to PRTEC through legislative appropriations.

*Right to Employment Administration (REA)* — REA is governed by an administrator appointed by the Governor with the consent of the Senate. The Commonwealth provides financial support to REA through legislative appropriations and federal funds.

*Special Communities Perpetual Trust (SCPT)* — SCPT is governed by a board of directors composed of eleven members: the Secretary of Housing of the Commonwealth, the Secretary of the DTPW of the Commonwealth, the Coordinator for the Social and Economic Financing of the Special Communities, one mayor of a municipality of Puerto Rico, one community leader resident in one special community, four private citizens representing the public interest, and two public employees. All members of the board of directors are appointed by the Governor. SCPT's principal purpose is to fund development projects that address the infrastructure and housing needs of the underprivileged communities. The Commonwealth provides financial support to SCPT through legislative appropriations.

*State Insurance Fund Corporation (SIFC)* — SIFC is governed by a seven member board appointed by the Governor with the advice and consent of the Senate. The board comprises the Commissioner of Insurance of Puerto Rico, an officer from the Department of Labor and Human Resources of the Commonwealth, an officer from the Department of Health of the Commonwealth, a representative of the employer's interest, a representative of the employees' interest, and two members without any of these interests. One of these members is appointed by the Governor as president of the board for a period of six years. The three public officials are appointed for a period of five years, and the rest of the members for four, three, two, and one year, respectively. SIFC provides workers' compensation and disability insurance to public and private employees. The Commonwealth has access to SIFC's resources.

Complete financial statements of the discretely presented component units can be obtained directly by contacting their administrative offices:

Government Development Bank for Puerto Rico
P.O. Box 42001
San Juan, PR 00940–2001

Puerto Rico Aqueduct and Sewer Authority
P.O. Box 7066
San Juan, PR 00916-7066

Puerto Rico Electric Power Authority
P.O. Box 364267
San Juan, PR 00936-4267

Puerto Rico Health Insurance Administration
P.O. Box 195661
San Juan PR 00919-5661

Puerto Rico Highways and Transportation Authority
P.O. Box 42007
San Juan, PR 00940-2007

University of Puerto Rico
Jardín Botánico Sur 1187
Calle Flamboyán
San Juan, PR 00926-1117

Agricultural Services and Development Administration
P.O. Box 9200
San Juan, PR 00907-0200

Automobile Accidents Compensations Administration
P.O. Box 364847
San Juan, PR 00936-4847

Cardiovascular Center Corporation of Puerto Rico and the Caribbean
P.O. Box 366528
San Juan, PR 00936-6528

Corporation for the "Caño Martín Peña" ENLACE Project
P.O. Box 41308
San Juan, PR 00940-1308

Company for the Integral Development of the "Península de Cantera"
P.O. Box 7187
Santurce, PR 00916-7187

Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico
P.O. Box 362350
Hato Rey, PR 00936-2350

Culebra Conservation and Development Authority
P.O. Box 217
Culebra, PR 00775-0217

Economic Development Bank for Puerto Rico
P.O. Box 2134
San Juan, PR 00922-2134

Employment and Training Enterprises Corporation
P.O. Box 366505

San Juan, PR 00936-6505

Farm Insurance Corporation of Puerto Rico
P.O. Box 9200
Santurce, PR 00908

Fine Arts Center Corporation
P.O. Box 41287–Minillas Station
San Juan, PR 00940-1287

Governing Board of the 9-1-1 Service
P.O. Box 270200
San Juan, PR 00927-0200

Institute of Puerto Rican Culture
P.O. Box 9024184
San Juan, PR 00902-4184

Institutional Trust of the National Guard of Puerto Rico
P.O. Box 9023786
San Juan, PR 00902-3786

Land Authority of Puerto Rico
P.O. Box 9745
San Juan, PR 00908-9745

Musical Arts Corporation
PO Box 41227
San Juan, PR 00940-1227

National Parks Company of Puerto Rico
P.O. Box 9022089
San Juan, PR 00902-2089

Port of the Americas Authority
P.O. Box 362350
San Juan, PR 00936-2350

Public Corporation for the Supervision and
Deposit Insurance of Puerto Rico Cooperatives
P.O. Box 195449
San Juan, PR 00919-5449

Puerto Rico Conservatory of Music Corporation
951 Ave. Ponce de León
San Juan, PR 00907-3373

Puerto Rico Convention Center District Authority
P.O. Box 19269
San Juan, PR 00910-1269

Puerto Rico Council on Higher Education
P.O. Box 19900
San Juan, PR 00910-1900

Puerto Rico Government Investment Trust Fund
P.O. Box 42001 — Minillas Station
San Juan, PR 00940-2001

Puerto Rico Industrial Development Company
P.O. Box 362350
San Juan, PR 00936-2350

Puerto Rico Industrial, Tourist, Educational,
Medical, and Environmental Control
Facilities Financing Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Infrastructure Financing Authority
Capital Center
235 Arterial Hostos Ave., Suite 1600
San Juan, PR 00918-1433

Puerto Rico Land Administration
P.O. Box 363767
San Juan, PR 00936-3767

Puerto Rico Maritime Transportation Authority
PO Box 4305
Puerto Real, PR 00740

Puerto Rico Medical Services Administration
P.O. Box 2129
San Juan, PR 00922-2129

Puerto Rico Metropolitan Bus Authority
P.O. Box 195349
San Juan, PR 00919-5349

Puerto Rico Municipal Finance Agency
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Ports Authority
P.O. Box 362829
San Juan, PR 00936-2829

Puerto Rico Public
Broadcasting Corporation
P.O. Box 190909
San Juan, PR 00919-0909

Puerto Rico School of Plastic Arts
P.O. Box 9021112
San Juan, PR 00902-1112

Puerto Rico Solid Waste Authority
P.O. Box 40285–Minillas Station
San Juan, PR 00940-0285

Puerto Rico Telephone Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Tourism Company
P.O. Box 9023960
Old San Juan Station
San Juan, PR 00902-3960

Puerto Rico Trade and Export Company
P.O. Box 195009
San Juan, PR 00919-5009

Right to Employment Administration
P.O. Box 364452
San Juan, PR 00936-4452

Special Communities
Perpetual Trust
P.O. Box 42001
San Juan, PR 00940-2001

State Insurance Fund
Corporation
P.O. Box 365028
San Juan, PR 00936-5028

The financial statements of the discretely presented component units have a year end of June 30, 2009, except for the Puerto Rico Telephone Authority, which has a year end of December 31, 2008.

**Fiduciary Component Units**

The three employee retirement systems administer pension funds for the Commonwealth and its political subdivisions. The three systems are subject to legislative and executive controls, and the administrative expenses are subject to legislative budget controls. These component units, while meeting the definition of a component unit and are legally separate, are presented in the fund financial statements along with other fiduciary funds of the Commonwealth. They have been omitted from the government wide financial statements, as their resources are not available to fund operations of the Commonwealth.

*Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS)* — ERS is governed by a board of trustees, which is composed of the Secretary of the Treasury of the Commonwealth, who is the President, the President of GDB, the Commissioner for Municipal Affairs, the Director of the Puerto Rico Central Office of Personnel Administration, two participating employees, and one retiree, who are appointed by the Governor. The Commonwealth reports ERS as a multi employer pension plan. ERS is the administrator of a multi-employer defined benefit pension plan, which covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and component units not covered by their own retirement systems. On September 24, 1999, an amendment to the law that created ERS was enacted with the purpose of establishing a new defined contribution plan (System 2000) for employees hired by the government on or after January 1, 2000.

*Puerto Rico Judiciary Retirement System (JRS)* — JRS is governed by the same board of trustees as ERS. JRS is a single employer defined benefit plan, administered by ERS, which covers all individuals holding a position as Justice of the Supreme Court, Judge of the Superior Court or the District Court, or Municipal Judges of the Commonwealth.

*Puerto Rico System of Annuities and Pensions for Teachers (TRS)* — TRS is governed by a nine member board comprising the Secretary of Education of the Commonwealth, the Secretary of the Treasury of the Commonwealth, the President of GDB, two active teachers (one of them is a representative of the teachers' organization according to Act No. 45 of February 1998), two retired teachers, one representative of the teachers' organization, and one representative of the public interest appointed by the Governor with the advice and consent of the Senate for four years. The

Commonwealth reports TRS as a single employer pension plan. TRS provides retirement benefits to all teachers of the Department of Education of the Commonwealth, all pensioned teachers, all teachers transferred to an administrative position in the Department of Education of the Commonwealth, teachers who work in the Teachers' Association of Puerto Rico, and those who practice in private institutions accredited by the Department of Education of the Commonwealth. TRS provides retirement, death, and disability benefits.

Complete financial statements of these component units can be obtained directly by contacting their respective administrative offices at:

Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities
P.O. Box 42003 — Minillas Station
Santurce, PR 00940

Puerto Rico Judiciary Retirement System
P.O. Box 42003 — Minillas Station
Santurce, PR 00940

Puerto Rico System of Annuities and Pensions for Teachers
P.O. Box 191879
San Juan, PR 00919-1879

**(c) Government Wide Financial Statements**

The government wide financial statements (the statement of net assets and the statement of activities) report information of all of the non-fiduciary activities of the Commonwealth and its component units. For the most part, the effect of interfund activity has been removed from these government wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable. The statement of net assets presents the reporting entities' non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- *Invested in Capital Assets, Net of Related Debt* — These consist of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

- *Restricted Net Assets* — These result when constraints are placed on net assets' use either externally imposed by creditors, grantors, contributors, and the like or imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Assets* — These consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenue includes charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The Commonwealth does not allocate general government (indirect) expenses to other functions.

**(d) Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

*Government Wide Financial Statements* — The government wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

*Governmental Fund Financial Statements* — The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. Principal revenue sources considered susceptible to accrual include tax revenue, net of estimated overpayments (refunds) and amounts considered not collectible, which are recorded as taxpayers earn income (income taxes), as sales are made (consumption, sales and use taxes) and as cash is received (miscellaneous taxes). For this purpose, the Commonwealth considers income tax revenue to be available if collected within 120 days after the end of the current fiscal year end and consumption sales and use tax if collected within 30 days after the end of the current fiscal year. In applying the susceptible to accrual concept to federal grants, there are essentially two types of revenue. For the majority of grants, moneys must be expended by the Commonwealth on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- Employees' vested annual vacation and sick leave are recorded as expenditures when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2009 has been reported only in the government wide financial statements.

- Interest and principal on general long term obligations are recorded when due, except for interest and principal due on July 1 of the following fiscal year, if resources are available for its payment as of June 30.

- Executory purchase orders and contracts are recorded as a reservation of fund balance.

- Debt service expenditures, federal funds' cost disallowances, other long term obligations, and amounts subject to judgments under litigation are recorded only when payment is due.

*Proprietary Funds, Fiduciary Funds, and Discretely Presented Component Units Financial Statements* — The financial statements of the proprietary funds, fiduciary funds, and discretely presented component units are reported using the economic measurement focus and the accrual basis of accounting, similar to the government wide financial statements described above.

Each enterprise fund has the option under GASB Statement No. 20, A*ccounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to elect and apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless these conflict with a GASB pronouncement. The primary government's major enterprise funds have elected not to apply FASB pronouncements issued after November 30, 1989 and two nonmajor enterprise funds, PRWPR and PRSDWT, elected to adopt the FASB's pronouncements issued after November 30, 1989. Also, certain discretely presented component units have disclosed their election in their separately issued financial statements. The component units follow U.S. GAAP as issued by GASB and FASB as applicable to each component unit based on the nature of their operations. In addition, the Puerto Rico Government Investment Trust Fund adopted GASB Statement No. 31; *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*; however, such financial statements are not included in the accompanying basic financial statements because the primary government and each component unit's investor already present their corresponding share of the assets of the PRGITF as cash or investments.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenue and expenses not meeting this definition are reported as non-operating revenue and expenses. The major operating revenue of the Commonwealth enterprise funds is as follows:

- *Unemployment Insurance Fund* — Amounts requisitioned for the Puerto Rico Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits and charges made to individual employers.

- *Lotteries Fund* — Amounts collected from the sale of traditional lottery tickets and electronic lotto games.

**(e) Fund Accounting**

The Commonwealth reports its financial position and results of operations in funds, which are considered separate accounting entities, and discrete presentations of those component units, which are not required to be blended. The operations of each fund are accounted for within a set of self balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. Major funds are determined using a predefined percentage of the assets, liabilities, revenue, or expenditures/expenses of either the fund category or the governmental and enterprise funds combined. The non-major funds are combined in a single column in the fund financial statements. The Commonwealth reports the following major funds:

**Governmental Funds**

*General Fund* — The general fund is the primary operating fund of the Commonwealth. It is used to account for all financial transactions, except those required to be accounted for in another fund. Included are transactions for services such as general government, public safety, health, public housing and welfare, and education.

*Pledged Sales and Use Tax Fund* — The pledged sales and use tax fund accounts for the sales tax revenue and the corresponding transfer to COFINA Debt Service Fund for the payment of debt.

*Debt Service Fund* — The debt service fund accounts for the accumulation of resources predominantly for, and the payment of, general long term bonds' principal, interest, and related costs other than bonds payable from the operations of proprietary fund types, pension trust funds, and discretely presented component units. Long term debt and interest due on July 1 of the following fiscal year are accounted for as a fund liability if resources are available as of June 30 for its payment.

*COFINA Special Revenue Fund* — The special revenue fund of the Puerto Rico Sales Tax Financing Corporation (COFINA) is used to account for all financial resources of COFINA, except those required to be accounted for in another fund.

*COFINA Debt Service Fund* — The debt service fund of the Puerto Rico Sales Tax Financing Corporation is used to account for the Commonwealth Sales Tax deposited in the Dedicated Sales Tax Fund for the payment of interest and principal on long-term obligations.

**Proprietary Funds**

These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public.

*Unemployment Insurance Fund* — This fund accounts for amounts requisitioned for the Puerto Rico Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits and charges made to individual employers.

*Lotteries Fund* — This fund accounts for the assets and operations of two lottery systems administered by the Commonwealth.

**Fiduciary Funds**

Fiduciary funds are used to account for assets held by the Commonwealth in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The following are the Commonwealth's fiduciary funds:

*Pension Trust Funds* — These are used to account for the assets, liabilities, and net assets available for pension benefits held in trust for the public employees' retirement systems.

*Agency Funds* — These are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

**Discretely Presented Component Units**

Discrete presentation of component units is used to present the financial information of entities that do not qualify to be blended, in accordance with GASB No. 14, as amended by GASB No. 39, with the funds of the primary government. The component units column in the government wide financial statements is used to report the financial activities of the Commonwealth's discretely presented component units. The financial statements of these component units are presented following the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash.

**(f) Statutory (Budgetary) Accounting**

The Commonwealth's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with GAAP. Revenue is generally recognized when cash is received, net of tax refunds claimed by taxpayers as of year end. Short term and long term borrowings may be used to finance budgetary excess of expenditures over revenue. Expenditures are generally recorded when the related expenditure is incurred or encumbered. Encumbrances generally lapse the year following the end of the fiscal year when the encumbrance was established, as established by Act No. 123 of August 17, 2001. Unencumbered appropriations lapse at year end. Amounts required for settling claims and judgments against the Commonwealth and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

Under the statutory basis of accounting, the Commonwealth uses encumbrance accounting to record the full amount of purchase orders, contracts, and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control.

The statement of revenues and expenditures — budget and actual — budget basis — general fund only presents the information for the general fund for which there is a legally adopted budget, as required by GAAP. See note 3 for a reconciliation of the statement of revenues and expenditures — budget and actual — budget basis — general fund with the statement of revenues, expenditures, and changes in fund balance (deficit) for the general fund. The special revenue funds do not have a legally mandated budget.

**(g) Cash and Short Term Investments**

The Commonwealth follows the practice of pooling cash. The balance in the pooled cash accounts is available to meet current operating requirements, and any excess is invested in various interest bearing accounts with GDB and with the PRGITF. Cash and cash equivalents include investments with original maturities of 90 days or less from the date of acquisition.

The Commissioner of Financial Institutions requires that private financial institutions deposit collateral securities to secure the deposits of the Commonwealth and all other governmental entities in each of these institutions. The amount of collateral securities to be pledged for the security of public deposits shall be established by the rules and regulations promulgate by the Commissioner of Financial Institutions.

The Puerto Rico Unemployment Insurance Trust Fund is maintained to account for the collection of unemployment insurance contributions from employers and the payment of unemployment benefits to eligible claimants. As required by federal law, all resources not necessary for current benefit payments are placed on deposit with the U.S. Treasury. Interest earned over such deposit is retained in the fund.

Cash and short term investments and cash equivalents of the component units are maintained in separate bank accounts, from those of the primary government, in their own names.

**(h) Securities Purchased under Agreements to Resell**

Certain component units of the Commonwealth enter into purchases of securities with simultaneous agreements to resell. The securities underlying these agreements mainly consist of U.S. government obligations, mortgage backed securities, and interest bearing deposits with other banks.

**(i) Securities Lending Transactions**

Certain component units of the Commonwealth enter into securities lending transactions in which governmental entities (lenders) transfer their securities to broker dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Securities received as collateral are generally reflected as investments with a corresponding liability resulting from the obligation to return such collateral.

**(j) Investments**

Investments include U.S. government and agencies' obligations, mortgage backed securities, repurchase agreements, commercial paper, local government obligations, investment contracts, and corporate debt and equity obligations. Investment securities, including investments in limited partnerships, are presented at fair value, except for money market investments and participating investment contracts with a remaining maturity at the time of purchase of one year or less and nonparticipating investment contracts, which are presented at cost. Changes in the fair value of investments are presented as investment earnings in the statement of activities, the statement of revenues, expenditures, and changes in fund balances (deficit) — governmental funds, and the statement of revenues, expenses, and changes in fund net assets (deficit) — proprietary funds. Fair value is determined based on quoted market prices. When securities are not listed on national exchanges, quotations are obtained from brokerage firms.

The PRGITF is considered a 2a7 like external investment pool and, as such, reports its investments at amortized cost.

The reverse repurchase agreements reported by certain discretely presented component units are authorized transactions under their respective enabling legislation and authorized by GDB.

**(k) Receivables**

Tax receivables in the general fund include predominantly amounts owed by taxpayers for individual and corporate income taxes, net of estimated uncollectible amounts. Income tax receivables are recognized as revenue when they become measurable and available based on actual collections during the 120 days following the fiscal year end related to tax returns due before year end. Taxes receivables also include amounts owed by taxpayers on income earned in periods prior to June 30, 2009, estimated to be collectible but not currently available, and thus are reported as deferred revenue in the general fund. Unemployment, disability, and driver's insurance receivables in the enterprise funds are stated net of estimated allowances for uncollectible accounts. During the fiscal year 2007 the Commonwealth started imposing a general sales and use tax. The sales and use tax receivable is recognized as revenue when it becomes measurable and available based on actual collections during the 30 days following the fiscal year end related to sales and use tax returns due before year end.

Accounts receivable are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables primarily represent amounts owed to the Commonwealth for reimbursement of expenditures incurred pursuant to federally funded programs. Intergovernmental receivables also include taxes that the Municipal Revenue Collection Center (CRIM, as per its Spanish acronym), a municipal corporation, is required to remit to the Commonwealth to be used by the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth. The amount to be remitted is based on the special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation, which is levied by the CRIM.

The accounts receivable from nongovernmental customers of the component units are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users. Accounts receivable from the primary government and other component units that arise from service charges do not have allowances for uncollectible accounts, as these are deemed fully collectible.

Loans of the general fund are net of estimated uncollectible amounts. These receivables arise from amounts owed by public corporations and municipalities for public insurance and rent paid by the general fund on their behalf.

The loans of the pension trust funds do not have allowances for uncollectible amounts since such loans are secured by mortgage deeds, plan members' contributions, and any unrestricted amounts remaining in escrow. Loans of the component units consist predominantly of loans to the primary government, other component units, and municipalities, and do not have allowances for uncollectible accounts as those are deemed fully collectible. The remaining loans of the component units are to small and medium businesses, agricultural, and low income housing loans from nongovernmental customers, and are presented net of estimated losses on such portfolios.

**(l) Inventories**

Generally, inventories are valued at cost and predominantly on the first in, first out basis. Governmental fund inventories are recorded as expenditures when purchased rather than capitalized as an asset. Only significant amounts of inventory at the end of the year are capitalized in the governmental funds. However, inventories are always capitalized in the statement of net assets of governmental activities.

**(m) Restricted Assets**

Funds set aside for the payment and guarantee of notes and interest payable and for other specified purposes are classified as restricted assets since their use is limited for this purpose by applicable agreements or required by law. Restricted assets in the proprietary funds mainly include amounts set aside for the payment of insurance benefits.

**(n) Real Estate Held for Sale**

Real estate held for sale are carried at the lower of fair value or cost, which is established by a third party professional assessment or based upon an appraisal, minus estimated costs to sell. Subsequent declines in the value of real estate available for sale are charged to expenditure/expense.

**(o) Capital Assets**

Capital assets include land, buildings, building improvements, equipment, vehicles, construction in process, and infrastructure assets, are reported in the applicable governmental, business type activities, and component unit columns in the government wide financial statements. The Commonwealth's primary government defines capital assets as assets that have an initial, individual cost of $25,000 or more at the date of acquisition and have a useful life of five or more years. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available.

The method to deflate the current cost of the same or a similar asset using an approximate price index was used to estimate the historical cost of certain land, buildings, and building improvements, because invoices and similar documentation were no longer available in certain instances. Donated capital assets are recorded at fair market value at the time of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs are capitalized during the construction period only for business type activities and most component units. The costs of normal maintenance and repairs that do not add value to the assets or materially extend asset lives are not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government wide financial statements, as well as the proprietary funds and component units' financial statements.

Capital assets of the primary government are depreciated on the straight line method over the assets' estimated useful life. There is no depreciation recorded for land and construction in progress. The estimated useful life of capital assets is as follows:

| | Years |
|---|---|
| Buildings and building improvements | 20 – 50 |
| Equipment, furniture, fixtures, and vehicles | 5 – 15 |
| Infrastructure | 50 |

The capital assets of the component units are recorded in accordance with the applicable standards of the component units and under their own individual capitalization thresholds. Depreciation has been recorded when required by these standards based on the types of assets, use and estimated useful lives of the respective assets, and on the nature of each of the component unit's operations.

The estimated useful lives of capital assets reported by the component units are as follows:

| | Years |
|---|---|
| Buildings and building improvements | 3 – 50 |
| Equipment, furniture, fixtures, and vehicles | 3 – 20 |
| Infrastructure | 10 – 50 |

The Commonwealth follows the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries — an amendment to GASB Statement No. 34*. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries.

**(p) Tax Refunds payable**

During the calendar year, the Commonwealth collects individual income taxes through withholdings and payments from taxpayers. At June 30, the Commonwealth estimates the amount owed to taxpayers for overpayments during the first half of the calendar year. These estimated amounts and the actual tax refunds claimed for prior years but not paid at year end are recorded as tax refunds payable and as a reduction of tax revenue.

**(q) Deferred Revenue**

Deferred revenue at the governmental fund level arises when potential revenue does not meet either the "measurable" or the "available" criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before the Commonwealth has a legal claim to them, as when grant moneys are received prior to incurring the qualifying expenditures. In subsequent periods, when the revenue recognition criteria is met, or when the Commonwealth has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet, and the revenue is recognized. Deferred revenue at the government wide and proprietary fund levels arises only when the Commonwealth receives resources before it has a legal claim to them.

**(r) Long Term Debt**

The liabilities reported in the government wide financial statements include Commonwealth's general obligation bonds and long term notes, obligations under lease/purchase agreements, and long term liabilities including vacation, sick leave, long term liabilities to other governmental entities, net pension obligation, legal claims, and noncurrent federal fund cost disallowances related to expenditures of federal grants. Long term obligations financed by proprietary fund types and component units are recorded as liabilities in those funds and in the discretely presented component units column.

Premiums, discounts, and issuance costs — in the government wide financial statements, long term debt, and other long term obligations — are presented in the columns for governmental and business type activities. The same is presented in the proprietary fund financial statements. Bond and note premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges in other assets and are amortized over the term of the related debt. In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

The difference between reacquisition price and the net carrying amount of the old debt in a refunding transaction is deferred and amortized as a component of interest over the remaining life of the old debt, or the life of the new debt, whichever is shorter. On the statement of net assets, this deferred amount is reported as a deduction from, or as an addition to, the new debt liability.

**(s) Reservations of Fund Balance — Governmental Funds**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditures or (2) legally segregated for a specific future use. Reserves for encumbrances, debt service, and other specific purposes are examples of the latter.

**(t) Accounting for Pension Costs**

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, as amended by GASB No. 50, *Pension Disclosures*, the Commonwealth's financial reporting entity is considered to be a sponsor of three defined benefit pension plans and one multi-employer defined benefit pension plan: ERS, JRS, and the TRS. This is because substantially all the participants in the three pension trust funds are part of the financial reporting entity of the Commonwealth. For the purpose of the basic financial statements, and as disclosed in note 20, the Commonwealth's annual pension cost, measured on the accrual basis of accounting, for the year ended June 30, 2009 amounted to approximately $1,689 million. However, the amount recognized as pension expenditure in the governmental funds was recorded under the modified accrual basis, and amounted to approximately $585 million. The excess of the annual required contribution over the statutorily required contributions increased the net pension obligation at June 30, 2009 to approximately $6.8 billion. This amount is presented in the statement of net assets (deficit) of the governmental activities as of June 30, 2009.

For purposes of the stand alone financial statements of each of the blended and discretely presented component units, the entities accounted for pension costs from the standpoint of a participant in a multiple employer cost sharing plan. Accordingly, pension costs recognized are equal to the statutorily or contractually required contributions, with a liability recorded for any unpaid required contributions. The basis of accounting used by the component units was either modified accrual basis or accrual basis, depending upon individual fund structure and type of entity. Most component units did not have pension related assets or liabilities at transition because they have contributed the statutorily required contributions.

**(u) Other Postemployment Benefits**

In addition to the pension benefits described in note 20, the Commonwealth provides other postemployment benefits (OPEB) such as summer and Christmas bonus, and post employment healthcare benefits for its retired employees in accordance with local law. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

The Christmas bonus and the summer bonus benefits are provided by the Commonwealth statutes. The Christmas bonus paid to the retired employees during the year June 30, 2009 was $400 per retiree and the total amount was approximately $43 million. These benefits are recorded as expenditures when paid in the general fund.

Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share of not more than $100 per month for each retiree. During the year ended June 30, 2009, the cost of providing healthcare benefits amounted to approximately $115 million for 108,619 retirees.

**(v) Compensated Absences**

The vacation policy of the Commonwealth generally provides for the accumulation of 2.5 days per month, except for the teachers who accrue 4 days per month. Vacation time accumulated is fully vested to the employees from the first day of work up to a maximum of 60 days. Employees accumulate sick leave generally at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid leave at the current rate, if the employee has at least 10 years of service with the Commonwealth. Accrued compensated

absences of the primary government at June 30, 2009 amounting to approximately $1.6 billion are presented in the statement of net assets (deficit). Compensated absence accumulation policies for the blended component units and discretely presented component units vary from entity to entity based on negotiated agreements and other factors agreed upon between the management of these entities and their employees.

The Public Service Personnel Law requires certain component units and the primary government of the Commonwealth to annually pay the employees the accumulated vacation and sick leave earned in excess of the limits mentioned above.

**(w) Interfund and Intraentity Transactions**

The Commonwealth has the following types of transactions among funds:

*Interfund Transfer* — Legally required transfers that are reported when incurred as transfer in by the recipient fund and as transfer out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government wide financial statements.

*Intraentity Transactions* — There are two types of intraentity transactions. First, are resource flows between the primary government and its component units and among the component units. These resource flows and related outstanding balances are reported as if they were external transactions. However, resource flows between the primary government and blended component units are classified as interfund transactions, as described above. Second, are intraentity balances between the primary government funds and discretely presented component units that are tantamount to long term debt financing. The primary government's liability is reported in the statement of net assets, the proceeds in the primary government's funds, and the asset in the discretely presented component units' statement of net assets.

**(x) Lottery Revenue and Prizes**

The revenue, expenses, and prizes awarded by the Lottery of Puerto Rico and the Additional Lottery System, reported within the lotteries enterprise fund, are recognized as drawings are held. Moneys collected prior to June 30 for tickets related to drawings to be conducted subsequent to June 30 are reported as deferred revenue. Unpaid prizes awarded as of June 30 are reported as a fund liability. Unclaimed prizes expire after six months and are transferred to the general fund.

**(y) Risk Management**

The Commonwealth purchases commercial insurance covering casualty, theft, tort claims, and other losses for the primary government, most component units, and the municipalities. The Commonwealth is reimbursed for premium payments made on behalf of the component units and the municipalities. The current insurance policies have not been canceled or terminated. For workers' compensation, the Commonwealth has a discretely presented component unit, the SIFC, which provides workers' compensation to both public and private employees. In the past three years, the Commonwealth has not settled claims that exceed insurance coverage.

Certain component units combine commercial insurance with internal self insurance funds covering specific risks related to their specialized operations.

**(z) Tobacco Settlement**

The Commonwealth follows GASB Technical Bulletin No. 2004 1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, as amended, (the TB), which provides accounting guidance for entities created to obtain the rights to all or a portion of future tobacco settlement resources and for the governments that create such entities.

The TB indicates that the entity created to obtain the rights, which is called the Tobacco Settlement Authority (TSA), should be considered a component unit of the government that created it and the component unit should be blended. The TB also states that the government receiving the payments from the tobacco companies under the agreement, which are called settling governments, should recognize a receivable and revenue for tobacco settlement resources (TSRs) when an event occurs. The event that results in the recognition of an asset and revenue by the settling government is the domestic shipment of cigarettes. The TB indicates that accruals should be made by the settling government and TSAs for estimated shipments from January 1 to their respective fiscal year ends, since the annual payments are based on a calendar year. However, under the modified accrual basis of accounting at the fund level, revenue should be recognized only to the extent that resources are available.

**(aa) Reclassifications**

Certain reclassifications have been made to the information presented in the separately issued financial statements of certain blended component units and agencies included within the special revenue, debt service, capital projects, proprietary funds, and discretely presented component units to conform to the accounting classifications used by the Commonwealth in the basic financial statements.

**(ab) Use of Estimates**

The preparation of the basic financial statements in conformity with GAAP 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 basic financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**(ac) Future Adoption of Accounting Pronouncements**

The GASB has issued the following accounting standards that have effective dates after June 30, 2009:

- GASB 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. This Statement is effective for periods beginning after June 15, 2009.

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. This Statement is effective for periods beginning after June 15, 2009.

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement is effective for periods beginning after June 15, 2010.

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple — employer other postemployment benefit (OPEB) plans. The provisions of this Statement related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Earlier application of this Statement is encouraged.

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. This Statement is effective for periods beginning after June 15, 2009.

- GASB Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement is effective for periods beginning after June 15, 2010.

The impact of these statements on the Commonwealth's basic financial statements has not yet been determined.

## 2. COMPONENT UNITS

The Commonwealth follows the provisions of GASB Statement No. 14, as amended by GASB Statement No. 39. The basic financial statements of the Commonwealth include the financial statements of the following component units that were audited by other auditors:

Blended component units:

Public Buildings Authority

Discretely presented component units:

Agricultural Services and Development Administration
Automobile Accidents Compensations Administration
Cardiovascular Center Corporation of Puerto Rico and the Caribbean
Company for the Integral Development of the "Península de Cantera"
Corporation for the "Caño Martín Peña" ENLACE Project
Corporation for the Development of Arts, Science and Film Industry of Puerto Rico

Culebra Conservation and Development Authority
Economic Development Bank for Puerto Rico
Employment and Training Enterprises Corporation
Farm Insurance Corporation of Puerto Rico
Fine Arts Center Corporation
Governing Board of the 9 1 1 Service
Institute of Puerto Rican Culture
Institutional Trust of the National Guard of Puerto Rico
Land Authority of Puerto Rico
Musical Arts Corporation
National Parks Company of Puerto Rico
Port of the Americas Authority
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
Puerto Rico Aqueduct and Sewer Authority
Puerto Rico Conservatory of Music Corporation
Puerto Rico Council on Higher Education
Puerto Rico Electric Power Authority
Puerto Rico Health Insurance Administration
Puerto Rico Highways and Transportation Authority
Puerto Rico Industrial Development Company
Puerto Rico Land Administration
Puerto Rico Maritime Transportation Authority
Puerto Rico Medical Services Administration
Puerto Rico Metropolitan Bus Authority
Puerto Rico Ports Authority
Puerto Rico Public Broadcasting Corporation
Puerto Rico School of Plastic Arts
Puerto Rico Solid Waste Authority
Puerto Rico Trade and Export Company
Right to Employment Administration
University of Puerto Rico

## 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### (a) Budgetary Control

The Governor is constitutionally required to submit to the Legislature an annual balanced budget of the Commonwealth for the ensuing fiscal year. The annual budget is prepared by the Commonwealth's OMB and takes into consideration the advice provided by the Puerto Rico Planning Board (annual economic growth forecasts and four year capital improvements plan), the Department of the Treasury of the Commonwealth (revenue estimates, accounting records, and the comprehensive annual financial report), GDB (fiscal agent), and other governmental offices and agencies. Section 7 of Article VI of the Constitution of Puerto Rico provides that "The appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for the said fiscal year, unless the imposition of taxes sufficient to cover the said appropriations is provided by law".

The annual budget, which is developed utilizing elements of program budgeting, includes an estimate of revenue and other resources for the ensuing fiscal year under: (1) laws existing at the time the budget is submitted; and (2) legislative measures proposed by the Governor and submitted

with the proposed budget, as well as the Governor's recommendations as to appropriations that in his judgment are necessary, convenient, and in conformity with the four year capital improvements plan adopted by the Puerto Rico Planning Board.

The Legislature may amend the budget submitted by the Governor but may not increase any items so as to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. Upon passage by the Legislature, the budget is referred to the Governor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with his objections. The Legislature, by two thirds majority in each house, may override the Governor's veto. If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Governor, is automatically renewed for the ensuing fiscal year until a new budget is approved by the Legislature and the Governor. This permits the Commonwealth to continue making payments for its operating and other expenses until the new budget is approved. The appropriated annual budget for fiscal year 2009 amounted to approximately $5.8 billion. The Legislature also made several special budgetary appropriations to the general fund throughout the year, which amounted to approximately $3.6 billion.

The OMB has authority to amend the budget within a department, agency, or government unit without legislative approval.

For budgetary purposes, encumbrance accounting is used. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. For GAAP reporting purposes, encumbrances outstanding at year end are reported as reservations of budgetary appropriations within GAAP fund balances and do not constitute expenditures or liabilities on a GAAP basis because the commitments will be honored during the subsequent year. The unencumbered balance of any appropriation of the general fund at the end of the fiscal year lapses immediately. Appropriations, other than in the general fund, are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

During any fiscal year in which the resources available to the Commonwealth are insufficient to cover the appropriations approved for such year, the Governor may take administrative measures to reduce expenses and submit to both houses of the Legislature a detailed report of any adjustment necessary to balance the budget, or make recommendations to the Legislature for new taxes or authorize borrowings under provisions of existing legislation or take any other necessary action to meet the estimated deficiency. Any such proposed adjustments shall give effect to the " priority norms" established by law for the disbursement of public funds in the following order of priority: (i), the payment of the interest on and amortization requirements for public debt (Commonwealth general obligations and guaranteed debt for which the Commonwealth's guarantee has been exercised); (ii), the fulfillment of obligations arising out of legally binding contracts, court decisions on eminent domain, and other unavoidable obligations to protect the name, credit and full faith of the Commonwealth; (iii), current expenditures in the areas of health, protection of persons and property, education, welfare and retirement systems; and (iv), all other purposes.

In addition, the Legislature may direct that certain revenue be retained and made available for spending within a specific appropriation account. Generally, expenditures may not exceed the level of spending authorized for an individual department. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Appropriations are enacted for certain departments, agencies, and government units included in the general fund.

For these funds, a statement of revenue and expenditures — budget and actual budget basis — general fund is included. Appropriations for capital projects are made for each bond issue and the authorization continues for the expected construction period.

The OMB has the responsibility to ensure that budgetary spending control is maintained on an individual department basis. OMB may transfer part or all of any unencumbered balance within a department to another department subject to legislative approval. Budgetary control is exercised through the Puerto Rico Integrated Financial Accounting System (PRIFAS). PRIFAS ensures that encumbrances or expenditures are not processed if they exceed the department's total available spending authorization, which is considered its budget. The legal level of budgetary control is at the individual department level for general fund expenditures, principal and interest due for the year for the debt service fund, and by bond authorization for capital expenditures.

**(b) Budget/GAAP Reconciliation**

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity, timing, and basis differences in the excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses for the year ended June 30, 2009 is presented below for the general fund (expressed in thousands):

| | |
|---|---|
| Excess of revenues and other financing sources over expenditures and other financing uses – budget basis | $ 320,141 |
| Entity differences — excess (deficiency) of revenue and other financing sources over expenditures and other financing uses for: | |
| Nonbudgeted funds | 536,075 |
| Inclusion of agencies with independent treasuries | (549) |
| Timing differences: | |
| Adjustment for encumbrances | 212,861 |
| Current year expenditures against prior year encumbrances | (325,380) |
| Basis of accounting differences: | |
| Net increase in taxes receivable (net of tax refunds) | 113,665 |
| Net increase in other receivables | 13,375 |
| Net increase in deferred revenue | (252,127) |
| Excess of revenues and other financing sources over expenditures and other financing uses – GAAP basis | $ 618,061 |

The Commonwealth's amended budgeted expenditures (including transfers) for fiscal year 2009 of $9.5 billion exceeded projected revenues (including transfers) of $8.6 billion by approximately $882 million. The Commonwealth expected to cover this budget deficit through the implementation of additional expenditure reducing measures, tax revenue measures, and cash management mechanisms.

**(c) Deficit Net Assets**

The following activities, funds, and discretely presented component units reflect deficit fund balance/net assets at June 30, 2009 (expressed in thousands):

| | |
|---|---|
| Primary government: | |
| Governmental activities | $ 27,186,249 |
| General fund | 1,435,627 |
| Enterprise fund – lotteries | 130,134 |
| Component units: | |
| Puerto Rico Health Insurance Administration | $ 177,394 |
| Special Communities Perpetual Trust | 160,996 |
| Puerto Rico Infrastructure Financing Authority | 118,839 |
| Agricultural Services and Development Administration | 116,131 |
| Puerto Rico Medical Services Administration | 91,152 |
| Automobile Accident Compensation Administration | 67,938 |
| Cardiovascular Center Corporation of Puerto Rico and the Caribbean | 42,781 |
| Puerto Rico Maritime Transportation Authority | 29,564 |
| Land Authority of Puerto Rico | 20,707 |
| Puerto Rico Metropolitan Bus Authority | 19,568 |
| Employment and Training Enterprises Corporation | 8,115 |
| Musical Arts Corporation and Subsidiaries | 5,364 |
| Right to Employment Administration | 2,961 |

The Commonwealth's governmental activities show a deficit of approximately $27.2 billion, mostly attributed to the Commonwealth outstanding bonds amounting to approximately $25.7 billion, which are recognized in the statement of net assets (deficit). The deficit is attributable to the accumulated effect of high operating expenses in the government along with a decrease in estimated revenues as well as the primary government issuing debt, the proceeds of which are to certain extent transferred to component units and to other governments, and which are not presented in these basic financial statements. On the other hand, the discretely presented component units report net assets of approximately $11.3 billion. This inverse relationship between the governmental activities and component units' net assets reveal the operational structure of the Commonwealth where the primary government issues debt, the proceeds of which are predominantly transferred to the component units and to other governments, that are not presented in these basic financial statements, to finance their capital projects and other operational needs. The Commonwealth includes within the annual budgetary appropriation process the necessary funds to cover the annual debt service requirements of the aforementioned debt, most of which are the result of Act No. 164 of December 17, 2001, described in note 15(d).

Governmental activities also include COFINA's deficit amounting to $8.5 billion principally attributed to bonds payable amounting to $10.8 billion.

In an effort to address the Commonwealth's fiscal difficulties, the current administration is committed to research and pursue solutions to improve the Commonwealth's competitive economic performance and the quality of life for its people. The Commonwealth's economic development program is focused on initiatives aimed at producing more diversified and sustainable economic development.

The Commonwealth has developed and commenced implementing a multi-year Fiscal Stabilization and Economic Reconstruction Plan that seeks to achieve fiscal balance and restore economic growth

and acknowledges that fiscal stabilization is central to safeguarding the Commonwealth's investment-grade credit rating and restoring Puerto Rico's economic growth and development. During the first quarter of 2009, the Legislative Assembly enacted three bills providing for the implementation of this plan, which is composed of two main elements: the Fiscal Stabilization Plan (the "Fiscal Plan") and the Economic Reconstruction Plan (the "Economic Plan").

The Additional Lottery System activities show a deficit of approximately $130 million, mostly attributed to a payment amounting to $200 million made in 2004 to the Commonwealth. This transaction was authorized pursuant to Act No. 171, dated July 29, 2004, which among other things authorized the Secretary of the Treasury of the Commonwealth to provide funding for the payment of lotto prize annuities upon depletion of other resources available at the Additional Lottery System. It is the opinion of the additional lottery management that the deficiency is not an indication of financial difficulties for the payment of long term lotto prizes because funds will be provided from either the Additional Lottery System or from financial assistance provided by the Commonwealth.

## 4. RESTATEMENTS

Subsequent to the issuance of the Commonwealth's basic financial statements for the year ended June 30, 2008, the Commonwealth's management determined that the Commonwealth's 2008 basic financial statements were misstated.

The Commonwealth's 2008 government-wide financial statements were misstated as a result of the following:

Governmental activities:

- The exclusion of Puerto Rico Sales Tax Financing Corporation (COFINA) as a blended component unit in the Commonwealth's basic financial statements.
- Recognition of a loan with GDB under Act No. 249 of November 17, 2006 that will be paid by the State Insurance Fund Corporation, a discretely presented component unit.
- Accrual of the Employees' Christmas Bonus was understated due to a miscalculation.
- Accrual for compensated absences includes contributions to the Retirement Systems which do not meet the criterion of direct and incremental salary-related payments.
- Incorrect amortization of debt issue costs, deferred refunding loss, unaccreted interest, and premium (discount).
- Assets under capital leases not recorded.
- Obligations under capital leases not recorded.
- A salary-related debt not recorded by the Police Department.
- Unrecorded disposal of capital assets.
- Internal activity and balances not eliminated.

- Disbursement transactions of the Work Opportunity Fund and administrative costs recorded in the Unemployment Fund instead of the General Fund.
- Cash reconciling items from prior years recorded twice.
- Notes payable to component units also recorded as due to component units and therefore duplicated.
- Write-off of other assets.
- Other

Business-type activities:

- Disbursement transactions of the Work Opportunity Fund and administrative costs recorded in the Unemployment Fund instead of the General Fund.
- Cash reconciling items from prior years recorded twice in the Unemployment Fund.

Accordingly, the net assets (deficit) of the Governmental Activities and Business-Type Activities as of June 30, 2008, in the statement of activities, as previously reported, have been restated to reflect an increase of $5,680,630 and $118,072, respectively, which represent the correction of the errors described above. A summary of the effects of the restatements in the statement of activities for the fiscal year 2008 is as follows (in thousands):

| | Primary Government | | |
|---|---|---|---|
| | Governmental activities | Business-type activities | Totals primary government |
| NET ASSETS (DEFICIT) - Beginning of year - as previously reported | $ (17,815,330) | $ 724,163 | $(17,091,167) |
| ADJUSTMENTS: | | | |
| Exclusion of Cofina as a blended component unit | (5,159,292) | - | (5,159,292) |
| Loan with GDB under Act No. 249 | 253,036 | - | 253,036 |
| Understatement of employees' Christmas bonus | (73,533) | - | (73,533) |
| Accrual of contributions to the Retirement Systems | 138,127 | - | 138,127 |
| Incorrect amortization of debt issue costs, deferred refunding loss, unaccreted interest, and premium (discount) | (127,718) | - | (127,718) |
| Assets under capital leases not recorded | 60,997 | - | 60,997 |
| Obligations under capital leases not recorded | (64,216) | - | (64,216) |
| Salary-related debt not recorded by the Police Department | (255,032) | - | (255,032) |
| Unrecorded disposals of capital assets | (9,780) | - | (9,780) |
| Internal activity and balances not eliminated | (81,176) | | (81,176) |
| Disbursement transactions of the Work Opportunity Fund and administrative costs recorded in the Unemployment Fund instead of the General Fund | (104,061) | 104,061 | - |
| Cash reconciling items from prior years recorded twice | (305,825) | 14,011 | (291,814) |
| Double recording of notes payable to component units | 60,799 | - | 60,799 |
| Write-off of other assets | (9,690) | - | (9,690) |
| Other | (3,266) | - | (3,266) |
| Total adjustments | (5,680,630) | 118,072 | (5,562,558) |
| NET ASSETS (DEFICIT) - Beginning of year - as restated | $ (23,495,960) | $ 842,235 | $(22,653,725) |

The Commonwealth's 2008 fund financial statements were misstated as a result of the following:

- Disbursement transactions of the Work Opportunity Fund and administrative costs recorded in the Unemployment Fund instead of the General Fund.
- Cash transactions of the Debt Service Fund incorrectly recorded in the General Fund.
- Cash reconciling items from prior years recorded twice in the General Fund.
- Notes payable to component units also recorded as due to component units and therefore duplicated.
- Write-off of other assets recorded in the General Fund.
- Overstatements of interfund transactions between the General Fund and the Capital Projects Fund.
- Exclusion of Cofina as a blended component unit.
- Other

Accordingly, the fund balances (deficit) of the General, Debt Service, Cofina Special Revenue, Cofina Debt Service, and Other Governmental Funds as of June 30, 2008, in the statement of revenues, expenditures, and changes in fund balances (deficit), as previously reported, have been restated to reflect an increase (decrease) of $(282,803), $(54,560), $78,488, $134,738, and $(24,680), respectively, which represent the correction of the errors described above. A summary of the effects of the restatements in the fiscal year 2008 statement of revenues, expenditures, and changes in fund balances (deficit) is as follows (in thousands):

| | General | Debt Service | COFINA Special Revenue | COFINA Debt Service | Other Governmental | Total Governmental |
|---|---|---|---|---|---|---|
| FUND BALANCE (DEFICIT) - Beginning of year - as previously reported | $ (1,770,885) | $ 3,812 | $ - | $ - | $ 856,937 | $ (910,136) |
| ADJUSTMENTS: | | | | | | |
| Disbursement transactions of the Work Opportunity Fund and administrative costs recorded in the Unemployment Fund instead of the General Fund | (104,061) | - | - | - | - | (104,061) |
| Cash transactions recorded in an incorrect fund | 57,431 | (57,431) | - | - | - | - |
| Cash reconciling items from prior years recorded twice in the General Fund | (305,825) | - | - | - | - | (305,825) |
| Double recording of notes payable to component units | 60,799 | - | - | - | - | 60,799 |
| Writte off of other assets recorded in the General Fund | (9,690) | - | - | - | - | (9,690) |
| Overstatements of interfund transactions | 24,680 | - | - | - | (24,680) | - |
| Exclusion of Cofina as a blended component unit | - | - | 78,488 | 134,738 | - | 213,226 |
| Other | (6,137) | 2,871 | - | - | - | (3,266) |
| Total adjustments | (282,803) | (54,560) | 78,488 | 134,738 | (24,680) | (148,817) |
| FUND BALANCE (DEFICIT) - Beginning of year - as restated | $ (2,053,688) | $ (50,748) | $ 78,488 | $ 134,738 | $ 832,257 | $ (1,058,953) |

The net assets of the Unemployment Insurance Fund as of June 30, 2008, in the statement of revenues, expenses, and changes in fund net assets (deficit), as previously reported, have been restated to reflect an increase of $118,072, which represents the correction of the errors described above. A summary of the effects of the restatements in the fiscal year 2008 statement of revenues, expenses, and changes in fund net assets (deficit) is as follows (in thousands):

| | Business-type activities - Enterprise funds | |
|---|---|---|
| | Unemployment Insurance | Total Proprietary |
| NET ASSETS - Beginning of year - as previously reported | $ 369,002 | $ 724,163 |
| ADJUSTMENTS: | | |
| Disbursement transactions of the Work Opportunity Fund and administrative costs recorded in the Unemployment Fund instead of the General Fund | 104,061 | 104,061 |
| Cash reconciling items from prior years recorded twice in the Unemployment Fund | 14,011 | 14,011 |
| Total adjustments | 118,072 | 118,072 |
| NET ASSETS - Beginning of year - as restated | $ 487,074 | $ 842,235 |

The following table summarizes changes to net assets at the beginning of the year as previously reported in the statement of net assets by certain discretely presented component units. The changes resulted primarily from presentation of Puerto Rico Sales Tax Financing Corporation as a blended component unit, restatements to correct errors in the prior year's financial statements of certain component units and the inclusion of certain nonmajor component units that were excluded in 2008 (expressed in thousands):

| | |
|---|---|
| NET ASSETS - Beginning of year - as previously reported | $ 7,834,223 |
| Presentation of Puerto Rico Sales Tax Financing Corporation as a blended component unit | 5,159,292 |
| Restatement of major component unit audited by other auditors | (15,005) |
| Restatements of nonmajor component units audited by other auditors | (36,914) |
| Nonmajor component units | (318,852) |
| Nonmajor component units included fiscal year 2009 but excluded in fiscal year 2008 | 49,420 |
| NET ASSETS - Beginning of year - as restated | $ 12,672,164 |

## 5. PUERTO RICO GOVERNMENT INVESTMENT TRUST FUND (PRGITF)

PRGITF was created by Act No. 176, of August 11, 1995, and began operations on December 4, 1995. PRGITF is a no load diversified collective investment trust administered by GDB that was created for the purpose of providing eligible governmental investors of Puerto Rico with a convenient and economical way to invest in a professionally managed money market portfolio. PRGITF is not an investment company or a mutual fund and is not subject to regulation or registration under the investment company Act of 1940. Units issued by PRGITF are not subject to regulation or registration

under the Securities and Exchange Act of 1933, as amended, because the units are issued by a government entity. The deposits on hand and the investments purchased are not collateralized, secured, or guaranteed by the Commonwealth or any of its agencies, instrumentalities, or political subdivisions.

PRGITF is considered a 2a7-like external investment pool, and as such, reports its investment at amortized cost.

The investment securities on hand at June 30, 2009, consisted of certificates of deposit, bank notes, corporate obligations, commercial paper, and U.S. government and agencies obligations, all of which may be considered highly liquid. However, the participants' investments are subject to the ability of PRGITF to receive payment from the securities' issuer when due. The liquidity of certain investments and changes in interest rates may affect PRGITF's yield and the fair value of its investments.

The dollar amount of the deposits on hand at June 30, 2009 at $1.00 per unit of participation, was reported in the individual financial statements of each of the participants, and combined in the basic financial statements as follows (expressed in thousands):

| | Balance Outstanding | Percentage of Total |
|---|---|---|
| Primary government: | | |
| Puerto Rico Sales Tax Financing Corp. | $ 1,958,658 | 79.01 % |
| Commonwealth | 289,019 | 11.66 |
| The Children's Trust | 36,152 | 1.46 |
| Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities | 2 | |
| Total for primary government | 2,283,831 | 92.13 |
| Discretely presented component units: | | |
| Government Development Bank for Puerto Rico | 153,505 | 6.19 |
| Puerto Rico Aqueduct and Sewer Authority | 26,300 | 1.06 |
| State Insurance Fund Corporation | 8,456 | 0.34 |
| Institutional Trust of the National Guard of Puerto Rico | 3,887 | 0.16 |
| Puerto Rico Land Administration | 677 | 0.03 |
| Puerto Rico Solid Waste Authority | 620 | 0.03 |
| Puerto Rico Infrastructure Financing Authority | 405 | 0.02 |
| Puerto Rico Highways and Transportation Authority | 293 | 0.01 |
| Puerto Rico Electric Power Authority | 167 | 0.00 |
| Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives | 129 | 0.00 |
| Total for discretely presented component units | 194,439 | 7.84 |
| Other governmental entities | 654 | 0.03 |
| Total for all participants | $ 2,478,924 | 100 % |

The deposits at June 30, 2009 were invested in securities with a cost that approximates fair value, plus accrued interest, for approximately $2.5 billion. The external portion of PRGITF was not considered significant for separate reporting in the accompanying basic financial statements.

Following is a table of the investments and other assets held at June 30, 2009, presented at amortized cost (expressed in thousands):

| | |
|---|---|
| U.S. government and agencies' obligations | $ 727,424 |
| Money market | 689,967 |
| Commercial paper | 641,660 |
| Securities purchased under agreements to resell | 362,258 |
| Certificates of deposits | 34,248 |
| Corporate obligations | 22,404 |
| Other assets | 963 |
| Total | $2,478,924 |

## 6. DEPOSITS AND INVESTMENTS

Pursuant to the provisions of Act No. 91 of March 29, 2004 the primary government may invest in different types of securities, including domestic, international, and fixed income securities, among others.

The primary government maintains a cash and investment pool that is available for use by all funds, except for the fiduciary funds. Each fund's portion of this pool is reported on the statement of net assets as cash and cash equivalents. The fiduciary funds investments are held and managed separately from those of other primary government funds.

**Primary Government** — Cash and cash equivalents consist of demand deposits, interest bearing accounts, certificates of deposit, bank investment contracts, and deposits invested in PRGITF (see note 5).

The carrying amount of deposits of the primary government at June 30, 2009 consists of the following (expressed in thousands):

| | Carrying Amount | | | Bank |
|---|---|---|---|---|
| | Unrestricted | Restricted | Total | Balance |
| Commercial banks and U.S. Treasury | $ 877,620 | $ 737,285 | $1,614,905 | $1,994,797 |
| Component unit banks | 806,848 | 1,797,388 | 2,604,236 | 2,620,296 |
| Total | $1,684,468 | $2,534,673 | $4,219,141 | $4,615,093 |

Custodial credit risk is the risk that in the event of bank failure, the primary government's deposit might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by banks in the Commonwealth's name. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico.

At year end, the Commonwealth's bank balance of deposits in commercial banks amounting to $1.4 billion was covered by federal depository insurance or by collateral held by the Commonwealth's agent in the Commonwealth's name. Deposits of approximately $479 million with the U.S. Treasury represent unemployment insurance taxes collected from employers that are transferred to the federal

Unemployment Insurance Trust Fund in the U.S. Treasury. These deposits are uninsured and uncollateralized. The bank balance of deposits in component unit banks, which as of June 30, 2009 amounted to approximately $2.6 billion is also uninsured and uncollateralized. These deposits in component unit's banks are maintained with GDB and EDB. Deposits maintained in GDB and EDB are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk, because in the event of GDB's or EDB's failure, the Commonwealth may not be able to recover these deposits.

Deposits in component unit banks represent the balance of interest and noninterest bearing accounts in GDB and EDB. The deposit liability at GDB and EDB is substantially related to deposits from other component units and of the Commonwealth. The deposit liability does not agree with the governmental cash balances shown above because of reconciling items such as outstanding checks and deposits in transit.

The bank balance of GDB's and EDB's deposits at June 30, 2009 is broken down as follows (expressed in thousands):

| | |
|---|---|
| Primary government | $ 5,217,402 |
| Discretely presented components units | 1,022,704 |
| Total pertaining to the Commonwealth | 6,240,106 |
| Municipalities of Puerto Rico | 541,285 |
| Other nongovernmental entities | 579,665 |
| Certificate of indebtedness | 11,800 |
| Escrow accounts | 533,674 |
| Total deposits per GDB and EDB | $ 7,906,530 |

Unrestricted deposits include approximately $2.5 billion that are invested in PRGITF (see note 5). Such amount has been included as cash and cash equivalents and as investments in the primary government's statement of net assets (deficit).

**Investments**

*Custodial Credit Risk* — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the transaction, the primary government may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2009, securities investments were registered in the name of the Commonwealth and were held in the possession of the Commonwealth's custodian bank.

*Governmental Activities* — The fair value by investment type, credit quality ratings, and maturity of the unrestricted investments reported by the governmental activities at June 30, 2009 consist of the following (expressed in thousands):

| | | Investment Rating | | |
|---|---|---|---|---|
| | Fair Value | AAA to A | BAA to B | Not Rated |
| Investment pool | $ 203,878 | $ 203,878 | $ - | $ - |
| Guaranteed investment contract | 83,684 | 83,684 | | |
| PRGITF | 1,994,810 | 1,994,810 | - | - |
| Total | $ 2,282,372 | $ 2,282,372 | $ - | $ - |

| | | Maturity (in Years) | | | |
|---|---|---|---|---|---|
| | Fair value | Less Than 1 Year | 1 to 5 Years | 6 to 10 Years | More Than 10 Years |
| Investment pool | $ 203,878 | $ 203,878 | $ - | $ - | $ - |
| Guaranteed investment contract | 83,684 | 83,684 | - | - | - |
| PRGITF | 1,994,810 | 1,994,810 | - | - | - |
| Total | $2,282,372 | $ 2,282,372 | $ - | $ - | $ - |

*Business type Activities* — The fair value by investment type, credit quality ratings, and maturity of the restricted investments reported by the business type activities at June 30, 2009 consist of the following (expressed in thousands):

| | | Investment Rating | | |
|---|---|---|---|---|
| | Fair Value | AAA to A | BAA to B | Not Rated |
| Mortgage-backed securities | $ 7,047 | $ 7,047 | $ - | $ - |
| U.S. government and agency securities | 3,210 | 3,190 | - | 20 |
| U.S. equity securities | 10,718 | - | - | 10,718 |
| U.S. corporate debt securities | 6,759 | 4,854 | 1,905 | - |
| Other | 2,096 | 1,376 | - | 720 |
| Total | $ 29,830 | $ 16,467 | $ 1,905 | $ 11,458 |

| | | Maturity (in Years) | | | |
|---|---|---|---|---|---|
| | Fair Value | Less Than 1 Year | 1 to 5 Years | 6 to 10 Years | More Than 10 Years |
| Mortgage-backed securities | $ 7,047 | $ - | $ - | $ - | $ 7,047 |
| U.S. government and agency securities | 3,210 | - | 3,190 | 20 | - |
| U.S. equity securities | 10,718 | 10,718 | - | - | - |
| U.S. corporate debt securities | 6,759 | 310 | 2,448 | 2,672 | 1,329 |
| Other | 2,096 | - | 1,300 | - | 796 |
| Total | $ 29,830 | $ 11,028 | $ 6,938 | $ 2,692 | $ 9,172 |

*Component Units* — Cash and cash equivalents of the component units at June 30, 2009 consist of (expressed in thousands):

| | Carrying Amount | | | Bank |
|---|---|---|---|---|
| | Unrestricted | Restricted | Total | Balance |
| Commercial banks | $2,977,308 | $2,489,674 | $5,466,982 | $5,475,725 |
| Component unit banks | 547,911 | 479,955 | 1,027,866 | 1,022,704 |
| Total | $3,525,219 | $2,969,629 | $6,494,848 | $6,498,429 |

Cash and cash equivalents consist of demand deposits, interest bearing accounts, certificates of deposit, and bank investment contracts.

Custodial credit risk is the risk that, in the event of bank failure, the component unit's deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico 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. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico.

Deposits maintained in GDB and EDB are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk because in the event of GDB's or EDB's failure, the Commonwealth may not be able to recover the deposits.

The component units were exposed to the following custodial credit risk arising from the balance of deposits maintained in commercial and component unit banks at June 30, 2009 (expressed in thousands):

| | |
|---|---|
| Uninsured and uncollateralized | $1,022,704 |
| Uninsured and collateralized, with securities held by the pledging financial institutions | 5,471,967 |
| Uninsured and collateralized, with securities held by the pledging financial institutions but not in the component unit's name | 3,758 |
| Total | $6,498,429 |

**Investments** — The component units' investment policies allow management to purchase or enter into the following investment instruments:

- U.S. government and agencies obligations
- Certificates and time deposits
- Bankers' acceptances
- Obligations of the Commonwealth of Puerto Rico and municipalities
- Federal funds sold
- Securities purchased under agreements to resell

- World Bank securities
- Corporate debt, including investment contracts
- External investment pools
- Stock of corporations created under the laws of the United States of America or the Commonwealth
- Options, futures, and interest rates swap agreements for hedging and risk control purposes, as well as for the creation of synthetic products that qualify under any of the foregoing investment categories.
- Open end mutual funds with acceptable underlying assets and rated AAA by Standard & Poor's or AAA by Moody's Investors Service
- A few component units, principally SIFC, are also allowed to enter into foreign currency investments, under certain limitations

The component units' investment policies establish limitations and other guidelines on amounts to be invested in the aforementioned investment categories and by issuer/counterparty and on exposure by country. In addition, such policies provide guidelines on the institutions with which investment transactions can be entered into.

The component units' investment policies provide that investments transactions shall be entered into only with counterparties that are rated BBB+/A 1 or better by the Standard & Poor's or equivalent rating by Fitch or Moody's Investors Service, depending on the type and maturity of the investment and the counterparty to the transaction. Also, the investment policy specifies that no more than 5% of a manager's assets at fair value shall be invested in the securities of any single issuer.

All investments in U.S. Treasury securities and mortgage backed securities guaranteed by GNMA carry the explicit guarantee of the U.S. government and are presented as "not rated" in the table below. The credit qualifying ratings for investments held by the component units at June 30, 2009 are as follows (expressed in thousands):

| | Fair Value | | | Investment Rating | | | |
|---|---|---|---|---|---|---|---|
| | Unrestricted | Restricted | Total | AAA to A | BAA to B | Not Rated | Total |
| Investment pool | $2,222,976 | $ 219,981 | $2,442,957 | $2,255,898 | $ 5,568 | $181,491 | $2,442,957 |
| US government and agency securities | 395,536 | 1,080,586 | 1,476,122 | 1,397,807 | - | 78,315 | 1,476,122 |
| Mortgage backed securities | 378,287 | 1,015,137 | 1,393,424 | 1,376,394 | 1,502 | 15,528 | 1,393,424 |
| Puerto Rico agencies and municipal bonds | 38,463 | 1,162,098 | 1,200,561 | 8,644 | 1,191,917 | - | 1,200,561 |
| Other | 1,039,065 | 15,827 | 1,054,892 | 542,384 | 490,796 | 21,712 | 1,054,892 |
| Guaranteed investment contract | 188,025 | 635,164 | 823,189 | 734,104 | 53,932 | 35,153 | 823,189 |
| US corporate stocks | 458,852 | 52,985 | 511,837 | 119,133 | 98,750 | 293,954 | 511,837 |
| Negotiable certificates of deposit | 204,069 | 164,801 | 368,870 | 185,549 | 165,910 | 17,411 | 368,870 |
| Investment in equity securities | 96,466 | 61,045 | 157,511 | 37,316 | 6,989 | 113,206 | 157,511 |
| P.R. Government Investment Trust Fund | 150,185 | - | 150,185 | 150,056 | 129 | - | 150,185 |
| US sponsored agencies notes | 124,273 | - | 124,273 | 124,273 | - | - | 124,273 |
| Securities lending transactions | 109,400 | - | 109,400 | - | - | 109,400 | 109,400 |
| Money market fund | 197 | 50,556 | 50,753 | 50,462 | - | 291 | 50,753 |
| Non US corporate stocks | 10,287 | - | 10,287 | - | - | 10,287 | 10,287 |
| Commercial paper | 4,000 | - | 4,000 | 4,000 | - | - | 4,000 |
| Total investments | $5,420,081 | $4,458,180 | $9,878,261 | $6,986,020 | $2,015,493 | $876,748 | $9,878,261 |

Certain component units classified approximately $44.2 million of investments presented in PRGITF as cash and cash equivalents. The following table summarizes the type and maturities of investments held by the component units at June 30, 2009 (expressed in thousands):

| | Fair Value | Less Than 1 Year | 1–5 Years | 6–10 Years | More Than 10 Years | No Stated Maturity Date | Total |
|---|---|---|---|---|---|---|---|
| Investment pool | $2,442,957 | $2,380,345 | $ - | $ - | $ - | $ 62,612 | $2,442,957 |
| US government and agency securities | 1,476,122 | 501,851 | 532,332 | 61,479 | 303,201 | 77,259 | 1,476,122 |
| Mortgage backed securities | 1,393,424 | 17,339 | 179,680 | 27,814 | 1,168,580 | 11 | 1,393,424 |
| Puerto Rico agencies and municipal bonds | 1,200,561 | 88,748 | 371,073 | 361,637 | 379,103 | - | 1,200,561 |
| Other | 1,054,892 | 96,511 | 720,182 | 120,051 | 92,042 | 26,106 | 1,054,892 |
| Guaranteed investment contract | 823,189 | 19,290 | 40,377 | 17,629 | 651,122 | 94,771 | 823,189 |
| US corporate stocks | 511,837 | 86,730 | 115,583 | - | - | 309,524 | 511,837 |
| Negotiable certificates of deposit | 368,870 | 235,301 | 116,158 | - | - | 17,411 | 368,870 |
| Investment in equity securities | 157,511 | 802 | 17,018 | 13,930 | 5,423 | 120,338 | 157,511 |
| P.R. Government Investment Trust Fund | 150,185 | 150,185 | - | - | - | - | 150,185 |
| US sponsored agencies notes | 124,273 | 31,064 | 68,236 | 18,974 | 5,999 | - | 124,273 |
| Securities lending transactions | 109,400 | 109,400 | - | - | - | - | 109,400 |
| Money market fund | 50,753 | 46 | - | - | - | 50,707 | 50,753 |
| Non US corporate stocks | 10,287 | - | - | - | - | 10,287 | 10,287 |
| Commercial paper | 4,000 | 4,000 | - | - | - | - | 4,000 |
| Total | $9,878,261 | $3,721,612 | $2,160,639 | $621,514 | $2,605,470 | $769,026 | $9,878,261 |

Expected maturities will differ from contractual maturities, because the borrower may have the right to call or prepay the obligation with or without call or prepayment penalties.

The component units were exposed to the following custodial credit risk for investments held at June 30, 2009 (expressed in thousands):

| | |
|---|---|
| Insured or registered | $ 474,785 |
| Uninsured and registered, with securities held by the counterparty's trust department or agent in the component units' name | 9,294,029 |
| Uninsured and unregistered, with securities held by the counterparty's trust department or agent, but not in the component units' name | 109,447 |
| Total | $9,878,261 |

**Foreign Currency Risk** — State Insurance Fund Corporation (SIFC) limits its exposure to foreign currency risk by limiting the total amount invested to 5% of the portfolio. The SIFC investments were presented as follow (expressed in thousands):

| Investment Type | Local Currency | Fair Value |
|---|---|---|
| Money market funds | Euro | $ 4 |
| | Hong Kong dollar | 23 |
| | Singapore dollar | 60 |
| Total money market funds | | 87 |
| Interest bearing deposits held under securities loans | Euro | 24,856 |
| Common stock | Australian dollar | 1,278 |
| | British pound | 8,364 |
| | Canadian dollar | 1,444 |
| | Euro | 15,266 |
| | Hong Kong dollar | 2,267 |
| | Japanese yen | 12,252 |
| | Norwegian krona | 491 |
| | Swedish krone | 771 |
| | Swiss franc | 3,638 |
| Total common stock | | 45,771 |
| Total | | $ 70,714 |

**Fiduciary Funds** — Cash and cash equivalents of the fiduciary funds at June 30, 2009 consist of the following (expressed in thousands):

| | Carrying Amount | | | Bank |
|---|---|---|---|---|
| | Unrestricted | Restricted | Total | Balance |
| Commercial banks and U.S. Treasury | $ 1,052,922 | $ - | $ 1,052,922 | $ 1,054,516 |
| Component unit banks | 1,220,980 | 1,028,878 | 2,249,858 | 2,276,090 |
| Total | $ 2,273,902 | $ 1,028,878 | $ 3,302,780 | $ 3,330,606 |

Cash and cash equivalents consist of demand deposits, interest bearing accounts, certificates of deposit, and bank investment contracts.

**Custodial Risk** — Custodial credit risk is the risk that, in the event of a bank failure, the fiduciary funds' deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico 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. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico.

The Commonwealth was exposed to the following custodial credit risk arising from the balances of deposits maintained by the fiduciary funds in commercial and component units banks at June 30, 2009 (expressed in thousands):

| | |
|---|---|
| Uninsured and uncollateralized | $ 2,276,090 |
| Uninsured and uncollateralized, with securities held by the pledging financial institutions | 1,054,516 |
| Total | $ 3,330,606 |

**Foreign Currency Risk** — Cash exposed to foreign currency risk as of June 30, 2009 is as follows (expressed in thousands):

| Investment type | Currency | Fair Value at U.S. Dollar Currency |
|---|---|---|
| Cash | Euro | $ 1,448 |
| Cash | Japanese yen | 973 |
| Cash | British pound | 279 |
| Cash | Hong Kong dollar | 120 |
| Cash | Australian dollar | 79 |
| | | $ 2,899 |

**Investments** — The pension trust funds held investments valued at approximately $1,765,921,000 (24.12% of total assets of the pension trust funds) as of June 30, 2009, whose fair values have been estimated in the absence of readily determinable fair values. This estimate is based on information provided by the underlying fund managers.

The investment policies of the pension trust funds limit the investment in corporate debt securities to the top rating issued by nationally recognized credit rating organizations. The portfolio is expected to maintain a minimum weighted average credit quality of either "A" or better using either Standard and Poor's or Moody's credit ratings. The following table summarizes the credit quality ratings for investments held by the pension trust funds and special deposits agency funds at June 30, 2009 (expressed in thousands):

| Investment type | Fair Value | AAA to A | BAA to B | CAA to C | Not Rated |
|---|---|---|---|---|---|
| U.S. non-exchange trade mutual funds | $ 1,074,821 | $ - | $ - | $ 20,372 | $ 1,054,449 |
| U.S. equity securities | 906,721 | - | - | 11,924 | 894,797 |
| Non-U.S. non-exchange trade mutual funds | 630,038 | - | - | 12,338 | 617,700 |
| U.S. government and agencies securities | 568,111 | 443,638 | 602 | 4,462 | 119,409 |
| U.S. corporate debt securities | 410,565 | 239,385 | 165,666 | 47 | 5,467 |
| Non-U.S. equity securities | 170,167 | - | - | - | 170,167 |
| Limited partnership/private equity | 61,061 | - | - | - | 61,061 |
| Municipal bonds | 35,407 | 1,679 | 33,728 | - | - |
| Other | 5,936 | - | - | - | 5,936 |
| Total | $ 3,862,827 | $ 684,702 | $ 199,996 | $ 49,143 | $ 2,928,986 |

The following table summarizes the fair value by investment type and maturities of investments held by the pension trust funds and special deposits agency funds at June 30, 2009 (expressed in thousands):

| Investment type | Less Than 1 Year | 1–5 Years | 6–10 Years | More Than 10 Years | No Stated Maturity Date | Fair Value |
|---|---|---|---|---|---|---|
| US non-exchange trade mutual funds | $ - | $ - | $ - | $ - | $1,074,821 | $1,074,821 |
| U.S. equity securities | - | - | - | - | 906,721 | 906,721 |
| Non US non-exchange trade mutual funds | - | - | - | - | 630,038 | 630,038 |
| U.S. government and agencies securities | 22,080 | 118,218 | 54,698 | 373,115 | - | 568,111 |
| U.S. corporate debt securities | 10,695 | 137,658 | 110,668 | 151,544 | - | 410,565 |
| Non-U.S. equity securities | - | - | - | - | 170,167 | 170,167 |
| Limited partnership/private equity | - | - | - | - | 61,061 | 61,061 |
| Municipal bonds | - | 4,713 | 8,395 | 22,299 | - | 35,407 |
| Other | - | - | - | - | 5,936 | 5,936 |
| Total | $32,775 | $260,589 | $173,761 | $546,958 | $2,848,744 | $3,862,827 |

Expected maturities will differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

At June 30, 2009, securities investments amounting approximately $3.9 billion were registered in the name of the pension trust funds and were held in the possession of the pension's trust funds custodian banks.

The investment in non U.S. stocks is expected to achieve long term, aggressive capital appreciation by investing in Core EAFE (Europe Australasia and the Far East) securities. The portfolio is expected to be broadly diversified with respect to exposures to countries, economic sectors, industries, and individual stock. No single issue is expected to exceed 5% (at fair value) of the portfolio.

Investments exposed to foreign currency risk as of June 30, 2009 are as follows (expressed in thousands):

| Investment type | Currency | Fair value at U.S. dollar currency |
|---|---|---|
| Shares in commingled fund - Morgan Stanley | Various (refer to countries below) | $ 383,300 |
| Shares in commingled fund - Invesco International Equity Trust | Various (refer to countries below) | 263,777 |
| Equity securities | Euro | 42,440 |
| Equity securities | Japanese Yen | 32,916 |
| Equity securities | Pound | 27,486 |
| Equity securities | Swiss franc | 14,774 |
| Equity securities | Australian Dollar | 10,843 |
| Equity securities | Swedish krona | 9,694 |
| Equity securities | Hong Kong Dollar | 8,301 |
| Equity securities | Danish krone | 6,654 |
| Mutual funds | Pound | 4,261 |
| Equity securities | Singapore Dollar | 2,088 |
| Equity securities | Norwegian krone | 1,383 |
| Equity securities | South Korea Wwon | 929 |
| | | $ 808,846 |

As of June 30, 2009, the pension trust funds owned approximately $383 million in an international equity commingled fund under the custody of Morgan Stanley investment bank, which represented approximately 100% of the total commingled fund. In addition, as of June 30, 2009, the pension trust funds owned approximately $264 million in an international equity comingled fund under the custody of Invesco International Equity Trust, which represented approximately 45.92% of the total commingled fund.

As of June 30, 2009, these pooled trust had an asset mix and country allocation as shown in the following tables:

**Morgan Stanley:**

| **Assets Mix** | **Percent** |
|---|---|
| Cash and equivalents | 0.51 % |
| Future contracts | 12.49 |
| Equity securities | 87.00 |
| Total | 100.00 % |

| **Country Allocation** | **Currency** | **Currency Code** | **Portfolio %** |
|---|---|---|---|
| Poland | Zlotych | PLN | 0.48 % |
| Russia | Rubles | RUB | 0.65 |
| Eastern Europe | | | 1.13 |
| Austria | Euro | EUR | 0.26 |
| Belgium | Euro | EUR | 0.38 |
| Finland | Euro | EUR | 1.15 |
| France | Euro | EUR | 8.39 |
| Germany | Euro | EUR | 7.82 |
| Greece | Euro | EUR | 0.36 |
| Italy | Euro | EUR | 2.22 |
| Netherlands | Euro | EUR | 2.24 |
| Portugal | Euro | EUR | 0.24 |
| Spain | Euro | EUR | 4.44 |
| Euro Europe | | | 27.50 |
| India | Rupees | INR | 1.08 |
| Brazil | Real | BRL | 1.35 |
| Mexico | Pesos | MXN | 0.14 |
| Latin America | | | 1.49 |
| Turkey | Lira | TRY | 0.84 |
| Denmark | Kroner | DKK | 0.58 |
| Norway | Kroner | NOK | 0.92 |
| Sweden | Krona | SEK | 2.17 |
| Switzerland | Francs | CHF | 6.26 |
| United Kingdom | Pounds | GBP | 18.79 |
| Non-Euro Europe | | | 28.72 |
| Australia | Dollars | AUD | 3.16 |
| China | Yuan Renmimbi | CNY | 2.25 |
| Hong Kong | Dollars | HKD | 4.05 |
| Indonesia | Rupiahs | IDR | 0.64 |
| Japan | Yen | JPY | 25.61 |
| Malaysia | Ringgits | MYR | 0.02 |
| New Zealand | Dollars | NZD | 0.01 |
| Singapore | Dollars | SGD | 2.24 |
| Taiwan | New Dollars | TWD | 0.75 |
| Pacific | | | 38.73 |
| Cash | | | 0.51 |
| Total | | | 100.00 % |

## 7. SECURITIES LENDING TRANSACTIONS

During the year, the pension trust funds, included within the fiduciary funds, SIFC and AACA, two discretely presented component units, entered into securities lending transactions. These transactions are explained below:

**Pension Trust Funds** — The Retirements System participates in a securities lending program whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and irrevocable bank letters of credit equal to approximately 102% of the market value of the domestic securities on loan and 109% of the market value of the international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. Collateral is marked to market daily, and the agent places a request for additional collateral from brokers if needed. The custodian bank is the agent for the securities lending program.

Securities lending obligations for which collateral was received as of June 30, 2009 consist of the following (expressed in thousands):

| Securities Lent | Fair Value of Underlying Securities |
|---|---|
| U.S. government securities | $ 89,000 |
| U.S. equity securities | 37,003 |
| U.S. corporate debt securities | 13,746 |
| Non-U.S. equity securities | 5,386 |
| Non-exchange traded mutual funds: | |
| U.S. | 2,266 |
| Non-U.S. | 630 |
| | $ 148,031 |

The underlying collateral for these securities had a fair value of approximately $151.7 million as of June 30, 2009. The collateral received was invested in a short term investment fund sponsored by the custodian bank and is included as part of cash and cash equivalents in the accompanying statement of fiduciary net assets.

Under the terms of the securities lending agreement, the Retirement System is fully indemnified against failure of the borrowers to return the loaned securities (to the extent the collateral is inadequate to replace the loaned securities) or failures to pay the Retirement System for income distribution by the securities' insurers while the securities are on loan. In addition, the Retirement System is indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis.

The relationship between the investment maturities and the Retirement Systems' loans cannot be determined.

At year end, the Retirement Systems have no credit risk exposure to borrowers because the amounts that the Retirement Systems owe the borrowers exceed the amounts the borrowers owe to the Retirement Systems. The Retirement Systems' rights to collateral are defined in the contractual agreements. The borrower's creditworthiness is also proactively reviewed by the lending agent.

**Component Units**

*SIFC* — The Commonwealth statutes and the SIFC's board of directors' policies permit SIFC to use its investments to enter into securities lending transactions. The SIFC's securities custodian, as agent of SIFC, manages the securities lending program and receives cash collateral, securities, or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by SIFC unless the borrower defaults. The collateral requirement is equal to 102% for securities issued in the United States of America and 105% for securities issued outside of the United States of America of the fair value of the securities lent. Additional collateral has to be provided by the next business day if the collateral fair value falls below the fair value of the securities lent. At year-end, SIFC has no credit risk exposure to borrowers because the amounts SIFC owes the borrowers exceed the amounts the borrowers owe SIFC. Contracts with the lending agents require them to indemnify SIFC if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay SIFC for income distributions by the securities' issuers while the securities are on loan.

All security loans can be terminated on demand by either SIFC or the borrower. In lending securities, the term to maturity of the securities loans is matched with the term to maturity of the investment made with the cash collateral. Such matching existed at year-end.

Securities lent as of June 30, 2009 had a fair value of $175.4 million and were secured with collateral received with a fair value of $178.9 million. Securities lending obligations for which cash was received as collateral as of June 30, 2009 consist of the following (expressed in thousands):

| Description | Fair Value of Underlying Securities |
|---|---|
| Equity securities | $ 25,586 |
| U.S. government, agencies, instrumentalities obligations | 32,695 |
| U.S. sponsored agencies bonds and notes | 24,672 |
| Corporate bonds and notes | 23,024 |
| Foreign government bonds and notes | 2,808 |
| External investments pools | 1,649 |
| Asset-backed securities | 862 |
| | $ 111,296 |

Cash collateral received amounted to $113.6 million and was invested as follows (expressed in thousands):

| Description | Amount |
|---|---|
| Commercial paper | $ 39,481 |
| Corporate bonds and notes | 5,975 |
| Resell agreements | 25,261 |
| Certificates of deposits with other banks | 18,000 |
| Foreign certificates of deposits with other banks | 24,856 |
| | $ 113,573 |

In addition, SIFC had the following lending obligations as of June 30, 2009 for which securities were received as collateral (expressed in thousands):

| Description | Fair Value Securities Lent | Fair Value Collateral Received |
|---|---|---|
| U.S. Treasury notes and bonds | $ 60,772 | $ 62,036 |
| U.S. Sponsored agencies bonds and notes | 1,643 | 1,676 |
| Mortgage — backed securities — FHLMC | 1,676 | 1,710 |
| | $ 64,091 | $ 65,422 |

*AACA* — AACA lends securities to broker/dealers and other entities (borrowers) for collateral that will be returned in the future as part of a securities lending program. The custodial bank manages the securities lending program and receives cash, government securities, and letters of credit as collateral. The collateral received cannot be pledged or sold by AACA unless the borrower defaults. The program provides for an initial minimum collateralization of 102% of the market value of the securities lent plus accrued income. Additional collateral has to be provided by the close of the next business day if its value falls to less than 100%. The contract with the custodial bank requires that should a collateral deficiency occur beyond the custodian's responsibilities, the deficiency should be allocated pro rata among all client lenders within the program.

Either the custodian bank or the borrower can terminate all security loans at any time. Cash collateral is invested in the program's agent short term investment pools, which at fiscal year end had a weighted average maturity of 134 days. The relationship between securities of the investment pool and AACA loans cannot be determined.

The following represents the balances relating to the securities lending transactions as of June 30, 2009 (expressed in thousands):

| Securities Lent | Fair Value Securities Lent | Fair Value Collateral Received |
|---|---|---|
| U.S. Treasury bills, bonds, and notes | $ 8,512 | $ 8,700 |
| Common and preferred stocks | 10,431 | 10,750 |
| Corporate bonds | 5,707 | 5,882 |
| U.S. agencies bonds and notes | 3,310 | 3,390 |
| | $ 27,960 | $ 28,722 |

Securities lending transactions where cash collateral was received and reinvested are presented as assets and liabilities in the accompanying statement of net assets. Securities lending transactions collateralized by noncash collateral cannot be pledged or sold unless the borrower defaults are not reported as assets or liabilities in the statement of net assets. At year end, AACA has no credit risk exposure to borrowers because the amounts AACA owes the borrowers exceed the amounts the borrowers owe AACA.

## 8. INVESTMENTS IN LIMITED PARTNERSHIPS

Pursuant to the Statement of Investment Guidelines for the Government of Puerto Rico, the pension trust funds and component units invested approximately $11.5 million in limited partnerships during the year ended June 30, 2009. The investments were as follows:

- During fiscal year 2009, there were approximately $449,000 of contributions made in Guayacán Funds of Funds, L.P., a Delaware limited partnership, organized by Grupo Guayacán, Inc. as general partner, which has total commitments of $55.5 million (of which $45 million are from pension trust funds and the remaining balances from private corporate investors). This fund invests in the United States of America and international private equity partnerships that in turn invest in private companies.

- During fiscal year 2009, approximately $284,000 were invested in Guayacán Fund of Funds II, L.P., a Delaware limited partnership, organized by Grupo Guayacán, Inc. as general partner, that has total commitments of $62 million (of which $50 million are from the pension trust funds and the remaining balances from private corporate investors). The fund invests in a broad range of U.S. and international private equity investment partnerships that, in turn, will make equity and equity related investments primarily in private businesses.

- During fiscal year 2009, an investment of approximately $1.2 million was made in the Guayacán Fund of Funds III, L.P., a Delaware limited partnership, organized by Grupo Guayacán, Inc., as general partner, that has total commitments of $10 million. This fund seeks to provide investors with a superior investment return and extensive diversification by investing in nineteen (19) private equity investment partnerships in the United States and Europe.

- During fiscal year 2009, there were approximately $1.5 million of contributions made in Guayacán Private Equity Fund, L.P., a Delaware limited partnership, organized by Advent Morro Equity Partners, Inc. as general partner, that has total commitments of $59 million (of which $10 million are from the pension trust funds, $22.5 million are from component units and the remaining balance from the private corporate investors in Puerto Rico). This fund invests in Puerto Rico private equity.

- During fiscal year 2009, approximately $7.6 million were invested in Guayacán Private Equity Fund II, L.P. a Delaware limited partnership, organized by Advent/Morro Partners as general partner, has total commitments of $94 million (of which $65 million are from components units, $15 million are from pension trust funds and the remaining balance from the private corporate investors in Puerto Rico). This fund invests in Puerto Rico private equity.

- During fiscal year 2009, there were no contributions to Invesco Venture Partnership Fund III, L.P., a Delaware limited partnership, organized by IPC Partnership Associates III, LLC as general partner in which the pension trust fund has a total commitment of $5.5 million. The partnership was organized to invest in other collective investments funds investing in alternative assets, including primarily U.S. and international funds that focus on both early and later stage venture capital investments.

- During fiscal year 2009, there were no contributions to Invesco Non U.S. Partnership Fund III, L.P., a Delaware limited partnership, organized by IPC Partnership Associates III, LLC as general partner, in which the pension trust fund has a total commitment of $4.5 million. The partnership was organized to invest in other collective investments funds investing in alternative assets, including primarily investments focusing on non U.S. buyouts, expansion capital, turnaround, mezzanine, and distressed investment partnerships.

- During fiscal year 2009, approximately $152,000 were invested in Invesco U.S. Buyout & Expansion Capital Partnership Fund III, L.P., a Delaware limited partnership, organized by IPC Partnership Associates III, LLC as general partner, in which the pension trust fund has a total commitment of $3.7 million. The partnership was organized to invest in other collective funds investing in alternative assets, including primarily investments focusing on small, mid size, and large domestic buyout transactions.

- During fiscal year 2009, approximately $186,000 were invested in Chase Capital Partners Private Equity Fund of Funds II, LTD, a limited partnership, organized by J.P. Morgan Alternative Asset Management, Inc., as general partner, in which the pension trust fund has a total commitment of $15 million. The fund's investment strategy is to capitalize on a globally diversified portfolio of private equity investments opportunities across various sectors, including buyouts, growth equity, venture capital and other special situations through partnership, investments, and direct investments.

- During fiscal year 2009, there were no additional contributions to Venture Capital Fund, Inc., a Puerto Rico Corporation, organized pursuant to Act No. 3 of October 6, 1987, as amended, known as the Puerto Rico Capital Investment Funds Act that is managed by Advent Morro Equity Partners (Advent Morro Equity Partners, Inc.) in which the pension trust fund has a total commitment of $800,000. Advent Morro is a Puerto Rico based private equity firm. The fund was created to make private equity investments in operating companies that are based, are operating, or a combination of both, in Puerto Rico. Since inception, the fund has invested in 25 companies some of which it continues to provide capital for their expansion.

- During fiscal year 2009, approximately $389,000 were invested in GF Capital Private Equity Fund, L.P., a limited partnership, organized under the laws of the State of Delaware, in which the pension trust fund has a total commitment of $25 million. The purpose of the partnership is to make private equity investments in a variety of industries including media and entertainment, branded consumer products, and software for media and telecommunications applications. The partnership initiatives are focused on companies capitalized at between $20 million to $400 million with a representation of buyouts, growth capital, and recapitalizations.

- During fiscal year 2009, approximately $372,000 were invested in Chase Capital Partners Private Equity Fund of Funds Corporate Investors II, LTD a limited partnership, organized by Chase as general partner in which the pension trust fund has a total commitment of $20 million. The fund's investment strategy is to capitalize on a globally diversified portfolio of private equity investment opportunities across various sectors including buyouts, growth equity, venture capital, and other special situations through partnership and direct investments.

The fair value of these investments at June 30, 2009 amounted to $61 million and is presented within investments in the statement of fiduciary net assets. The fair values of these investments have been estimated by the corresponding general partner or fund manager of these partnerships and disclosed in its respective separate audited financial statements. The allocations of net gain and net loss to the limited partners are based on certain percentages, as established in the limited partnership agreements. The difference between the fair value of the investments and the total cumulative contributions is mostly due to distributions made.

As of June 30, 2009, the pension trust funds and discretely presented component units had capital commitments and contributions as follows (expressed in thousands):

| Guayacán Funds of Funds, L.P. | Public Sector Commitments | Fiscal Year Contributions | Cumulative Contributions |
|---|---|---|---|
| Primary government: | | | |
| Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities | $ 25,000 | $ 249 | $ 23,637 |
| Puerto Rico System of Annuities and Pensions for Teachers | 20,000 | 200 | 19,057 |
| Subtotal | 45,000 | 449 | 42,694 |
| **Guayacán Funds of Funds II, L.P.** | | | |
| Primary government: | | | |
| Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities | 25,000 | 142 | 23,666 |
| Puerto Rico System of Annuities and Pensions for Teachers | 25,000 | 142 | 23,681 |
| Subtotal | 50,000 | 284 | 47,347 |
| **Guayacán Funds of Funds III, L.P.** | | | |
| Component Unit: | | | |
| State Insurance Fund Corporation | 10,000 | 1,214 | 1,214 |
| Balance carried forward | 105,000 | 1,947 | 91,255 |

(Continued)

| | Public Sector Commitments | Fiscal Year Contributions | Cumulative Contributions |
|---|---|---|---|
| Balance brought forward | $ 105,000 | $ 1,947 | $ 91,255 |
| **Guayacán Private Equity Fund, L.P.** | | | |
| Primary government: | | | |
| Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities | 5,000 | 238 | 4,407 |
| Puerto Rico System of Annuities and Pensions for Teachers | 5,000 | 238 | 4,645 |
| Component unit: | | | |
| Economic Development Bank for Puerto Rico | 20,000 | 953 | 18,578 |
| UPR Employees Retirement System | 2,500 | 120 | 2,323 |
| Subtotal | 32,500 | 1,549 | 29,953 |
| **Guayacán Private Equity Fund II, L.P.** | | | |
| Primary government: | | | |
| Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities | 15,000 | 3,036 | 9,933 |
| Component unit: | | | |
| Economic Development Bank for Puerto Rico | 20,000 | 2,229 | 6,881 |
| State Insurance Fund Corporation | 40,000 | 1,778 | 4,004 |
| UPR Employees Retirement System | 5,000 | 607 | 1,720 |
| Subtotal | 80,000 | 7,650 | 22,538 |
| **Other Funds** | | | |
| Primary government: | | | |
| Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities | 45,800 | 761 | 25,748 |
| Puerto Rico System of Annuities and Pensions for Teachers | 28,714 | 338 | 26,319 |
| Subtotal | 74,514 | 1,099 | 52,067 |
| Total | $ 292,014 | $ 12,245 | $ 195,813 |

(Concluded)

## 9. RECEIVABLES AND PAYABLES

Receivables in the governmental funds include approximately $1.6 billion of accrued income, excise and sales and use taxes. Intergovernmental receivables include $338 million from the federal government and $32 million from the Municipal Revenue Collection Center (CRIM for its Spanish acronym). In addition, the enterprise funds include $68.5 million of unemployment, disability, and drivers' insurance premium receivable.

Payables in the governmental funds include approximately $1.3 billion of trade accounts due to suppliers for purchase of merchandise and services rendered and approximately $426.5 million of tax refunds payable. Also at June 30, 2009, excess of checks drawn over the pooled bank balance amounted to approximately $216 million and is reported within accounts payable and accrued liabilities of the governmental activities.

In accordance with GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues, as amended* (the TB), a receivable of $40.5 million was recorded as other receivable in the government wide financial statements for estimated shipments from January 1 to June 30, 2009, which will be applied to debt service upon collection. Additionally, the TB indicated that the Trust designated as the Tobacco Settlement Authority (TSA) should recognize a liability for the bonds payable and an expense (and liability if unpaid) in the same period in its stand alone financial statements. The expense (and liability if unpaid) recognizes the contractual obligation to remit the proceeds of the bond sold. Since the Trust is reported as a blended component unit, the TB indicates these remittances should be reported as transfers into the fund receiving the proceeds and transfers out in the fund that accounts for the activities of the TSA. Since the Trust has no contractual obligation, under its enabling legislation or elsewhere, to remit all bond proceeds or assets related to the GSA to the settling government (the Commonwealth), the Trust has not recognized an expense and liability for unpaid proceeds from the bonds since it records the expense as amounts are disbursed as grants to its settling government (including its instrumentalities) or third parties.

## 10. PLEDGES OF RECEIVABLES AND FUTURE REVENUES

The Commonwealth has pledged the first one percent (two point seventy-five (2.75%) after 2009) of the sales and use tax for the repayment of certain outstanding obligations of the Commonwealth. During 2009, the Puerto Rico Sales Tax Financing Corporation ("COFINA"), a blended component unit of the Commonwealth, responsible for the financing, payments and retirement of certain debt obligations of the Commonwealth, has issued bonds for approximately $5.6 billion payable through 2058. The Commonwealth has committed to appropriate each year, from the sales and use tax, amounts sufficient to cover the principal and interest requirements on the debt issued by COFINA. COFINA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. Total principal and interest remaining on the secured debt is $25.4 billion and $14.6 billion, respectively. The pledged sale and use tax base amount for the fiscal year ended June 30, 2009 amounted to $192 million. For fiscal year 2009, interest paid by COFINA amounted to $166.2 million and the sales and use tax revenue recognized by the Commonwealth was $192 million.

Also, the Commonwealth has pledged part of the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes (up to $11 million monthly but no more than $120 million annually) and $15 per vehicle per year from motor vehicle license fees for the repayment of the Puerto Rico Highways and Transportation Authority's ("PRHTA") Revenue Bonds. The Commonwealth has committed to appropriate each year, from the excise taxes, amounts sufficient to cover the principal and interest requirements on the debt issued by PRHTA. PRHTA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. Total principal and interest remaining on the secured

debt is $6.7 billion and $6.6 billion, respectively. The pledged excise tax for the fiscal year ended June 30, 2009 amounted to $120 million. For fiscal year 2009, principal and interest paid by PRHTA amounted to $83.9 million and $357.9 million, respectively, and the excise tax revenue recognized by the Commonwealth was $289 million.

Rum manufactured in Puerto Rico is subject to federal excise taxes; however, these are returned by the Internal Revenue Service to the Commonwealth. Act No. 44, as amended, requires that in each fiscal year after fiscal year 2006, through fiscal year 2009, and each fiscal year thereafter through fiscal year 2057, the first $90 million and $117 million, respectively, of certain federal excise taxes received by the Commonwealth be transferred to the Puerto Rico Infrastructure Financing Authority ("PRIFA"). Such taxes consist of the federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the U.S. treasury and returned to the Commonwealth. The Commonwealth has pledged these taxes for the repayment of PRIFA's Special Tax Revenue Bonds. The Commonwealth has committed to appropriate each year, from the excise taxes, amounts sufficient to cover the principal and interest requirements on the debt issued by PRIFA. PRIFA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. The federal excise taxes securing the Bonds are subject to a number of factors, including the continued imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient, the Act No. 44 requires that PRIFA request and the Director of the Office of Management and Budget of the Commonwealth include in the budget of the Commonwealth for the corresponding fiscal year, an appropriation necessary to cover such deficiency. The Commonwealth's Legislature, however, is not obligated to make the necessary appropriation to cover such deficiency. Total principal and interest remaining on the secured debt is $2.6 billion and $2.4 billion, respectively. The pledged federal excise tax amount for the fiscal year ended June 30, 2009 amounted to $90 million. For fiscal year 2009, principal and interest paid by PRIFA amounted to $23.5 million and $84.7 million, respectively, and the excise tax revenue recognized by the Commonwealth was $90 million.

## 11. INTERFUND AND INTRAENTITY TRANSACTIONS

Interfund receivables and payables at June 30, 2009 are summarized as follows (expressed in thousands):

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| Other governmental funds | General fund | $ 202,959 |
| COFINA debt service | Pledge Sales and use tax fund | 92,314 |
| General | Lotteries | 76,422 |
| Lotteries | General | 53,208 |
| Nonmajor enterprise | General | 26,006 |
| General | Unemployment insurance | 11,456 |
| | | $ 462,365 |

Transfers from (to) other funds for the year ended June 30, 2009 are summarized as follows (expressed in thousands):

| Transferee Fund | Transferor Fund | Amount |
|---|---|---|
| COFINA special revenue | COFINA debt service | $ 5,206,778 |
| General | COFINA special revenue | 3,192,516 |
| Debt service | General | 607,305 |
| Other governmental | General | 420,497 |
| COFINA debt service | Pledge Sales Taxes | 284,724 |
| General | Lotteries | 209,142 |
| General | Unemployment insurance | 47,906 |
| Other proprietary funds | General | 5,878 |
| General | Other governmental funds | 5,500 |
| | | $ 9,980,246 |

The principal purposes of the interfund transfers are to (express in thousands):

1. Transfer of $5,206,778 from the COFINA debt service fund to the COFINA special revenue fund from which $3,192,516 were transferred to the General Fund for the payment of appropriation debt.

2. Make funds available for debt service payments in the debt service fund ($607,305). Distribute the increase in net assets of the lotteries fund for the use of the general fund, as required by the lotteries enabling legislation ($209,142).

3. Recognize as transfers the rental payments made by the Commonwealth's agencies on properties leased by PBA, a blended component unit of the Commonwealth ($330,424); and ($90,073) related to the revenues received of the Tobacco Settlement for the agreement managed by The Children's Trust, a blended component unit of the Commonwealth.

4. Distribution of the sales tax for the use of COFINA debt service fund as required by enabling legislation for the payment of its bonds ($284,724).

5. Transfer unemployment insurance fund's distribution of surplus cash belonging to the general fund for the payment of administrative expenses ($47,906).

6. Provide local matching funds from the general fund related to the federal capital grants of the Puerto Rico Water Pollution Revolving Fund and Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, two non-major enterprise funds of the Commonwealth ($5,878).

7. Transfers from the Commonwealth capital project fund (a nonmajor governmental fund) to the general fund for the public improvements in municipalities and corporations ($5,500).

Interfund receivables and payables represent the pending settlements of the aforementioned transfers or transactions from current and prior years.

Due from (to) primary government and component units are as follows (expressed in thousands):

| Receivable Entity/Fund | Amount | Payable Entity/Fund | Amount |
|---|---|---|---|
| Business-type activities | $ 321,215 | Puerto Rico Aqueduct and Sewer Authority | $ 321,215 |
| Governmental activities | 334,388 | PR Infrastructure Financing Authority | 107,039 |
| | $ 655,603 | Puerto Rico Medical Services Administration | 66,817 |
| Puerto Rico Electric Power Authority | $ 176,941 | Cardiovascular Center Corporation of Puerto Rico and the Caribbean | 47,226 |
| University of Puerto Rico | 152,284 | PR Ports Authority | 42,421 |
| Puerto Rico Health Insurance Administration | 71,166 | Puerto Rico Tourism Company | 28,299 |
| Gov. Development Bank | 52,659 | Puerto Rico Health Insurance Administration | 13,889 |
| Puerto Rico Industrial Development Company | 44,979 | PR Trade and Export Company | 10,216 |
| PR Aqueduct and Sewer Authority | 34,642 | Employment and Training Enterprises Corporation | 7,108 |
| Puerto Rico Medical Services Administration | 26,863 | Governing Board of the 911 Service | 6,259 |
| Agricultural Service Develop. Corporation | 18,869 | PR Metropolitan Bus Authority | 3,185 |
| Puerto Rico Conservatory of Music | 3,555 | National Parks Company of PR | 1,929 |
| Land Authority of Puerto Rico | 3,730 | | $ 655,603 |
| Puerto Rico Ports Authority | 3,500 | Governmental activities | $ 589,188 |
| | $ 589,188 | | $ 589,188 |

The amount owed by PRASA of $321 million represents construction loans granted by the Puerto Rico Water Pollution Control Revolving Fund and the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, non-major enterprise funds, to finance the construction of capital assets for PRASA.

Governmental activities due from component units include an allowance for doubtful accounts amounting to $145.5 million. Governmental activities liability includes approximately $88 million recorded as note payable to component unit.

The amount receivable by PREPA from the primary government includes approximately $19 million representing an agreement with the Commonwealth by which the Commonwealth will pay outstanding fuel adjustment subsidy and certain other accumulated debt. The amount owed by the Commonwealth is presented within notes payable in the statement of net assets of the governmental activities.

The amount receivable by the UPR from the primary government includes a resolution approved by the Legislature of the Commonwealth to pay $95 million to the UPR on behalf of the Department of Health of the Commonwealth over eight years, including the financing of additional debts of approximately $71.2 million. The related outstanding balance of $36 million is presented by the Commonwealth within notes payable in the statement of net assets (deficit) of the governmental activities. In addition, during the fiscal year 2009 the Office of Management and Budget and the UPR signed an intra-agency agreement amounting to $33 million to pay for appropriations for fiscal years 2007 and 2008.

Due from (to) component units are as follows (expressed in thousands):

| Receivable Entity/Fund | Amount | Payable Entity/Fund | Amount |
|---|---|---|---|
| Puerto Rico Electric Power Authority | $ 133,057 | Puerto Rico Aqueduct and Sewer Authority | $ 57,442 |
| Puerto Rico Ports Authority | 50,190 | Puerto Rico Maritime Transportation Authority | 50,190 |
| University of Puerto Rico | 29,121 | PR Medical Services Administration | 49,106 |
| PR Aqueduct and Sewer Authority | 24,637 | PR Ports Authority | 38,832 |
| Land Authority of PR | 22,365 | Agricultural Services and Development Adm. | 19,135 |
| Farm Insurance Corporation of PR | 2,701 | University of Puerto Rico | 14,515 |
| PR Land Administration | 1,305 | Cardiovascular Center Corp of PR and the Caribbean | 10,887 |
| | | PR Tourism Company | 5,947 |
| | | Farm Insurance Corporation of PR | 5,931 |
| | | PR Electric Power Authority | 4,242 |
| | | Land Authority of PR | 4,391 |
| | | Puerto Rico Metropolitan Bus Authority | 1,453 |
| | | Puerto Rico Industrial Development Company | 1,305 |
| | 263,376 | Sub total | 263,376 |
| Government Development Bank for Puerto Rico | 2,568,109 | Puerto Rico Aqueduct and Sewer Authority | 458,387 |
| | | Special Communities Perpetual Trust | 376,095 |
| | | Puerto Rico Highways and Transportation Authority | 351,313 |
| | | State Insurance Fund Corporation | 243,000 |
| | | Ports of the Americas Authority | 181,861 |
| | | Puerto Rico Electric Power Authority | 172,687 |
| | | Puerto Rico Convention Center District Authority | 151,076 |
| | | Agricultural Services and Development Adm. | 127,578 |
| | | Puerto Rico Ports Authority | 94,876 |
| | | Puerto Rico Industrial Development Company | 89,075 |
| | | Puerto Rico Infrastructure Financing Auth. | 86,018 |
| | | University of Puerto Rico | 71,900 |
| | | Puerto Rico Solid Waste Authority | 62,310 |
| | | Land Authority of Puerto Rico | 49,328 |
| | | Institute of Puerto Rican Culture | 17,748 |
| | | Economic Development Bank for Puerto Rico | 11,151 |
| | | National Parks Company of Puerto Rico | 10,808 |
| | | Puerto Rico Municipal Finance Agency | 8,546 |
| | | Co. for the Integral Dev. of the Península de Cantera | 3,234 |
| | | Puerto Rico Conservatory of Music Corporation | 992 |
| | | PR Maritime Transportation Authority | 126 |
| | | | 2,568,109 |
| | $ 2,831,485 | | $ 2,831,485 |

The rest of the loans receivable reported by GDB consists of the following (expressed in thousands):

| | |
|---|---|
| Primary government — governmental activities | $ 1,905,602 |
| Other governmental entities and municipalities | 2,231,564 |
| Private sector | 174 |
| Total loans receivable reported by GDB | $ 4,137,340 |

The loans to the primary government are presented by the Commonwealth within notes payable in the statement of net assets (deficit).

Expenses of the primary government include approximately $2 billion in capital and operational contributions made by the primary government to the component units as follows (expressed in thousands):

| | |
|---|---|
| Puerto Rico Health Insurance Administration | $ 1,004,873 |
| University of Puerto Rico | 856,013 |
| Nonmajor component units | 204,513 |
| Puerto Rico Aqueduct and Sewer Authority | 18,233 |
| Puerto Rico Electric Power Authority | 776 |
| Total contributions made by primary government to component units | $ 2,084,408 |

## 12. RESTRICTED ASSETS

Restricted assets of the primary government included in the basic financial statements at June 30, 2009 consist of cash, investments, and other assets to be used for the following purposes (expressed in thousands):

| | |
|---|---|
| Governmental activities: | |
| Debt service and sinking fund | $ 2,323,936 |
| Public Housing Administration- funds received from the U.S Housing and Urban Development | 1,832 |
| Affordable housing program | 10,920 |
| Construction of governmental facilities | 197,985 |
| Other | 19,200 |
| Total restricted assets of governmental activities | $ 2,553,873 |
| Business-type activities — investments held for disability insurance benefits | $ 29,830 |

Liabilities of the primary government payable from restricted assets consist of the following (expressed in thousands):

| | |
|---|---|
| Governmental activities: | |
| Tax revenue anticipation notes | $ 1,500,000 |
| Current portion of Public Housing Administration bonds payable | 24,380 |
| Accounts payable to contractors | 50,399 |
| Liabilities payable from restricted assets – governmental activities | $ 1,574,779 |
| Business-type activities — disability insurance benefit payable | $ 621 |
| Liabilities payable from restricted assets – business-type activities | $ 621 |

Restricted net assets of the primary government consist of the following (expressed in thousands):

| | |
|---|---|
| Governmental activities restricted net assets (expressed in thousands): | |
| Restricted for capital projects | $ 147,586 |
| Restricted for debt service | 799,556 |
| Affordable housing and related loan insurance programs | 31,952 |
| Total restricted net assets — governmental activities | $ 979,094 |
| Business-type activities restricted net assets — payment of insurance benefits | $ 29,209 |
| Total restricted net assets | $ 29,209 |

Restricted assets of the component units included in the basic financial statements at June 30, 2009 are to be used for the following purposes (expressed in thousands):

| | |
|---|---|
| Debt service and sinking fund requirements | $ 5,256,365 |
| Collateral for underlying securities | 1,283,844 |
| Construction and betterments funds | 524,765 |
| Other uses | 422,769 |
| Educational fund | 14,898 |
| Maintenance reserve fund | 11,545 |
| Escrow | 5,136 |
| Industrial incentives | 3,267 |
| Malpractice insurance fund | 2 |
| Total for components units | $ 7,522,591 |

Act No. 92 of June 24, 1998, ("Act No. 92") provides, among other things, for the creation of the Permanent Fund of PRIFA. The Permanent Fund consists of a Corpus Account funded with a portion of the proceeds from the sale of assets of PRTA and additional accounts created or to be created by the PRIFA. Act No. 92 provides that the principal of the Corpus Account may not be reduced for any reason and that income received from investments in the Corpus Account and amounts received may be deposited in any of the additional accounts.

By virtue of Act No. 3 of January 14, 2009 ("Act No. 3") approved by the Legislature of Puerto Rico, Act No. 44 of June 21, 1988, was amended to permit the PRIFA to sell all or a portion of the outstanding Corpus Account investments held in the 2000 Trust Agreement and use the net proceeds of said redemption to provide for the early extinguishment of the Series 2000 A and B Bonds, maintain a permanent investment of $300 million within the Corpus Account, payments to the U.S. Internal Revenue Services (IRS), payment of transaction expenses, and contribute any remaining amounts to the Commonwealth and the GDB, among other purposes.

The PRIFA used the proceeds from the sale of the investments, which amounted to approximately $1,952 million, to pay capital contributions to the Commonwealth and the GDB of approximately 202 million and $100 million, respectively, pay arbitrage to the IRS amounting to approximately 79 million, repay certain loans, including accrued interest, to the Bank amounting to approximately $6 million. The remaining proceeds of approximately $1,565 million have been invested in short-term U.S. Treasury securities as of June 30, 2009, which are included as part of restricted cash and cash equivalents in the accompanying statement of net assets. PRIFA has restricted approximately $1,104 million for the early extinguishment of the Series 2000 A and B Bonds and $300 million within the Corpus Account as a permanent investment.

## 13. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009 is as follows (expressed in thousands):

**Primary Government**

| | Beginning Balance (as Restated) | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $ 841,629 | $ 40,618 | $ 370 | $ 881,877 |
| Construction in progress | 1,442,420 | 227,768 | 347,741 | 1,322,447 |
| Total capital assets, not being depreciated | 2,284,049 | 268,386 | 348,111 | 2,204,324 |
| Capital assets, being depreciated: | | | | |
| Buildings and building improvements | 7,303,377 | 276,408 | 127,793 | 7,451,992 |
| Equipment furniture, fixtures and vehicles | 481,109 | 33,914 | 7,322 | 507,701 |
| Infrastructure | 433,797 | 10,451 | - | 444,248 |
| Total capital assets, being depreciated | 8,218,283 | 320,773 | 135,115 | 8,403,941 |
| Less accumulated depreciation for: | | | | |
| Buildings and building improvements | 2,538,145 | 202,087 | 68,682 | 2,671,550 |
| Equipment furniture, fixtures and vehicles | 259,572 | 40,433 | 7,993 | 292,012 |
| Infrastructure | 101,691 | 8,910 | - | 110,601 |
| Total accumulated depreciation | 2,899,408 | 251,430 | 76,675 | 3,074,163 |
| Total capital assets, being depreciated, net | 5,318,875 | 69,343 | 58,440 | 5,329,778 |
| Governmental activities capital assets, net | $ 7,602,924 | $ 337,729 | $ 406,551 | $ 7,534,102 |
| Business-type activities: | | | | |
| Total capital assets, being depreciated – equipment | $ 4,810 | $ 8 | $ - | $ 4,818 |
| Less accumulated depreciation of equipment | 4,136 | - | - | 4,136 |
| Total business-type activities capital assets, being depreciated, net | $ 674 | $ 8 | $ - | $ 682 |

Depreciation expense was charged to functions/programs of the primary government for the year ended June 30, 2009 as follows (expressed in thousands):

| | |
|---|---|
| Governmental activities: | |
| General government | $ 83,884 |
| Public safety | 26,478 |
| Health | 8,033 |
| Public housing and welfare | 89,030 |
| Education | 30,088 |
| Economic development | 13,917 |
| Total depreciation expense — governmental activities | $ 251,430 |

The net book value of capital assets of the primary government as of beginning of the year was increased to properly record capital assets amounting to approximately $51.2 million.

The Commonwealth follows the provision of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, an amendment to GASB Statement No. 34. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. The Commonwealth recognized an impairment loss of $10.4 million in the statement of activities, related to the reduction in use of educational facilities.

General infrastructure assets include $417 million representing the estimated cost of assets transferred to the Department of Natural and Environmental Resources (DNER) of the Commonwealth in 1997 upon completion of the Cerrillos Dam and Reservoir and the Portugues River and Bucana River Projects by the U.S. Army Corps of Engineers. These infrastructure assets are reported within governmental activities and include dams, intake facilities, and similar items built for flood control, water supply, and recreational purposes. The Commonwealth also recorded a payable due to the U.S. Army Corps of Engineers, amounting to $205 million, for its estimated allocated share of the construction costs associated with these projects, including accrued interest of $5 million. The final debt agreement between DNER and the U.S. Army Corps of Engineers has not been finalized, and therefore, terms and conditions could differ from those estimated. The depreciation is computed using the straight line method over an estimated useful life of 50 years from the transfer date of the property. The related debt is expected to be payable on an annual basis over a 50 year period. However, the debt has been presented as a long term payable due after one year in the accompanying statement of net assets (deficit) since the commencement date of repayment has not yet been determined.

On August 17, 2001, the Legislature of the Commonwealth approved Act No. 120, which requires the conditional transfer of the ownership of certain real properties under the name of the Department of Recreation and Sports (DRS) of the Commonwealth to the municipalities of the Commonwealth. The land and the facilities were transferred at no cost to the municipalities. During fiscal year ended June 30, 2009, no land, building, and building improvements were transferred to municipalities.

**Discretely Presented Component Units**

| | Beginning Balance (as Restated) | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 2,941,653 | $ 106,718 | $ 17,665 | $ 3,030,706 |
| Art works | 9,472 | 5 | - | 9,477 |
| Construction in progress | 6,829,908 | 1,799,895 | 2,364,348 | 6,265,455 |
| Total capital assets, not being depreciated | 9,781,033 | 1,906,618 | 2,382,013 | 9,305,638 |
| Capital assets, being depreciated: | | | | |
| Buildings and building improvements | 4,339,339 | 532,654 | 61,689 | 4,810,304 |
| Equipment, furniture, fixtures and vehicles | 7,417,695 | 1,343,153 | 48,589 | 8,712,259 |
| Infrastructure | 24,370,759 | 721,901 | 255,569 | 24,837,091 |
| Total capital assets, being depreciated | 36,127,793 | 2,597,708 | 365,847 | 38,359,654 |
| Less accumulated depreciation for: | | | | |
| Buildings and building improvements | 1,759,817 | 203,115 | 9,245 | 1,953,687 |
| Equipment, furniture, fixtures and vehicles | 1,797,648 | 146,194 | 44,681 | 1,899,161 |
| Infrastructure | 13,245,940 | 697,588 | 52,648 | 13,890,880 |
| Total accumulated depreciation | 16,803,405 | 1,046,897 | 106,574 | 17,743,728 |
| Total capital assets, being depreciated, net | 19,324,388 | 1,550,811 | 259,273 | 20,615,926 |
| Capital assets, net | $ 29,105,421 | $ 3,457,429 | $ 2,641,286 | $ 29,921,564 |

## 14. TAX REVENUE ANTICIPATION NOTES PAYABLE AND TAX RECEIVABLE ANTICIPATION BONDS

Tax Revenue Anticipation Notes (TRANS) reported in the general fund were issued on November 14, 2008 at interest rates ranging from 3% to 6% and were paid on July 30, 2009. The TRANS amounted to $1,500 million at June 30, 2009 plus accrued interest of approximately $28 million. The proceeds of the TRANS were used to cover temporary cash deficiencies resulting from the timing differences between tax collections and the payment of current expenditures.

From September to December 2008, the Commonwealth issued Tax Receivable Anticipation Bonds (TRABS) amounting to $1,000 million with maturities ranging from September to December 2009. These TRABS were payable solely from the revenues received from the collection of delinquent tax receivables. Total issuance was purchased by the Government Development Bank for Puerto Rico (GDB). In June 2009, COFINA paid, on behalf of the Commonwealth, the total amount of bonds outstanding of $1,000 million to GDB.

## 15. SHORT AND LONG TERM OBLIGATIONS

### (a) Primary Government

*Summary of Short and Long Term Obligations* — Short and long term obligations at June 30, 2009 and changes for the year then ended are as follows (expressed in thousands):

| Short Term Obligations | Balance At June 30, 2008 (as Restated) | Debt Issued | Debt Paid | Original Issue (Discounts) Premiums | Other Net Increases (Decreases) | Balance At June 30, 2009 | Due Within One Year |
|---|---|---|---|---|---|---|---|
| Governmental activities: | | | | | | | |
| Notes payable: | | | | | | | |
| GDB | $ 354,186 | $ 600,067 | $ (791,500) | $ - | $ 12,711 | $ 175,464 | $ 175,464 |
| Private banks | - | 1,400,000 | (1,400,000) | - | - | - | - |
| Total notes payable | $ 354,186 | $ 2,000,067 | $ (2,191,500) | $ - | $ 12,711 | $ 175,464 | $ 175,464 |
| **Long Term Obligations** | | | | | | | |
| Governmental activities: | | | | | | | |
| General obligation and revenue bonds | $ 19,338,117 | $ 5,823,945 | $ (298,850) | $ (28,873) | $ 187,403 | $ 25,021,742 | $ 194,110 |
| Commonwealth appropriation bonds | 813,618 | - | (78,570) | - | 2,297 | 737,345 | - |
| Notes payable to component units: | | | | | | | |
| GDB | 1,582,794 | 379,855 | (162,931) | - | (69,580) | 1,730,138 | 296,744 |
| Other | 59,411 | - | (7,571) | - | 36,035 | 87,875 | 7,570 |
| Capital leases | 245,039 | 292 | (5,247) | - | - | 240,084 | 5,474 |
| Total bonds, notes payable and capital leases payable | 22,038,979 | 6,204,092 | (553,169) | (28,873) | 156,155 | 27,817,184 | 503,898 |
| Compensated absences | 1,630,396 | - | (972,301) | - | 958,830 | 1,616,925 | 794,989 |
| Net pension obligation | 5,843,431 | - | - | - | 910,799 | 6,754,230 | - |
| Net postemployment benefit obligation | 42,373 | - | - | - | 34,233 | 76,606 | - |
| Other long-term liabilities | 1,866,787 | - | (201,187) | - | 536,795 | 2,202,395 | 233,694 |
| Total governmental activities | 31,421,966 | 6,204,092 | (1,726,657) | (28,873) | 2,596,812 | 38,467,340 | 1,532,581 |
| Business-type activities: | | | | | | | |
| Compensated absences | 6,211 | - | - | - | (1,479) | 4,732 | 2,391 |
| Obligation for unpaid lottery prizes | 287,728 | - | - | - | (24,137) | 263,591 | 67,291 |
| Claims liability for insurance benefits | 114,575 | - | - | - | (15,849) | 98,726 | 98,726 |
| Total business-type activities | 408,514 | - | - | - | (41,465) | 367,049 | 168,408 |
| Total primary government | $ 31,830,480 | $ 6,204,092 | $ (1,726,657) | $ (28,873) | $ 2,555,347 | $ 38,834,389 | $ 1,700,989 |

The balances of general obligation and revenue bonds paid included within other financing uses and principal as reported in the statement of revenues, expenditures, and changes in fund balances (deficit) – governmental funds do not agree with amounts reported as debt paid in the above table primarily because the above table includes debt paid on general obligation and revenue bonds, which was accrued during the fiscal year 2008 as a fund liability. The prior year fund liability mentioned above amounted to approximately $54.8 million and was reported as a balance sheet transaction in the fund financial statements in 2008. Also, during fiscal year 2009 the amount of approximately $158 million was accrued as fund liability. The net effect of $103.4 million is the difference between the debt paid on bonds and notes in the previous table and the payments in the Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit).

The other net increases in bonds and notes payable consist of deferred losses on refunding, net of amortization, and amortization of premiums and discounts on bonds and new notes payables. These adjustments did not require any source or use of cash.

Compensated absences, net pension obligation, obligation for unpaid lottery awards, liability for insurance benefits, and other long-term liabilities reflect other net increases (decreases) resulting from adjustments and changes to agree these obligations to their new estimated balances at June 30, 2009.

**(b) Debt Limitation**

The Constitution of the Commonwealth authorizes the contracting of debts as determined by the Legislature. Nevertheless, the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth are not to be issued if the amounts of the principal of, and interest on, such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceeds 15% of the average annual revenue raised under the provisions of Commonwealth legislation and conveyed into the Treasury (hereinafter internal revenue) in the two fiscal years preceding the current fiscal year. Section 2, Article VI of the Constitution does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded. Internal revenue consists principally of income taxes, sales and use tax, property taxes and excise taxes. Certain revenue, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products, and customs duties, which are collected by the U.S. government and returned to the Commonwealth, motor vehicle fuel taxes and license fees, which are allocated to the PRHTA, a discrete component unit, are not included as revenue for the purpose of calculating the debt limit. At June 30, 2009, the Commonwealth is in compliance with the debt limitation requirement. In addition, the portion of sales and use tax allocated to COFINA is not included as internal revenue in consistency with the legislation creating COFINA, which legislation transfers ownership of such portion of the sales and use tax to COFINA and provides that such portion is not “available resources” under the constitutional provisions relating to the payment of debt service.

**(c) Bonds Payable**

The Constitution of the Commonwealth provides that public debt will constitute a first claim on the available revenue of the Commonwealth. Public debt includes general obligations and revenue bonds of the Commonwealth and any payment required to be made by the Commonwealth under its guarantees of bonds issued by blended or discretely presented component units. The full faith, credit, and taxing power of the Commonwealth are irrevocably pledged for the prompt payment of the principal and interest of the general obligation bonds.

Act No. 83 of August 30, 1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. The levy is made by CRIM, a municipal corporation, not a component unit of the Commonwealth. CRIM is required to remit the 1.03% of property tax collected to the Commonwealth to be used by the Commonwealth's debt service fund for payment of debt service on general obligations and revenue bonds of the Commonwealth. During the year ended June 30, 2009, the total revenue and receivable reported by the Commonwealth amounted to approximately $115 million and $32 million, respectively, which are included in the debt service fund.

For financial reporting purposes, the outstanding amount of bonds represents the total principal to be repaid, net of unamortized premiums, discount, and deferred refunding losses; for capital appreciation bonds, it represents total principal and unaccreted interest to be repaid.

Bonds payable outstanding at June 30, 2009 are as follows (expressed in thousands):

| | General Obligation Bonds | Revenue Bonds | Total |
|---|---|---|---|
| Term bonds payable through 2049; interest payable semiannually at rates varying from 3% to 8%. | $ 3,345,040 | $ 4,655,786 | $ 8,000,826 |
| Serial bonds payable through 2037; interest payable semiannually at rates varying from 3.75% to 7.50%. | 5,239,925 | 1,036,695 | 6,276,620 |
| Fixed rate bonds payable through 2058; interest payable at rates varying from 3.75% to 6.35%. | - | 4,067,349 | 4,067,349 |
| Capital appreciation bonds payable through 2057; no interest rate, yield ranging from 4.42% to 7.80%. Net of accreted discount of $168 million. | 156,078 | 3,201,438 | 3,357,516 |
| The Children's Trust Fund tobacco settlement asset-backed bonds payable through 2026; interest payable annually at rates varying from 4.63% to 6%. | - | 1,402,687 | 1,402,687 |
| Capital Fund Program Bonds, maturing in various dates payable through 2024; interest payable at rates varying from 2% to 5%. (1) | - | 572,830 | 572,830 |
| Bond payment obligation payable through 2011; interest payable at rates varying from 1.5% to 5.5%. | 48,220 | - | 48,220 |
| Balance carried forward | 8,789,263 | 14,936,785 | 23,726,048 |

(1) Revenue bonds include $343.6 million capital appreciation bonds convertible to fixed rate interest bonds on August 1, 2016.

(Continued)

| | General Obligation Bonds | Revenue Bonds | Total |
|---|---|---|---|
| Balance brought forward | $8,789,263 | $14,936,785 | $23,726,048 |
| Mandatory Tender Bonds due on August 1, 2039; interest payable at a rate of 5%. (2) | - | 700,000 | 700,000 |
| Yield curve bonds payable from 2009 through 2028; no interest rate, yield of 8.91%. | 227,600 | - | 227,600 |
| LIBOR-Based Adjustable Rate Bonds due on August 1, 2057; interest payable at a rate of 1.62%. | - | 136,000 | 136,000 |
| Inverse rate bonds payable from 2011 through 2012; interest payable at a rate of 6%. | 10,300 | - | 10,300 |
| Insured bonds payable from 2015 through 2019; interest payable at a rate of 5%. | 50,087 | - | 50,087 |
| Total | 9,077,250 | 15,772,785 | 24,850,035 |
| Unamortized premium, net | 259,362 | 43,459 | 302,821 |
| Deferred refunding loss, net | (67,827) | (63,518) | (131,345) |
| Savings bonds | 231 | - | 231 |
| Total bonds payable | $9,269,016 | $15,752,726 | $25,021,742 |

(2) On August 1, 2011, the Mandatory Tender Bonds will be subject to mandatory tender for purchase, subject to successful remarketing of such bonds at such time. In the event the Mandatory Tender Bonds are not remarketed on August 1, 2011, the interest rate will convert, without further notice to bondholders, to 10% until repurchased.

(Concluded)

As of June 30, 2009, debt service requirements for general obligation and revenue bonds outstanding, including accreted interest of capital appreciation bonds are as follows (expressed in thousands)

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2010 | $ 194,110 | $ 909,766 | $ 1,103,876 |
| 2011 | 445,825 | 1,033,351 | 1,479,176 |
| 2012 | 459,592 | 1,028,134 | 1,487,726 |
| 2013 | 484,360 | 1,021,590 | 1,505,950 |
| 2014 | 511,315 | 994,877 | 1,506,192 |
| 2015–2019 | 2,802,550 | 4,689,954 | 7,492,504 |
| 2020–2024 | 3,345,301 | 4,169,475 | 7,514,776 |
| 2025–2029 | 4,430,381 | 3,493,627 | 7,924,008 |
| 2030–2034 | 4,917,171 | 2,562,812 | 7,479,983 |
| 2035–2039 | 5,029,095 | 1,664,864 | 6,693,959 |
| 2040–2044 | 3,919,925 | 613,341 | 4,533,266 |
| 2045–2049 | 3,966,312 | 319,052 | 4,285,364 |
| 2050–2054 | 4,682,012 | 313,364 | 4,995,376 |
| 2055–2058 | 13,087,730 | 219,355 | 13,307,085 |
| Total | 48,275,679 | $ 23,033,561 | $ 71,309,240 |
| Plus unaccreted interest | (23,425,413) | | |
| Plus unamortized premium, net | 302,821 | | |
| Less deferred refunding loss, net | (131,345) | | |
| Total | $ 25,021,742 | | |

Using the rates as of June 30, 2009, debt service requirements for variable-rate general obligation and net swap payments, assuming current interest rates remain the same, for their term, are as follows (expressed in thousands). As rates vary, variable-rate bonds interest payments and net swap payments will vary.

| Year Ending June 30 | Variable-Rate General Obligations | | Interest Rate Swaps, Net | Total |
|---|---|---|---|---|
| | Principal | Interest | | |
| 2010 | $ 2,375 | $ 24,616 | $ 51,931 | $ 78,922 |
| 2011 | 2,450 | 24,598 | 51,861 | 78,908 |
| 2012 | 2,550 | 24,578 | 51,780 | 78,908 |
| 2013 | 2,625 | 24,558 | 51,715 | 78,898 |
| 2014 | 3,945 | 24,525 | 51,634 | 80,104 |
| 2015–2019 | 98,480 | 121,011 | 255,355 | 474,846 |
| 2020–2024 | 617,690 | 86,723 | 198,477 | 902,890 |
| 2025–2029 | 746,645 | 48,716 | 124,981 | 920,341 |
| 2030–2034 | 495,600 | 19,686 | 62,600 | 577,885 |
| 2035–2039 | 67,650 | 11,025 | 22,450 | 101,125 |
| 2040–2044 | - | 11,005 | 22,450 | 33,455 |
| 2045–2049 | - | 11,005 | 22,450 | 33,455 |
| 2050-2054 | - | 11,005 | 22,450 | 33,455 |
| 2055-2058 | 136,000 | 6,970 | 14,225 | 157,195 |
| Total | $ 2,176,010 | $ 450,023 | $ 1,004,357 | $ 3,630,390 |

On August 1, 2008, the Puerto Rico Housing Finance Authority (the "Authority"), a blended component unit of GDB, issued Capital Fund Modernization Program Subordinate Bonds amounting to $384,475,000 and Housing Revenue Bonds amounting to $100,000,000. The proceeds from the issuance were mainly used to finance a loan (the "Loan") to Vivienda Modernization 1, LLC, (the "LLC"). The LLC will utilize moneys from the Loan for the purpose of financing a portion of the cost of the acquisition and modernization of various housing projects in the Commonwealth and paying certain transactional costs.

The LLC is a limited liability company created under the laws of the Commonwealth whose sole member is Vivienda Modernization Holdings 1, S.E. (the "Sole Member" or the "Partnership"), a civil partnership created under the laws of the Commonwealth. The Partnership was created on August 1, 2008 by the Department of Housing of the Commonwealth of Puerto Rico ("DOH"), in its capacity as the general partner (the "General Partner") and Hudson SLP XL LLC, a Delaware limited liability company, as the Special Limited Partner (the "Special Limited Partner") and Hudson Housing Tax Credit Fund XL LP, a Delaware limited partnership, as the Investment Partnership (the "Investment Partnership"; collectively with the Special Limited Partner, the "Limited Partners"). The Partnership has been organized exclusively to be the sole member of the LLC, which entity has been organized exclusively to acquire a 99 year term Surface Right with respect to the Land and to develop, finance, rehabilitate, maintain, operate, lease and sell or otherwise dispose of each Apartment Complex, in order to obtain for the Partnership and its Partners statutory compliance, long-term appreciation, cash income, and tax benefits consisting of Tax Credits and tax losses over the term hereof. In exchange for acquiring, constructing, or renovating and maintaining housing that is affordable to households with low or limited incomes, owners of such housing may be entitled to a direct credit on their federal taxes in accordance with Section 42 of the Internal Revenue Code of 1986, as amended.

Profits, losses and tax credits, are allocated in accordance with the Partnership Agreement. Profits and losses from operations and low-income housing tax credits in any one year shall be allocated 99.98% to the Investment Partnership, 0.01% to the Special Limited Partner and 0.01% to the General Partner. As defined in the Partnership Agreement, certain transactions and occurrences warrant special allocations of profits and losses. All other losses shall be allocated to the extent allowable under Section 704(b) of the IRC.

Pursuant to the Partnership Agreement, the Limited Partners are required to provide capital contributions totaling approximately $235 million to the Partnership ("Initial Projected Equity"), subject to potential adjustment based on the amount of low-income housing credits ultimately allocated to the Projects in addition to other potential occurrences as more fully explained in the Partnership Agreement. As of June 30, 2009, the Limited Partners have provided capital contributions totaling $21 million.

Pursuant to the Partnership Agreement, the General Partner is required to provide capital contributions totaling $10 to the Partnership. Should the Partnership have not sufficient funds available to pay the outstanding balance of the developer fee thereof, as defined, the General Partner shall be required to provide additional capital contributions to the Partnership in an amount sufficient for the Partnership to pay such balance in full. The General Partner shall have no right or obligation to make any other capital contributions. As of June 30, 2009, the General Partner had provided no capital contributions. In addition, the DOH as General Partner shall establish the Assurance Reserve Fund at initial closing in the amount of the initial capital contribution less $4 million (plus any initial capital contribution with respect to the apartment complexes). Amounts in the Assurance Reserve Fund shall be used, (i) upon the request of the General Partner, subject to the consent of the Special Limited Partner, or (ii) upon the direction to the Special Limited Partner, to meet financial obligations of the General Partner, other than for excess development costs, as provided in the Partnership Agreement. As of June 30, 2009, such reserve was maintained in the Partnership. The amount owed to DOH for the assurance reserve fund as of June 30, 2009, amounted to $16.7 million.

On August 7, 2008 the Puerto Rico Public Housing Administration ("PHA") and the LLC entered in into a Regulatory and Operating Agreement ("the Agreement"). The PHA and the LLC have determined that it would be desirable for the public housing rental development to undergo comprehensive modernization (e.g. new floors, electrical wiring, plumbing, windows, door, roofs and accessibility features) or development, which modernization or development will be undertaken and operated by the LLC.

On August 7, 2008, the DOH and PHA entered into an interagency agreement through which PHA will transfer title to the public housing rental developments to the DOH for the subsequent sale to the LLC. In addition, the DOH will make a grant to the Authority from funds in the Program Modernization Fund in excess of the first receipts equal to $20 million to allow the Authority to make a permanent loan to the LLC. The Authority will provide to the LLC a (i) $100,000,000 interim construction loan to be used in connection with the financing of the rehabilitation and/or construction work on the development from the proceeds of tax-exempt bonds issued by the Authority, (ii) $386,834,314 capital fund loan in proceeds from certain tax-exempt bonds issued by the Authority, and (iii) a $100,000,000 permanent loan.

On August 7, 2008, the LLC and the DOH entered into a Purchase and Sales Agreement through which the LLC acquired the surface rights of a property ("the Property") and the improvement erected on such property consisting of buildings and construction in progress with a net book value and cost of $45.9 million and $110 million, respectively, from the DOH under those certain deeds of

Constitution of Surface Rights and Transfer of Improvements dated August 7, 2008, which will require the LLC to rehabilitate or construct on the Property four thousand one hundred thirty-two (4,132) residential rental units (the Units or collectively the Development) all of which will receive the benefit of operating subsidy and benefit of low income housing tax credit under Section 42 of the Internal Revenue Code of 1986, as amended. Eighty-four (84) of the units, all of which will be located at the Brisas de Cayey II site, are to be newly constructed. The remaining units will be modernized.

Also, on August 7, 2008, the DOH entered into a loan agreement with the LLC in the amount of $102,889,957 for the acquisition of the 33 residential rental properties (the "deferred purchase price note"). The LLC shall make payments equal to the amount of net available capital contributions, as defined, for the preceding calendar quarter.

The terms of the deferred purchase price note are described as set forth below:

| | |
|---|---|
| Commitment | $ 102,889,957 |
| Interest rate | 3.55 % |
| Maturity date | Later of (i) funding of the last installment of the third capital contribution or (ii) August 7, 2013 |

The note shall be a full recourse liability of the LLC; however, none of the LLC's members have personal liability. As of June 30, 2009, the principal balance outstanding on the deferred purchase price note was $102,889,957 and accrued interest was $3,272,322. At the same time, based on the Purchase and Sale Agreement, the PHA received $92,479,688 from the LLC, which was used to pay eligible project expenses incurred by the PHA on an interim basis to minimize the expenditure of 2003 tax exempt bonds that were ineligible for inclusion in the credit transaction. In addition, PHA received $18,137,698 from the LLC for Capital Fund Bonds funds previously expensed by the PHA from June and July 2009.

The PHA has entered into an Interagency Agreement dated August 7, 2008 with DOH, in DOH's capacity as general partner of the Partnership, to delegate management and operational duties related to the Development to the PHA as set forth in the Interagency Agreement. The LLC and the PHA also intend that the units be developed, operated and managed so as to assure receipt by the LLC of the aforementioned economic and tax benefits to the full extent available to the LLC.

Additionally, on August 7, 2008, the LLC entered into a Master Developer Agreement with the DOH to perform services in connection with the development, rehabilitation, and modernization of certain housing projects ("Developer Agreement"). Pursuant to the Master Developer Agreement, the DOH will earn a developer's fee in the amount of $75 million for services performed and to be performed. Payment of the developer's fee shall be subject to the terms and conditions of Section 6(a) (i-iv) of the Master Developer Agreement. As of June 30, 2009, the DOH earned and was paid developer fees in the amount of $4 million.

Under the Partnership Agreement, projects which do not meet the final completion schedule or satisfy other completion, occupancy, rent attainment or tax-credit related requirements or other Investor Limited Partner conditions to capital contributions with respect to such projects as set forth in the Partnership Agreement may under certain conditions be required to be purchased by DOH or its designee. In such case, DOH or its designee would assume the portion of the Loan allocated to such project(s), including both moneys remaining to be disbursed and repayment obligations, and would become a new additional borrower under the loan agreement. The LLC would be released with respect to the amount of the Loan assumed. DOH or its designee could also seek to obtain a

limited partner (who might or might not be the original Investor Limited Partner) and tax credit equity contributions. Such transfer does not affect the obligation of DOH to grant moneys to the Authority to fund the permanent loan. As a requirement of such purchase, DOH or its designee is required to repay equity already contributed by the Investor Limited Partner, plus interest and a purchase premium.

**(d) Commonwealth Appropriation Bonds**

Over the years, GDB, as fiscal agent and bank for the Commonwealth, had extended lines of credit, advances, and loans to several agencies and component units in order to finance their capital improvement projects and to cover their operational deficits at the time. At different points in time, these loans were refunded through the issuance of Commonwealth appropriation bonds issued by the Puerto Rico Public Finance Corporation (PFC), a blended component unit of GDB. PFC is the financing arm of GDB, which serves only as a conduit for the issuance of the bonds.

During June 2004, PFC advance refunded through the PFC 2004 Series A and B and PFC 2003 Series A through C Refunding Commonwealth Appropriation Bonds, a portion of certain of its outstanding Commonwealth Appropriation Bonds issued in prior years (except for the Health Facilities and Services Administration bonds described below, where no portion was refunded). The Commonwealth recognized a mirror effect of this advance refunding by PFC in its own debt in proportion to the portion of the Commonwealth's notes included in the PFC refunding. As a result, the Commonwealth considered defeased and, therefore, removed from the balance sheet the portion refunded of $775.7 million.

The repayment source for these bonds (both the refunding and unrefunded portions) consisted until June 30, 2006 of Commonwealth appropriations submitted for approval of the Legislature annually during the budget process of the Commonwealth.

During July 2006, the source for the 2007 debt service of these appropriation bonds came from PFC instead (not from legislative appropriations), through an advance of approximately $303 million. PFC got its advance repaid by COFINA, a blended component unit of the Commonwealth created in 2007 with the capacity to issue bonds to repay or refinance the advance from PFC, the appropriation bonds, the Qualified Zone Academic Bonds (QZAB) bonds and other debt obligations to GDB, collectively referred as the extra constitutional debt. The COFINA debt in turn will be serviced with the revenues generated from the collection of the first 1% of the sales and use tax, which came in effect on November 15, 2006 (note 3c). Also during 2009 the Legislative Assembly increased the Corporation dedicated revenues by increasing the percentage of revenues generated from the sales and use tax to 2.75%.

On July 31, 2007, December 20, 2007, and June 26, 2008, COFINA, issued $2,667 million Sales Tax Revenue Bonds Series 2007A and $1,333 million Series 2007B, $499.9 million Series 2007C and $737 million Series 2008A, respectively, to refinance certain series of the Act 164 PFC Bonds outstanding and the corresponding notes issued by PFC by certain series of the Commonwealth's agencies and component units. The Series 2007A, B, C, and 2008A proceeds were deposited in escrow with the Bank of New York/Mellon as master escrow agent to pay interest for appropriation bonds through February 2012.

On October 21, 2008, PFC requested trustee to restructure certain escrow funds. The funds had been established on July 31, 2007, for the refunding of interest on certain of PFC's taxable bonds (taxable Refunded Interest Only Escrow Requirements). After the escrow fund had been originally established, a portion of the outstanding principal of the bonds, which were the basis for the

calculation of the Taxable Refunded Interest Only Escrow Requirements, was extinguished with the proceeds of bonds issued by COFINA. In addition, all the maturities of the PFC Series 2000B Bonds held in escrow were also paid on December 1, 2008. The reduction of principal as described, decreased the Taxable Interest Only Escrow Requirements, and as such, PFC instructed the trustee to restructure the escrows. The restructuring analysis provided approximately $158 million of which approximately $78 million were received by COFINA and approximately $80 million were received by the Commonwealth. In addition, COFINA received approximately $17 million in contributions from PFC. Amounts received were recorded as a special item in the accompanying statement of activities.

The outstanding balance of the Commonwealth appropriation bonds comprises the following obligations (expressed in thousands):

| | |
|---|---|
| Act No. 164 restructuring | $ 498,002 |
| Health Facilities and Services Administration | 39,004 |
| Office for the Improvement of Public Schools of Puerto Rico | 79,513 |
| Puerto Rico Maritime Shipping Authority (PRMSA) | 99,810 |
| Property tax settlement | 21,016 |
| Total Commonwealth appropriation bonds | $ 737,345 |

**Act No. 164 Restructuring**

On December 17, 2001, Act No. 164 was approved, which authorized certain government agencies and discretely presented component units to refund approximately $2.4 billion of their outstanding obligations with GDB, for which no repayment source existed, over a period not exceeding 30 years, and to be repaid with annual Commonwealth appropriations not to exceed $225 million. This refunding was done with Commonwealth appropriation bonds through several series issued by PFC during the period between December 2001 and June 2002.

Approximately $498 million of the aforementioned outstanding obligations belonged to the primary government, predominantly the Department of Health of the Commonwealth (health reform financing and other costs for approximately $1.1 billion) and the Department of the Treasury of the Commonwealth (the fiscal year 2001 deficit financing of $268 million and the obligation assumed for defective tax liens in the amount of approximately $132 million). The new combined bonds balance of the Act No. 164 restructuring bears interest at rates ranging from 4% to 6.25%. Debt service requirements in future years are as follows (expressed in thousands):

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2010 | $ - | $ - | $ - |
| 2011 | - | - | - |
| 2012 | - | 27,725 | 27,725 |
| 2013 | - | 22,488 | 22,488 |
| 2014 | 26,196 | 25,411 | 51,607 |
| 2015–2019 | 124,389 | 108,960 | 233,349 |
| 2020–2024 | 41,967 | 76,922 | 118,889 |
| 2025–2029 | 138,006 | 53,551 | 191,557 |
| 2030–2032 | 187,935 | 7,262 | 195,197 |
| Total | 518,493 | $ 322,319 | $ 840,812 |
| Plus unamortized premium | 11,235 | | |
| Less deferred refunding loss | (31,726) | | |
| Total | $ 498,002 | | |

**Health Facilities and Services Administration**

As of July 1, 1999, approximately $595 million (including unpaid interest) of a promissory note of the Health Facilities and Services Administration (HFSA) due to GDB was transferred to the Department of Health of the Commonwealth and restructured through Commonwealth appropriation bonds. The bonds bear interest at rates ranging between 5.90% and 6.20%. Principal and interest on the bonds are payable solely from legislative appropriations to be made pursuant to Act No. 223 of August 9, 1998. Act No. 223 provides that OMB shall include in the annual budget of the Commonwealth an amount equal to $56.5 million for the fiscal year 1998-99, and for the next succeeding 15 fiscal years the amount necessary to pay the principal of and interest on the bonds, up to a maximum annual amount of $57.7 million.

Debt service requirements in future years are as follows (expressed in thousands):

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2010 | $ - | $ - | $ - |
| 2011 | - | - | - |
| 2012 | - | 2,040 | 2,040 |
| 2013 | - | 2,040 | 2,040 |
| 2014 | 10,665 | 1,720 | 12,385 |
| 2015–2019 | 28,339 | 10,738 | 39,077 |
| Total | $ 39,004 | $ 16,538 | $ 55,542 |

**Office for the Improvement of Public Schools of Puerto Rico**

Previous public schools infrastructure improvement loans provided additional funds for major repairs and improvements to the public schools in Puerto Rico. This activity is administered by the Office for the Improvement of the Public Schools of Puerto Rico (OIPS), included as part of the general fund of the primary government. These loans were refunded originally through the issuance of Commonwealth appropriation bonds pursuant to Act No. 85 of June 13, 1998 (Act 85). The new combined bonds bear interest at rates ranging from 4.10% to 5.75%. As of June 30, 2009, approximately $79.5 million was outstanding.

Debt service requirements in future years are as follows (expressed in thousands):

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2010 | $ - | $ - | $ - |
| 2011 | - | - | - |
| 2012 | - | 5,262 | 5,262 |
| 2013 | 6,100 | 3,651 | 9,751 |
| 2014 | - | 3,532 | 3,532 |
| 2015–2019 | - | 17,660 | 17,660 |
| 2020–2024 | 19,015 | 15,686 | 34,701 |
| 2025–2029 | 63,510 | 3,568 | 67,078 |
| Total | 88,625 | $ 49,359 | $ 137,984 |
| Plus unamortized premium | 2,836 | | |
| Less deferred refunding loss | (11,948) | | |
| Total | $ 79,513 | | |

**Puerto Rico Maritime Shipping Authority**

A promissory note payable owed by PRMSA to GDB was assumed by the Commonwealth in connection with the sale of the maritime operations of PRMSA. Commonwealth appropriation bonds were issued to refund this liability. The new combined bonds balance bears interest at a variable rate ranging from 4.60% to 5.55%. Debt service requirements in future years are as follows (expressed in thousands):

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2010 | $ - | $ - | $ - |
| 2011 | - | - | - |
| 2012 | - | 5,810 | 5,810 |
| 2013 | - | 5,810 | 5,810 |
| 2014 | 12,945 | 5,314 | 18,259 |
| 2015-2019 | 68,905 | 16,569 | 85,474 |
| 2020-2024 | 15,145 | 6,538 | 21,683 |
| 2025-2029 | 14,805 | 2,660 | 17,465 |
| 2030-2032 | 2,470 | 24 | 2,494 |
| Total | 114,270 | $ 42,725 | $ 156,995 |
| Less unamortized discount | (153) | | |
| Less deferred refunding loss | (14,307) | | |
| Total | $ 99,810 | | |

**Property Tax Settlement**

During fiscal year 1996, the Commonwealth refinanced the liability for the settlement of the property taxes owed to the municipalities of Puerto Rico. Commonwealth appropriation bonds were issued to refund this liability. The new combined bonds balance bears interest at rates ranging from 4.10% to 4.90%. Debt service requirements in future years are as follows (expressed in thousands):

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2014 | $ 11,469 | $ 6,922 | $ 18,391 |
| 2015 | 10,779 | 7,631 | 18,410 |
| Total | 22,248 | $ 14,553 | $ 36,801 |
| Plus accreted discount | 6,747 | | |
| Less deferred charges arising from debt refunding | (7,979) | | |
| Total | $ 21,016 | | |

### (e) Notes Payable to Component Units and Private Banks

The Commonwealth has entered into various short-term line of credit agreements with GDB consisting of the following at June 30, 2009 (expressed in thousands):

| Agency | Purpose | Interest Rate | Line of Credit | Outstanding Balance |
|---|---|---|---|---|
| Department of the Treasury | To fund information technology project | 125 bp over GDB's commercial paper rate | $ 44,868 | $ 14,782 |
| Department of the Treasury | Purchase of mobile X-ray machines | 125 bp over 3 months LIBOR | 12,000 | 2,669 |
| Department of the Treasury | Resources to various agencies to pay outstanding debt with PBA | 125 bp over 3 months LIBOR | 40,000 | 14,181 |
| Department of the Treasury | Acquisition of safety and security equipment | 125 bp over GDB's commercial paper rate | 105,000 | 74,608 |
| Department of Transportation and Public Works | To finance the revitalization of urban centers | 150 bp over GDB's commercial paper rate | 44,000 | 33,006 |
| Department of Transportation and Public Works | Construction and repavement of roads | 125 bp over GDB's commercial paper rate | 15,000 | 5,971 |
| Department of Health | To cover diagnose and treatment costs | 125 bp over 3 months LIBOR | 8,000 | 6,500 |
| Department of Housing | To reimburse to the Puerto Rico Housing Finance Authority, a blended component unit of GDB, for certain advances to the Santurce Revitalization Project | 125 bp over 3 months LIBOR | 19,282 | 13,106 |
| Department of Recreation and Sports | Development and improvement of recreational facilities | 125 bp over GDB's all inclusive interest cost | 17,500 | 8,936 |
| Department of Natural and Environmental Resources | Channeling of the Fajardo River | 150 bp over GDB's commercial paper rate | 3,500 | 1,705 |
| | | | $309,150 | $175,464 |

The Commonwealth financed certain other long-term liabilities through GDB and other component units. The outstanding balance at June 30, 2009 on the financing provided by GDB comprises the following, all within governmental activities (expressed in thousands):

**GDB**

| | |
|---|---|
| Department of the Treasury | $ 792,003 |
| Public Buildings Authority | 181,513 |
| Office of Management and Budget | 124,492 |
| Department of Education | 120,010 |
| Puerto Rico Sales Tax Financing Corporation | 101,051 |
| Department of Health | 82,307 |
| Department of Justice | 78,239 |
| Department of Agriculture | 59,873 |
| Department of Transportation and Public Works | 40,689 |
| Police Department | 31,328 |
| Department of Housing | 28,504 |
| Correction Administration | 26,129 |
| Puerto Rico Court Administration Office | 25,360 |
| Department of Recreation and Sports | 16,689 |
| Office of the Superintendent of the Capitol | 15,559 |
| Administration for the Care and Development of the Childhood | 5,257 |
| Office of Veterans' Affairs | 1,135 |
| Notes payable to GDB | $ 1,730,138 |

**Other Components Units:**

| | |
|---|---|
| Health facilities agreement payable to the Medical Science Campus of UPR | $ 68,895 |
| Note payable to PREPA | 18,980 |
| Notes payable to other component units | $ 87,875 |

As of June 30, 2009, the Department of the Treasury of the Commonwealth has entered into various line of credit agreements with GDB amounting to a maximum of $1.9 billion for different purposes as presented in the following table. The purpose, interest rate, maturity date, and amount outstanding under each individual agreement at June 30, 2009 consist of the following (expressed in thousands)

| Purpose | Interest Rate | Maturity | Line of Credit | Outstanding Balance |
|---|---|---|---|---|
| To finance payroll and operational expenditures of the Commonwealth for fiscal year 2006 | 5.50% | June 30, 2036 | $ 741,000 | $240,000 |
| Resources to meet appropriations in annual budget of the Commonwealth (fiscal year 2004) and federal programs expenditures | 125 bp over 3 month libor | June 30, 2018 | 640,000 | 156,744 |
| To refinance the interest components of certain bonds issued | 4.75% | June 30, 2010 | 121,985 | 102,866 |
| Capital improvements projects of agencies and municipalities | 150 bp over GDB's commercial paper rate | June 30, 2019 | 130,000 | 87,760 |
| To pay agencies debt | 125 bp over 3 month libor | September 30, 2012 | 100,000 | 78,130 |
| Resources to cover the operational needs of the catastrophic disasters fund, (fiscal year 2004) of the Puerto Rico Health Insurance Administration and the Department of the Family | 125 bp over 3 month libor | September 30, 2015 | 79,930 | 47,746 |
| To cover deficit on certain elderly and child care programs of the Department of the Family | 125 bp over 3 month libor | September 30, 2011 | 30,000 | 29,928 |
| To pay debt with the Municipal Revenue Collection Center | 125 bp over 3 month libor | June 30, 2011 | 16,241 | 16,241 |
| To stimulate the economy in the municipalities of Ceiba and Naguabo | 125 bp over 3 month libor | September 30, 2012 | 14,500 | 12,665 |
| To pay outstanding debt of various agencies with the PR Telephone Company | 125 bp over 3 month libor LIBOR | June 30, 2018 | 16,000 | 12,157 |
| Acquisition of Salinas Correctional Facilities | 125 bp over 3 month libor | June 30, 2018 | 15,000 | 7,766 |
| | | | $1,904,656 | $792,003 |

On April 27, 2009, GDB provided to the Public Buildings Authority (the "Authority") a non-revolving credit facility in the maximum principal amount of $98.5 million bearing interest on the unpaid principal amount of each advance at a fluctuating annual rate equal to 1.50% over and above the Prime Rate or at such other rate determined by GDB. The proceeds will be used exclusively for the payment of certain amounts due by the Authority to its suppliers and service providers. The loan

and the accrued interest are due on June 30, 2011 and will be payable from all funds generated by the PBA and any other properties owned and pledged to GDB. As of June 30, 2009, there have been drawings on the line of credit amounting to $4.1 million. The Authority maintains a $75 million line-of-credit agreement with GDB for payment of operational expenses. Borrowings under this line of credit agreement bear interest at a variable rate equal to 1.25% over the three month LIBOR rate, with a minimum of 5% rate, and are payable upon maturity on June 30, 2010. As of June 30, 2009, $75 million was outstanding. On May 2, 2008, the Authority executed two Loan Agreements with GDB for the interim financing of its Capital Improvement Program in an amount not to exceed $226 million, bearing interest at 1.50% over the cost of Tax-Exempt Commercial Paper issued by GDB. The loans and the accrued interest are due on October 31, 2009 and will be repaid from the proceeds of the next bond issuance of the Authority divided into $209 million on a tax- exempt basis and $16 million on a taxable basis. As of June 30, 2009, $38 million was outstanding. An additional line-of-credit was entered into between GDB and Public Buildings Authority on February 27, 2009 for a maximum amount of $64.5 million bearing interest daily from the drawings date until its repayment at a rate of interest per annum equal to the Prime Rate plus 150 basis points not to exceed 12%. This loan was issued with the purpose of paying the interest component of certain outstanding revenue and revenue refunding bonds of the Authority. The loan and interest are payable upon maturity of the line of credit on June 30, 2010 and will be repaid from the proceeds of the next bond issuance of the Authority. As of June 30, 2009, $64.5 million was outstanding.

On June 5, 2006, the Office of Management and Budget entered into a $150 million line of credit agreement with GDB to provide economic assistance for disasters and emergencies. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR, and are payable upon the maturity of the line of credit on September 30, 2011. As of June 30, 2009, $124 million was outstanding.

On February 6, 2003, the Department of Education of the Commonwealth entered into a $25 million line of credit agreement with GDB for the purchase of equipment and for school improvements. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR, and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2009, $5 million was outstanding. On August 4, 2002, the Department of Education of the Commonwealth entered into an additional $140 million line of credit agreement with GDB in order to reimburse the Department of the Treasury of the Commonwealth for payments made on their behalf for state funds used to fund federal program expenditures. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR and were payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2009, $115 million still remains outstanding related to the borrowing. The line of credit is expected to be repaid upon collection of the federal grants.

In July 2006, Puerto Rico Public Finance Corporation ("PFC") advanced $303 million to the Dedicated Sales Tax Fund to make, on behalf of the Commonwealth, the debt service payments for fiscal year 2007 of PFC's conduit debt. PFC obtained a loan from GDB to fund said advance. The advance bears interest at a rate based on the 90 day LIBOR rate plus 125 points. Interest is computed on the basis of actual days elapsed in a year of 360 days, and it is payable annually. The advance matures on March 31, 2036. On October 4, 2006, the Department of the Treasury and GDB, as administrators of the Dedicated Sales Tax Fund, signed a memorandum of understanding whereby the Dedicated Sales Tax Fund agreed to the payment of principal and interest on the advance from the proceeds of future bond issue. On July 6, 2007, COFINA assumed the deficit of the Dedicated Sales Tax Fund, including the repayment of the advance due to PFC. At June 30, 2009, the outstanding balance of such advance was approximately $101 million.

On August 2003, the Department of Health of the Commonwealth entered into a $30 million line of credit agreement with GDB in order to repay certain outstanding debts that the PRMSA had with other agencies and suppliers. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR, and are payable upon maturity of the line of credit on September 30, 2012. As of June 30, 2009, $28.9 million related to this line of credit agreement was outstanding. On November 8, 2004, the Department of Health entered into an additional $58.5 million line of credit agreement with GDB for the financing of a project of the Department of Health and PRMSA. Borrowings under this line of credit agreement bear interest at variable rates based on 150 basis points over GDB's commercial paper rate and are payable upon the maturity of the line of credit on October 31, 2014. As of June 30, 2009, the outstanding balance of this line of credit agreement amounted to $47.6 million. On November 12, 2004, an additional line-of-credit agreement was entered into with GDB to cover the operational needs of the catastrophic disasters fund during fiscal year 2004-2005. The agreement amounted to $8 million maturing on June 30, 2018. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR, and are payable upon the maturity of the line of credit. As of June 30, 2009, the outstanding balance of this line of credit agreement amounted to $5.8 million.

On October 2, 2002, the Department of Justice of the Commonwealth entered into a $90 million line of credit agreement with GDB for the financing of 12 public improvement projects for the Municipality of Ponce pursuant to a court order. Borrowings under this line of credit agreement bear interest at variable rates and are payable upon the maturity of the line of credit on September 30, 2014. As of June 30, 2009, $19.2 million related to this line of credit agreement was outstanding. On August 8, 2005, the Department of Justice of the Commonwealth entered into an additional agreement (amendment) to increase line-of-credit of $90 million to $110 million to cover various projects in Ponce. Borrowings under this line of credit agreement bear interest based on the All Inclusive Total Interest Cost of the Medium Term Notes, Series B, plus a mark-up of 1.25% and are payable upon the maturity of the line of credit on September 30, 2014. As of June 30, 2009, this line of credit agreement amounted to $59 million.

On August 9, 1999, the Department of Agriculture of the Commonwealth entered into a $125 million nonrevolving line-of-credit agreement with GDB to provide economic assistance to the agricultural sector, which sustained severe damages caused by Hurricane Georges in 1998. As of February 24, 2004 the line-of-credit increased by $50 million resulting in a total amount of $175 million. Borrowings under this line-of-credit agreement bear interest at variable rates based on 125 basis points over three-month LIBOR, and are payable upon the maturity of the line of credit on June 30, 2014. As of June 30, 2009, $59.8 million remains outstanding.

On March 8, 2004, the Department of Transportation and Public Works (DTPW) entered into a $26 million line-of-credit agreement with GDB for improvement and maintenance of roads around the island. Borrowings under this line of credit agreement bear interest at variable rates based on the All Inclusive Total Interest Cost of the Medium Term Notes, Series B, plus a mark-up of 1.25%, and are payable upon the maturity of the line of credit on June 30, 2010. As of June 30, 2009, $23 million was outstanding. On November 16, 2004, the DTPW entered into an additional $33 million line of credit agreement with GDB for highway permanent improvements. Borrowings under this line of credit agreement bear interest based on the All Inclusive Total Interest Cost of the Medium Term Notes, Series B, plus a mark-up of 1.25% and are payable upon the maturity of the line of credit on October 31, 2010. As of June 30, 2009, $17.7 million remains outstanding related to these borrowings.

On July 29, 2004, the Police Department entered into a $48 million line of credit agreement with GDB for the acquisition of vehicles and high technology equipment. Borrowings under this line of credit agreement bear interest based on the All Inclusive Total Interest Cost of the Medium Term Notes, Series B, plus a mark-up of 1.25% and are payable upon the maturity of the line of credit on September 30, 2014. The outstanding balance of this line of credit agreement amounted to $31.3 million at June 30, 2009.

On December 3, 2007, the Department of Housing entered into a $30 million line-of-credit agreement with GDB for the purchase of Juan C. Cordero Dávila building. Borrowings under this line of credit agreement bear interest based on .75 basis points over three month LIBOR and are payable upon maturity of the line of credit on February 28, 2038. As of June 30, 2009, $28.5 million related to this line of credit agreement was outstanding.

On May 12, 2004, the Correction Administration of the Commonwealth entered into a $60 million line-of-credit agreement with GDB for improvements to certain correctional facilities. Borrowings under this line-of-credit agreement bear interest at variable rates based on 150 basis points over GDB's commercial paper rate and are payable upon the maturity of the line of credit on June 30, 2010. As of June 30, 2009, $26 million was outstanding.

On May 7, 2001, the Puerto Rico Court Administration Office (the Office) entered into a $49.4 million no revolving line of credit agreement with GDB for operating purposes. Borrowings under this line of credit agreement bear interest at a variable rate of three month LIBOR plus 1%, not to exceed 8%. The Office must deposit $6 million a year, from the total fees collected on the filing of civil cases, in a special fund created by the Department of the Treasury of the Commonwealth, which is pledged for repayment until July 31, 2015. As of June 30, 2009, approximately $25.3 million remains outstanding.

On January 18, 2005, the Department of Recreation and Sports (DRS) entered into a $17.2 million line of credit agreement with GDB for the development of a series of recreational projects at different municipalities. Borrowings under this line of credit agreement bear interest based on 150 basis points over GDB's commercial paper rate and are payable upon the maturity of the line of credit on June 30, 2018. The proceeds of the line of credit are used for development and improvement of recreational facilities As of June 30, 2009, $14.3 million was outstanding. An additional line-of-credit was entered into between GDB and the DRS in the maximum principal amount of $16 million bearing interest on the unpaid principal amount of each advance at variable rates based on 150 basis points over GDB's commercial paper rate and are payable upon the maturity of the line of credit on June 30, 2018. The line-of-credit proceeds are used for development and improvement of recreational facilities. As of June 30, 2009, $2.3 million was outstanding.

On February 15, 2002, the Office of the Superintendent of the Capitol (Superintendent) entered into a $35 million line of credit agreement with GDB for the Office of the Superintendent of the Capitol parking's construction. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2009, $15.6 million remained outstanding from the line of credit agreement.

On February 24, 2006, the Administration for the Care and Development of the Childhood entered into an $8 million line-of-credit agreement with GDB to provide economic assistance for the summer program known as "Care and Development of the Child Program". Borrowings under this line-of-credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR, and are payable upon the maturity of the line of credit on September 30, 2009. As of June 30, 2009, $5.2 million was outstanding.

On October 20, 2004, the Office of Veterans' Affairs entered into a $1.6 million line of credit agreement with GDB to provide economic assistance and housing leasing services to Puerto Rican veterans. Borrowings under this line of credit agreement bear interest at variable rates at 125 basis points over three month LIBOR and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2009, $1.1 million was outstanding.

As of July 1, 1999, debts of approximately $102 million payable to UPR, a discretely presented component unit, in relation to outstanding noninterest bearing debt accumulated in prior years by HFSA were transferred to the Commonwealth. On September 7, 2004, additional debts of approximately $71.2 million were also restructured and combined with the previous financing arrangement. As of June 30, 2009, $32.9 million remains outstanding. In addition, during the fiscal year 2009 the Office of Management and Budget and the UPR signed an intra-agency agreement amounting to $36 million to pay for appropriations for fiscal years 2007 and 2008. Future amounts required to pay principal balances at June 30, 2009 are expected to be as follows (expressed in thousands):

| **Year Ending June 30** | |
|---|---|
| 2010 | $ 7,570 |
| 2011 | 43,606 |
| 2012 | 8,000 |
| 2013 | 8,000 |
| 2014 | 1,719 |
| Total | $ 68,895 |

The noninterest bearing note payable to PREPA, a discretely presented component unit, consists of $19 million of fuel adjustment subsidy due by the Commonwealth and the refinancing during 2004 of $24.1 million of other accumulated debt by the Commonwealth's agencies with PREPA. The $18.9 million is expected to be paid during the year ending June 30, 2010.

With the exception of a few lines of credit having a defined source of repayment, the remaining lines of credit described above used Commonwealth appropriations as the source of repayment until June 30, 2007. Beginning in fiscal year 2008, these lines of credit are expected to be repaid or refunded with a combination of Commonwealth appropriations and COFINA under the mechanism described in note 15(c).

**(f) Compensated Absences**

Long term debt includes approximately $1.6 billion of accrued vacation and sick leave benefits at June 30, 2009. The total liability of compensated absences recorded as governmental and business type activities amounted to $1.6 billion and $5 million, respectively.

**(g) Net Pension Obligation**

The amount reported as net pension obligation of approximately $6.8 billion represents the cumulative amount owed by the Commonwealth for the unfunded prior years' actuarially required pension contributions to the ERS, JRS, and the TRS (collectively known as the pension plans) (see note 20). The net pension obligation has been recorded as a liability in governmental activities in the accompanying statement of net assets (deficit).

**(h) Unpaid Lottery Prizes**

The amount reported as unpaid lottery prizes represents the lottery prizes payable of the Lottery of Puerto Rico (commonly known as Traditional Lottery) and the Additional Lottery System (commonly known as Lotto) jointly known as the Lottery Systems at June 30, 2009. The minimum annual payments related to unpaid awards of both lotteries are as follows (expressed in thousands):

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2010 | $ 67,291 | $ 6,857 | $ 74,148 |
| 2011 | 30,094 | 8,429 | 38,523 |
| 2012 | 26,453 | 9,137 | 35,590 |
| 2013 | 23,255 | 9,629 | 32,884 |
| 2014 | 20,368 | 9,896 | 30,264 |
| 2015–2019 | 65,588 | 45,627 | 111,215 |
| 2020–2024 | 25,431 | 27,956 | 53,387 |
| 2025–2029 | 5,111 | 6,715 | 11,826 |
| Total | $ 263,591 | $ 124,246 | $ 387,837 |

The minimum annual payments related to unpaid awards of Lotto excluded unclaimed prizes liability of approximately $5.6 million at June 30, 2009, which is reported as prizes payable — current portion.

The liability for unpaid lottery prizes is reported in the accompanying statement of net assets (deficit) — business type activities and statement of net assets (deficit) — proprietary funds.

**(i) Claims Liability for Insurance Benefits**

The Commonwealth provides unemployment compensation, nonoccupational disability, and drivers' insurance coverage to public and private employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth. These insurance programs cover workers against unemployment, temporary disability, or death because of work or employment related accidents or because of illness suffered as consequence of their employment.

The Commonwealth establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. Insurance benefit claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The liability for insurance benefits claims is reported as a current liability in the accompanying statement of net assets (deficit) business type activities — and statement of net assets (deficit) proprietary funds. The liability as of June 30, 2009, amounts to $98.7 million.

**(j) Obligations under Capital Lease Arrangements**

The Commonwealth is obligated under capital leases with third parties that expire through 2039 for land, buildings, and equipment. At June 30, 2009, the capitalized cost of the land, buildings, and equipment amounted to approximately $276 million and is included in the accompanying government wide statement of net assets (deficit) within capital assets.

The present value of future minimum capital lease payments at June 30, 2009 reported in the accompanying government wide statement of net assets is as follows (expressed in thousands):

| **Year Ending June 30** | |
|---|---|
| 2010 | $ 23,727 |
| 2011 | 23,298 |
| 2012 | 22,897 |
| 2013 | 26,148 |
| 2014 | 22,299 |
| 2015–2019 | 102,104 |
| 2020–2024 | 100,930 |
| 2025–2029 | 100,932 |
| 2030–2034 | 69,120 |
| 2035–2039 | 23,538 |
| Total future minimum lease payments | 514,993 |
| Less amount representing interest costs | (274,909) |
| Present value of minimum lease payments | $ 240,084 |

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2009, include the following (expressed in thousands):

| | |
|---|---|
| Land | $ 7,960 |
| Buildings | 254,886 |
| Equipment | 13,248 |
| Subtotal | 276,094 |
| Less accumulated amortization | (46,464) |
| Total | $ 229,630 |

Amortization charge applicable to capital leases and included within depreciation expense of capital assets amounted to $7.6 million in 2009.

The Commonwealth is also committed under numerous operating leases, covering land, office facilities, and equipment. Rental expenditures within the governmental funds for the year ended June 30, 2009 under such operating leases were approximately $114 million.

The future minimum lease payments for these leases are as follows (expressed in thousands):

| Year Ending June 30 | |
|---|---|
| 2010 | $ 124,740 |
| 2011 | 98,959 |
| 2012 | 73,379 |
| 2013 | 56,158 |
| 2014 | 29,849 |
| 2015–2019 | 63,603 |
| 2020–2024 | 31,425 |
| 2025–2029 | 13,464 |
| 2030–2034 | 5,436 |
| Total future minimum lease payments | $ 497,013 |

**(k) Other Long Term Liabilities**

The remaining long term liabilities of governmental activities at June 30, 2009 include (expressed in thousands):

| | |
|---|---|
| Liability for legal claims and judgments (Note 19) | $ 1,367,651 |
| Liability for salary increases granted through legislation | 287,099 |
| Liability to U.S. Army Corps of Engineers (Note 13) | 205,000 |
| Employees' Christmas bonus | 177,854 |
| Liability for federal cost disallowances (Note 19) | 100,801 |
| Liability to the Teachers Retirement System | 53,820 |
| Other | 10,170 |
| Total | $ 2,202,395 |

As described in note 13, the Commonwealth has a debt obligation with the U.S. Army Corps of Engineers in relation to the construction of the Cerrillos Dam and Reservoir project and the Portugues river and the Bucana river projects.

The Commonwealth, through laws dating back to 1954, has granted eligible police agents, various salary-related benefits such as annual salary increases, awards for years of service, and monetary benefits awarded for special assignments, among others. As of June 30, 2009, the Commonwealth's liability related to these salary-related benefits amounted to approximately $287 million.

On May 31, 2004, the Puerto Rico System of Annuities and Pensions for Teachers (TRS) claimed the Office of Management and Budget of the Commonwealth of Puerto Rico resources that should had been awarded to TRS pursuant to Law No. 62 of September 4, 1992, (Law No. 62) as amended, which establishes an increase of 3% in pension annuities every three years for those members who meet certain eligibility requirements. In addition, there have been other laws that granted benefits, such as summer and Christmas bonuses, among others. Most of the funds used to cover these benefits are budgeted by the Commonwealth through legislative appropriations. Nevertheless, the cost of pension benefits that increased from 1992 to June 30, 2004, were not received in full by the TRS from legislative appropriations.

On April 23, 2010, the Office of Management and Budget ("OMB") and the TRS signed an agreement amounting to $53.8 million through which the TRS settled its claim related to Law No. 62 and Law No. 226, approved on August 10, 1998.

Amounts owed will be paid as follows (expressed in thousands):

| Fiscal Period | Amount |
|---|---|
| 2010–2011 | $ 10,764 |
| 2011–2012 | 10,764 |
| 2010–2013 | 10,764 |
| 2013–2014 | 10,764 |
| 2014–2015 | 10,764 |
| Total | $ 53,820 |

**(l) Advance Refunding, Defeased Bonds, and Refunding of Commonwealth Appropriation Bonds**

In prior years, the Commonwealth defeased certain general obligation and other bonds by placing the proceeds of the bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2009, approximately $1.6 billion of bonds outstanding from prior years advance refunding are considered defeased.

In addition, PBA has defeased certain revenue bonds in prior years by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old debts. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the statement of net assets (deficit). As of June 30, 2009, approximately $940 million of PBA bonds are considered defeased.

**Fiduciary Funds** — On February 27, 2007, the ERS's administration and GDB, acting as ERS's fiscal agent, presented to the Board of Trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the System's unfunded actuarial accrued liability. The ERS has authorized the issuance of one or more series of bonds (the Bonds) in order to increase the funds currently available to pay pension benefits to certain of its beneficiaries and reduce its unfunded accrued actuarial pension liability. The ERS will pledge future employer contributions to the payment of the bonds, invest the proceeds of the Bonds and use these investments and the earnings thereon to provide such pension benefits to its beneficiaries.

On January 31, 2008, the System issued the first series of bonds, which consisted of approximately $1.6 billion aggregate principal amount of Senior Pension Funding Bonds, Series A (the Series A Bonds). On June 2, 2008, the System issued the second of such series of bonds; which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B (the Series B Bonds). Finally, on June 30, 2008, the System issued the third and final of such series of bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C (the Series C Bonds). The following is a summary of changes in the bonds payable principal balance (expressed in thousands):

| | Balance at June 30, 2008 | Additions/ Accretion | Balance at June 30, 2009 |
|---|---|---|---|
| 5.85% to 6.45% Term Bonds Series A due July 1, 2058 | $ 1,589,967 | $ 2,908 | $ 1,592,875 |
| 6.25% to 6.55% Term Bonds Series B due July 1, 2058 | 1,059,871 | 15,903 | 1,075,774 |
| 6.15% to 6.50% Term Bonds Series C due July 1, 2043 | 300,203 | 146 | 300,349 |
| Bond discounts | (7,857) | 218 | (7,639) |
| Total | $ 2,942,184 | $ 19,175 | $ 2,961,359 |

**Series A Bonds** — The aggregate principal amount of the Series A Bonds issued amounted to approximately $1,589 million of which $1,544 million were issued as term bonds (the "Series A Term Bonds") and $45 million were issued as capital appreciation bonds ("the Series A Capital Appreciation Bonds"). Interest on the Series A Bonds accrues, or compounds (in the case of the Series A Capital Appreciation Bonds), from their date of delivery. Interest in the Series A Term Bonds are payable monthly on the first day of each month, commencing on March 1, 2008. Interest on the Series A Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2008 ("Compounding Dates"), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series A Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series A Capital Appreciation Bonds, the accreted amount) of the Series A Bonds, plus accrued interest to the redemption date, and without premium.

**Series B Bonds** — The aggregate principal amount of the Series B Bonds amounted to approximately $1,059 million of which $816 million were issued as term bonds (the "Series B Term Bonds") and $243 million were issued as capital appreciation bonds (the "Series B Capital Appreciation Bonds"). Interest on the Series B Bonds accrues, or compounds (in the case of the Series B Capital Appreciation Bonds), from their date of delivery. Interest in the Series B Term Bonds are payable monthly on the first day of each month, commencing on July 1, 2008. Interest on the Series B Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series B Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2008 ("Compounding Dates"), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series B. Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series B Capital Appreciation Bonds, the accreted amount) of the Series B Bonds, plus accrued interest to the redemption date, and without premium.

**Series C Bonds** — The aggregate principal amount of the Series C Bonds amounted to approximately $300 million of which $298 million were issued as term bonds (the "Series C Term Bonds") and $2 million were issued as capital appreciation bonds (the "Series C Capital Appreciation Bonds"). Interest on the Series C Bonds accrues, or compounds (in the case of the Series C Capital Appreciation Bonds), from their date of delivery. Interest in the Series C Term Bonds are payable monthly on the first day of each month, commencing on August 1, 2008. Interest on the Series C Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series C Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2009 ("Compounding Dates"), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series C Bonds are subject to redemption at the option of the System from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series C Capital Appreciation Bonds, the accreted amount) of the Series C Bonds, plus accrued interest to the redemption date, and without premium.

Debt service requirements in future years on pension funding bonds as of June 30, 2009 are as follows (expressed in thousands):

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2010 | $ - | $ 166,570 | $ 166,570 |
| 2011 | - | 166,519 | 166,519 |
| 2012 | - | 166,519 | 166,519 |
| 2013 | - | 166,519 | 166,519 |
| 2014 | - | 166,519 | 166,519 |
| 2015–2019 | - | 832,598 | 832,598 |
| 2020–2024 | 200,000 | 822,652 | 1,022,652 |
| 2025–2029 | 189,069 | 957,798 | 1,146,867 |
| 2030–2034 | 321,327 | 1,307,799 | 1,629,126 |
| 2035–2039 | 932,983 | 711,719 | 1,644,702 |
| 2040–2044 | 543,270 | 316,683 | 859,953 |
| 2045–2049 | - | 247,568 | 247,568 |
| 2050–2054 | - | 247,568 | 247,568 |
| 2055–2059 | 761,000 | 176,950 | 937,950 |
| | 2,947,649 | $6,453,981 | $9,401,630 |
| Plus accreted interest | 21,349 | | |
| Less unamortized discount | (7,639) | | |
| Total | $2,961,359 | | |

**Pledge of Employer Contributions pursuant to Security Agreement** — The System entered into a Security Agreement with the Fiscal Agent for the benefit of the bondholders, pursuant to which the System pledged to the Fiscal Agent, and granted the Fiscal Agent a security interest in employer contributions made after January 31, 2008, which was the date of issuance of the first series of bonds, and the funds on deposit with the fiscal Agent under the various accounts established under the Pension Funding Bond Resolution (the "Resolution").

The Resolution and the Security Agreement constitute a contract between the system and the Fiscal Agent, on behalf of owners of the bonds. The pledge, covenants and agreements of the System set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection and security of the owners of the bonds, regardless of times or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the bonds over any other bond, except as expressly provided in or permitted by the Resolution. The pledge by the System of the pledged funds, which consist of all employer contributions that are made after January 31, 2008, which was the date of issuance of the first series of bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the bonds, is irrevocable so long as any bonds are outstanding under the terms of the Resolution.

**Discretely Presented Component Units** — Notes and appropriation bonds payable are those liabilities that are paid out of the component units' own resources. These notes and appropriation bonds do not constitute a liability or debt of the primary government.

The outstanding balance of notes payable at June 30, 2009 is as follows (expressed in thousands):

| Component Unit | Interest rates | Maturity Through | Balance at June 30, 2008 as Restated | Additions | Reductions | Balance at June 30, 2009 | Amounts Due Within One Year |
|---|---|---|---|---|---|---|---|
| Government Development Bank for Puerto Rico | 4.10%–7.5% | 2031 | $ 715,329 | $1,681,500 | $ 298,104 | $2,098,725 | $ 72,660 |
| Puerto Rico Electric Power Authority | 2.45%–4.11% | 2023 | 1,219,234 | 100,000 | 264,443 | 1,054,791 | 989,270 |
| State Insurance Fund Corporation | 6.54%– 6.84% | 2019 | 49,358 | - | 2,628 | 46,730 | 3,008 |
| Economic Development Bank for Puerto Rico | 4.5%–6.2% | 2023 | 615,000 | - | 322,000 | 293,000 | - |
| Puerto Rico Industrial Development Company | 5%–6.73% | 2024 | 88,530 | 237 | 4,764 | 84,003 | 4,675 |
| Land Authority of Puerto Rico | 4.88% | 2027 | 4,942 | - | 2,121 | 2,821 | 2,121 |
| Puerto Rico Ports Authority | Variable | 2028 | 610,379 | 20,621 | 25,551 | 605,449 | 182,493 |
| Agricultural Services and Development Administration | 4.5% | 2010 | 14,968 | 11,354 | 14,968 | 11,354 | 11,354 |
| Puerto Rico Trade and Export Company | 4.75%–6.5% | 2028 | 306,232 | 144,338 | 250,000 | 200,570 | 13,570 |
| Puerto Rico Aqueduct and Sewer Authority | 6.51% | 2012 | 250,000 | - | 2,564 | 247,436 | 2,748 |
| Puerto Rico Metropolitan Bus Authority | 5.43% | 2012 | 43,850 | - | 1,720 | 42,130 | 4,720 |
| Total notes payable component units | | | $3,917,822 | $1,958,050 | $1,188,863 | $4,687,009 | $1,286,619 |

Debt service requirements on component units' notes payable with fixed maturities at June 30, 2009 were as follows (expressed in thousands):

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2010 | $ 1,286,619 | $ 301,904 | $ 1,588,523 |
| 2011 | 91,988 | 180,162 | 272,150 |
| 2012 | 1,197,734 | 153,442 | 1,351,176 |
| 2013 | 383,042 | 116,947 | 499,989 |
| 2014 | 453,820 | 94,351 | 548,171 |
| 2015–2019 | 765,407 | 308,852 | 1,074,259 |
| 2020–2024 | 312,605 | 108,769 | 421,374 |
| 2025–2029 | 184,186 | 66,007 | 250,193 |
| 2030–2034 | 2,157 | 84 | 2,241 |
| Premium, net | 9,451 | - | 9,451 |
| Total | $ 4,687,009 | $ 1,330,518 | $ 6,017,527 |

Commonwealth appropriation bonds payable outstanding at June 30, 2009 are as follows (expressed in thousands):

| Component Unit | Interest rates | Maturity Through | Balance at June 30, 2008 as Restated | Additions | Reductions | Balance at June 30, 2009 | Amounts Due Within One Year |
|---|---|---|---|---|---|---|---|
| Puerto Rico Aqueduct and Sewer Authority | 1.25% –6.15% | 2031 | $ 686,453 | $ - | $ 9,659 | $ 676,794 | $8,275 |
| Puerto Rico Tourism Company | 1.25%–6.15% | 2031 | 60,845 | - | 181 | 60,664 | - |
| Land Authority of Puerto Rico | 2.55% | 2039 | 76,715 | - | - | 76,715 | - |
| Government Development Bank for Puerto Rico | 4.10%–5.25% | 2031 | 4,962 | - | 150 | 4,812 | - |
| Puerto Rico Infrastructure Financing Authority | 7.5% | 2031 | 4,956 | - | - | 4,956 | - |
| Puerto Rico Solid Waste Authority | 1.25%–6.15% | 2031 | 10,689 | - | - | 10,689 | - |
| Total Commonwealth appropriation bonds — component units | | | $ 844,620 | $ - | $ 9,990 | $ 834,630 | $8,275 |

Debt service requirements on component units' appropriation bonds payable with fixed maturities at June 30, 2009 were as follows (expressed in thousands):

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2010 | $ 8,275 | $ 45,650 | $ 53,925 |
| 2011 | 8,615 | 45,307 | 53,922 |
| 2012 | 8,985 | 45,899 | 54,884 |
| 2013 | - | 34,427 | 34,427 |
| 2014 | 17,689 | 42,866 | 60,555 |
| 2015–2019 | 104,478 | 161,534 | 266,012 |
| 2020–2024 | 173,409 | 144,277 | 317,686 |
| 2025–2029 | 357,575 | 73,846 | 431,421 |
| 2030–2034 | 139,111 | 8,618 | 147,729 |
| 2035–2039 | 34,395 | - | 34,395 |
| Premium, net | 39,663 | - | 39,663 |
| Deferred loss, net | (57,565) | - | (57,565) |
| Total | $ 834,630 | $ 602,424 | $ 1,437,054 |

Bonds payable outstanding at June 30, 2009 are as follows (expressed in thousands):

| Component Unit | Interest Rates | Maturity Through | Balance at June 30, 2008 As Restated | Additions | Reductions | Balance at June 30, 2009 | Amount Due Within One Year |
|---|---|---|---|---|---|---|---|
| Government Development Bank for Puerto Rico | 2.6%–6.5% | 2039 | $ 1,417,257 | $ - | $458,124 | $ 959,133 | $ 64,019 |
| Puerto Rico Infrastructure Financing Authority | Variable | 2048 | 3,056,449 | 16,687 | 38,886 | 3,034,250 | 36,375 |
| University of Puerto Rico | 3%–5.75% | 2036 | 718,790 | 2,775 | 23,526 | 698,039 | 22,445 |
| Puerto Rico Municipal Finance Authority | 3.7%–8.62% | 2031 | 1,394,773 | - | 99,723 | 1,295,050 | 93,270 |
| Puerto Rico Ports Authority | 5%–7.3% | 2021 | 57,210 | - | 2,555 | 54,655 | 2,965 |
| Puerto Rico Aqueduct and Sewer Authority | 4.25%–6.15% | 2047 | 1,881,428 | 14,094 | 5,288 | 1,890,234 | 2,780 |
| Puerto Rico Highways and Transportation Authority | 2.25%–6.5% | 2047 | 7,128,639 | 5,208 | 100,416 | 7,033,431 | 104,090 |
| Puerto Rico Industrial Development Company | 5.1%–6.71% | 2029 | 275,859 | 1,090 | 11,311 | 265,638 | 11,087 |
| Puerto Rico Convention Center District Authority | 4.00%–5.00% | 2036 | 477,829 | - | 4,920 | 472,909 | 6,000 |
| Puerto Rico Electric Power Authority | 3.2%–6.25% | 2038 | 6,162,987 | - | 154,602 | 6,008,385 | 346,079 |
| Total bonds payable-component units | | | $22,571,221 | $39,854 | $899,351 | $21,711,724 | $689,110 |

Debt service requirements on component units' bonds payable with fixed maturities at June 30, 2009 were as follows (expressed in thousands):

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2010 | $ 689,110 | $ 1,117,020 | $ 1,806,130 |
| 2011 | 1,649,031 | 981,937 | 2,630,968 |
| 2012 | 870,014 | 924,945 | 1,794,959 |
| 2013 | 642,454 | 903,510 | 1,545,964 |
| 2014 | 698,592 | 950,316 | 1,648,908 |
| 2015–2019 | 3,340,355 | 3,937,535 | 7,277,890 |
| 2020–2024 | 3,407,990 | 3,076,068 | 6,484,058 |
| 2025–2029 | 3,446,638 | 2,287,224 | 5,733,862 |
| 2030–2034 | 3,222,582 | 1,507,421 | 4,730,003 |
| 2035–2039 | 2,307,536 | 871,339 | 3,178,875 |
| 2040–2044 | 1,443,607 | 408,585 | 1,852,192 |
| 2045–2049 | 898,089 | 98,064 | 996,153 |
| Premium, net | 33,590 | - | 33,590 |
| Deferred loss | (937,864) | - | (937,864) |
| Total | $21,711,724 | $17,063,964 | $38,775,688 |

Using the rates as of June 30, 2009, debt service requirements for component units' variable-rate bonds and net swap payments, assuming current interest rates remain the same, for their term, are as follows (expressed in thousands). As rates vary, variable-rate bonds interest payments and net swap payments will vary.

| Year Ending June 30 | Variable-Rate Bonds Principal | Variable-Rate Bonds Interest | Interest Rate Swaps, Net | Total |
|---|---|---|---|---|
| 2010 | $ 1,505 | $ 83,584 | $ 50,475 | $ 135,564 |
| 2011 | 1,590 | 83,502 | 50,475 | 135,567 |
| 2012 | 21,500 | 83,414 | 50,475 | 155,389 |
| 2013 | 22,685 | 82,232 | 50,475 | 155,392 |
| 2014 | 23,930 | 80,984 | 50,475 | 155,389 |
| 2015–2019 | 104,661 | 479,419 | 251,019 | 835,099 |
| 2020–2024 | 196,378 | 402,820 | 233,727 | 832,925 |
| 2025–2029 | 696,985 | 352,309 | 185,600 | 1,234,894 |
| 2030–2034 | 888,590 | 243,408 | 98,576 | 1,230,574 |
| 2035–2039 | 566,540 | 83,251 | 79,882 | 729,673 |
| 2040–2044 | 344,860 | - | 48,156 | 393,016 |
| 2045–2049 | 44,200 | - | 1,815 | 46,015 |
| Total | $ 2,913,424 | $ 1,974,923 | $ 1,151,150 | $ 6,039,497 |

Several component units have defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old debts. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the statement of net assets (deficit). As of June 30, 2009, the following bonds are considered defeased:

| | Amount Outstanding (In Million) |
|---|---|
| Puerto Rico Electric Power Authority | $ 3,159 |
| Puerto Rico Highways and Transportation Authority | 2,554 |
| Puerto Rico Infrastructure Financing Authority | 699 |
| Puerto Rico Municipal Finance Agency | 243 |
| | $ 6,655 |

## 16. GUARANTEED AND APPROPRIATION DEBT

### (a) Guaranteed Debt

The Commonwealth may provide guarantees for the repayment of certain borrowings of component units to carry out designated projects. At June 30, 2009, the following component unit debts are guaranteed by the Commonwealth (expressed in thousands):

| | Maximum Guarantee | Outstanding Balance |
|---|---|---|
| Blended component unit: | | |
| Public Buildings Authority | $3,325,000 | $3,072,382 |
| Discretely presented component units: | | |
| Puerto Rico Aqueduct and Sewer Authority | 908,712 | 908,712 |
| Port of the Americas Authority | 250,000 | 181,161 |
| Total | $4,483,712 | $4,162,255 |

The Commonwealth has guaranteed the payments of rentals of its departments, agencies, and component units to PBA, a blended component unit, under various lease agreements executed pursuant to the law that created PBA. Such rental payments include the amounts required by PBA for the payment of principal and interest on the guaranteed debt as authorized by law. The rental commitment to cover principal and interest on the guaranteed debt (excluding premiums and deferred refunding losses) as of June 30, 2009 and for the next five years and thereafter follows (expressed in thousands):

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2010 | $ 79,535 | $ 152,629 | $ 232,164 |
| 2011 | 84,850 | 148,053 | 232,903 |
| 2012 | 81,002 | 144,402 | 225,404 |
| 2013 | 78,580 | 140,553 | 219,133 |
| 2014 | 77,710 | 135,914 | 213,624 |
| 2015–2019 | 438,465 | 608,189 | 1,046,654 |
| 2020–2024 | 434,705 | 488,173 | 922,878 |
| 2025–2029 | 543,410 | 366,507 | 909,917 |
| 2030–2034 | 674,412 | 214,965 | 889,377 |
| 2035–2039 | 554,720 | 41,724 | 596,444 |
| | 3,047,389 | $2,441,109 | $5,488,498 |
| Add (deduct) accreted discount | 24,993 | | |
| | $3,072,382 | | |

Rental income of PBA funds amounted to approximately $330 million during the year ended June 30, 2009, of which $185 million was used to cover debt service obligations.

Act No. 45 of July 28, 1994 states that the Commonwealth guarantees the payment of principal and interest of all outstanding bonds at the date the law was enacted and of all future bond issues to refinance those outstanding bonds of PRASA. Act No. 140 of August 3, 2000 amended Act No. 45 to extend the Commonwealth guarantee to include the principal and interest payments of the Rural Development Serial Bonds and the loans under the State Revolving Fund Program (SRFP) outstanding at the effective date of Act No. 140, and of all future bonds and SRFP loans that may be issued through June 30, 2005. Act No. 386 of September 21, 2004 extended the Commonwealth guarantee to June 30, 2010. The outstanding balance of the Rural Development Serial Bonds and SRFP loans at June 30, 2009 amounted to $302.7 million and $321.2 million, respectively.

**Adjustable Refunding Bonds** — The Commonwealth guarantees the Adjustable Refunding Bonds, Series 1985, issued by GDB, a discretely presented component unit. The outstanding balance of these bonds amounted to $267 million at June 30, 2008. On August 1, 2008, GDB repurchased the $267 million outstanding of its adjustable refunding bond as a result of significant increases in the interest rate of these auction rate bonds. GDB expects to reissue these bonds at a fixed rate during fiscal year 2010.

The Puerto Rico Housing Bank, a former component unit of the Commonwealth, which merged with GDB during 2002, insured mortgages granted to low and moderate income families through its mortgage loan insurance program. The Commonwealth guarantees up to $75 million of such mortgage loans. As of June 30, 2009, the mortgage loan insurance program was insuring loans aggregating $203 million. Currently, the Commonwealth has not been called to make any direct payments pursuant to these guarantees.

At various times during fiscal years ended 2005 and 2006, the Port of the Americas Authority entered into bond purchase agreements with GDB, whereby GDB agreed to disburse to the Port of the Americas Authority from time to time certain bond principal advances up to a maximum aggregate principal amount of $70 million (Port of the Americas Authority 2005 Series A Bond), $40 million (Port of the Americas Authority 2005 Series B Bond), and $140 million (Port of the Americas Authority 2005 Series C Bond). The proceeds of the bonds are to be used to finance the cost of development and construction of the Port of the Americas. The aggregate unpaid principal balance of all outstanding bond principal advances shall be payable in full on January 1, 2015. The principal amount may be paid with any of the following: (i) a long term bond issuance once the projects are completed; (ii) other revenue of the Port of the Americas Authority; (iii) or legislative appropriations as established in Act 409 of September 22, 2004 (Act No. 409). Principal and interests payments are guaranteed by the Commonwealth by Act No. 409. As of June 30, 2009, the principal outstanding under those bond purchase agreements amounted to $181.8 million.

**(b) Appropriation Debt**

At June 30, 2009, the outstanding balances of debt payable by Commonwealth appropriations, as described in note 15(d), which are included in the individual financial statements of the following discretely presented component units, are as follows (expressed in thousands):

| | |
|---|---|
| Puerto Rico Public Finance Corporation (a blended component unit of GDB) | $ 1,635,174 |
| Puerto Rico Aqueduct and Sewer Authority | 694,225 |
| Special Communities Perpetual Trust | 376,095 |
| Puerto Rico Convention Center District Authority | 151,076 |
| Agricultural Services and Development Administration | 127,578 |
| Puerto Rico Solid Waste Authority | 62,310 |
| Puerto Rico Industrial Development Company | 44,400 |
| University of Puerto Rico | 51,239 |
| Puerto Rico Infrastructure Financing Authority | 32,499 |
| Institute of Puerto Rican Culture | 17,749 |
| Puerto Rico Housing Finance Authority (a blended component unit of GDB) | 13,921 |
| Puerto Rico Electric Power Authority | 6,104 |
| Government Development Bank for Puerto Rico (GDB) | 4,812 |
| National Parks Company of Puerto Rico | 2,612 |
| Company for the Integral Development of the "Península de Cantera" | 3,233 |
| Total | $ 3,223,027 |

These balances are reported in the statement of net assets (deficit) as Commonwealth appropriation bonds payable and notes payable.

## 17. CONDUIT DEBT OBLIGATIONS AND NO COMMITMENT DEBT

From time to time, certain of the Commonwealth's component units issue revenue bonds to provide financial assistance to private sector entities for the acquisition and construction of transportation, environmental, industrial, tourism, educational, and commercial facilities, deemed to be in the public interest and that are expected to provide benefits to Puerto Rico. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private sector entity served by the bond issuance. Neither the Commonwealth nor any political subdivision or component unit thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the basic financial statements of the issuing entities. As of June 30, 2009, conduit debt obligations consisted of the following bonds issued by component units (expressed in thousands):

| Issuing Entity | Issued Since Inception to Date | Amount Outstanding |
|---|---|---|
| Discretely presented component units: | | |
| Puerto Rico Ports Authority | $ 155,410 | $ 58,545 |
| Puerto Rico Highways and Transportation Authority | 270,000 | 158,000 |
| Government Development Bank for Puerto Rico | 663,000 | 572,000 |
| Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority | 5,973,000 | 1,439,000 |
| Total | $7,061,410 | $2,227,545 |

### (a) Puerto Rico Ports Authority (PRPA)

PRPA issued Special Facilities Revenue Bonds under the provisions of two trust agreements between PRPA and a private bank. The proceeds from the sale of the bonds were used to finance the construction, acquisition of equipment, and improvement of certain facilities at Luis Munoz Marin International Airport, for the benefit of a major private airline. The property is owned by PRPA and leased to the private company. Pursuant to the agreements between PRPA and the private company, the bonds will be paid from the rent collected from the airline in amounts sufficient to pay principal, premium (if any), and interest on the bonds. The airline has guaranteed these payments.

### (b) Puerto Rico Highways and Transportation Authority (PRHTA)

In March 1992, PRHTA issued Special Facility Revenue Bonds for approximately $117 million for the construction of a toll bridge. The proceeds from the sale of these bonds were transferred by PRHTA to a private entity, Autopistas de Puerto Rico ("Autopistas"), pursuant to a signed agreement for the construction, transfer, and operation of the bridge. On October 2003, PRHTA issued Special Facility Revenue Refunding Bonds, 2004 Series A, amounting to approximately $270 million for the purpose of refunding PRHTA'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 bonds shall be paid from the proceeds received by Autopistas from the operation of the bridge.

Under certain circumstances, the concession agreement may be terminated and PRHTA is then obligated to assume the Autopista's entire obligation to pay principal of and interest, which pursuant to the signed agreement, will be paid from the net revenues of the use and operation of the bridge. PRHTA does not currently expect the concession agreement to terminate. The outstanding bonds (including accrued interest) at June 30, 2009 amounted to approximately $158 million.

**(c) GDB**

GDB, through its Housing Finance Authority, issued $663 million in Capital Fund Program Bonds Series 2003 to fund Public Housing Authority in its financing of improvements to various public low and moderate income housing projects. Certain of the obligations issued are considered no commitment debt and are excluded, along with the related assets held in trust, from the accompanying basic financial statements. These bonds are limited obligations of the Housing Finance Authority, which will be paid solely from an annual allocation of public housing capital funds when received from the U.S. Department of Housing and Urban Development; accordingly, these bonds are considered no commitment debt. The outstanding balance of these bonds amounted to $572 million at June 30, 2009.

**(d) AFICA**

The revenue bonds of AFICA are used to finance facilities for environmental control, development of industrial and commercial companies, tourism projects, hospitals, and educational facilities. Pursuant to the loan agreements, the proceeds from the sales were borrowed by corporations and partnerships operating in Puerto Rico. The bonds are limited obligations of AFICA and, except to the extent payable from bond proceeds and investment thereof, will be payable solely from and secured by a pledge and assignment of the amounts payable under the loan agreements between AFICA and each borrower. Furthermore, payment of the principal and interest on the revenue bonds is unconditionally guaranteed by each of the borrowers, their parent companies, or letters of credit from major U.S. banks or U.S. branches of international banks.

## 18. RISK MANAGEMENT

The following describes the risk management programs separately administered by certain discretely presented component units:

**(a) UPR**

UPR is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Through January 1993, UPR was insured under claims made insurance policies with respect to medical malpractice risks for $250,000 per occurrence up to an annual aggregate of $500,000. Subsequent to such date, UPR was unable to obtain insurance at a cost it considered to be economically justifiable; consequently, UPR is now self insured for such risks. Under Act No. 98 of August 24, 1994, the responsibility of UPR is limited to a maximum amount of $75,000 per person, or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Self insured risk liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into

consideration recently settled claims, the frequency of claims, and other economic and social factors. Changes in the claims liability amount in fiscal years 2009 and 2008 were as follows (expressed in thousands):

| | 2009 | 2008 |
|---|---|---|
| Claims payable — July 1 | $ 19,124 | $ 22,060 |
| Incurred claims and changes in estimates | 42,064 | 29,300 |
| Payments for claims and adjustments expenses | (33,834) | (32,236) |
| Claims payable — June 30 | $ 27,354 | $ 19,124 |

UPR continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(b) PREPA**

PREPA is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. PREPA obtains insurance policies covering all risk property (excluding transmission and distribution lines), boiler and machinery, and public liability. The all risk property and boiler and machinery policies have a combined coverage of $750 million per occurrence. The policies' self retention in case of earthquake and windstorm losses is $25 million and $2 million for all other covered risks. The public general liability policy covers property damage and bodily injury to third parties with a $75 million aggregate limit in excess of the self retention limit of $1 million per occurrence.

PREPA has a cost plus health insurance program covering substantially all employees. PREPA contracted an administrator for the processing, approval, and payment of claims plus an administrative fee. The accrual for employees' health plan includes the liability for claims processed and an estimate for claims incurred but not reported.

Changes in the balances of the health insurance program and other self insurance risks during fiscal years 2009 and 2008 were as follows (expressed in thousands):

| | 2009 | 2008 |
|---|---|---|
| Claims payable — July 1 | $ 7,154 | $ 11,273 |
| Incurred claims | 136,348 | 132,358 |
| Claim payments | (137,950) | (136,477) |
| Claims payable — June 30 | $ 5,552 | $ 7,154 |

Claims payable are a component of accounts payable and accrued liabilities in the accompanying statement of net assets (deficit).

**(c) SIFC**

SIFC provides workers' compensation insurance to public and private employees. This insurance covers workers against injuries, disability, or death because of work or employment related accidents, or because illness is suffered as a consequence of their employment. SIFC establishes

liabilities for estimated incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. The following table provides a reconciliation of the beginning and ending liability for incurred but unpaid benefits and benefit adjustment expenses for the two most recent fiscal years (expressed in thousands):

| | 2009 | 2008 |
|---|---|---|
| Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1 | $ 702,355 | $ 687,829 |
| Total incurred benefits | 533,820 | 447,546 |
| Total benefit payments | (497,700) | (433,020) |
| Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30 | $ 738,475 | $ 702,355 |

The current and long-term portions of the liability for incurred but unpaid benefits and benefit adjustment expenses is reported as liabilities for automobile accident insurance and workmen's compensation claims, and other long-term liabilities, respectively, in the accompanying statement of net assets (deficit).

The liability for compensation benefits is based on historical claims experience data, assumptions and projections as to future events, including claims frequency, severity, persistency, and inflationary trends determined by an independent actuary. The actuarial study also included estimates for medical benefits, benefit adjustment expenses, and reimbursement of premiums. The assumptions used in estimating and establishing the liabilities are reviewed annually based on current circumstances and any adjustments resulting thereof are reflected in operations in the current period.

**(d) AACA**

AACA operates a system of compulsory insurance for vehicles licensed to be used on public roads and highways in Puerto Rico. This insurance covers death and bodily injuries caused by automobile accidents. The annual premium is $35 per motor vehicle.

The following table provides a reconciliation of the beginning and ending liability for the future benefits for the two most recent fiscal years (expressed in thousands):

| | 2009 | 2008 |
|---|---|---|
| Liability for incurred but unpaid benefits and benefit adjustment expenses at beginning of year | $ 115,085 | $ 118,273 |
| Total incurred benefits | 127,552 | 63,476 |
| Total benefit payments | (76,285) | (66,664) |
| Liability for incurred but unpaid benefits and benefit adjustment expenses at end of year | $ 166,352 | $ 115,085 |

The liability for future benefits is reported as liability for automobile accident insurance and workmen's compensation claims in the accompanying statement of net assets. AACA has recorded this liability, including administrative expenses for claim processing, based on the results of actuarial reports prepared by independent actuaries, determined under two different methods. Death,

funeral, disability, dismemberment, and the basic medical hospitalization liabilities were determined using a triangulation method. The extended benefits medical hospitalization reserve uses a regression methodology to predict the ultimate incurred claims for each incurred calendar quarter. Additionally, assumptions are made about the mortality rates of the extended benefit claimants, recognizing the impact of their traumatic injuries on life span.

Changes in the ultimate liabilities for benefit payments may be required as information develops, which varies from experience, provides additional data, or, in some cases, augments data, which previously were not considered sufficient for use in determining the claim liabilities.

**(e) PRIFA**

PRIFA is responsible for assuring that its property is properly insured. Annually, PRIFA compiles the information of all property owned and its respective market value and purchases its property and casualty insurance policies. Insurance coverage for fiscal year 2009 remained similar to those of prior years. For the last three years, insurance settlements have not exceeded the amount of coverage.

**(f) PRASA**

PRASA has acquired commercial insurance to mitigate its exposure to certain losses involving real and personal property (including windstorm, flood and earthquake damages) and comprehensive general and automobile claims. Each commercial insurance policy maintained by PRASA contains specific policy limits and deductibles. The policies limit was increased from $150 million that were in places as of June 30, 2007. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## 19. COMMITMENTS AND CONTINGENCIES

**Primary Government** — The Commonwealth is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Commonwealth only for causes of actions set forth in said act to a maximum amount of $75,000 or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Commonwealth may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgments.

With respect to pending and threatened litigation, excluding the litigation mentioned in the following paragraphs, the Commonwealth reported approximately $621 million as an amount to cover for awarded and anticipated unfavorable judgments at June 30, 2009. This amount was included as other long term liabilities in the accompanying statement of net assets, and represents the amount estimated as probable liability or a liability with a fixed or expected due date that will require future available financial resources for its payment. The amounts claimed exceed $7 billion; however, the ultimate liability cannot be presently determined. It is the opinion of management that the claims are excessive and exaggerated. Management believes that the ultimate liability in excess of amounts provided, if any, would not be significant.

The Commonwealth is also a defendant in two parallel lawsuits, one filed in state court and the other at the federal court. The defendants are various primary healthcare centers seeking to recover from the Commonwealth $800 million of Medicaid funds retained by the Department of Health of the

Commonwealth since 1997. In February 2005, United States Court of Appeals for the First Circuit determined that the Commonwealth must return any funds withheld because of noncompliance with a federal law. As of June 30, 2009, the Commonwealth accrued $147 million for this legal contingency.

The Commonwealth is a defendant in a class action presented by parents of special education students in the areas of education and healthcare. In October 2006, the State Court of Appeals decided in favor of the parents' request to include damage claims pursuant to the same class action case although not as a remedy in the class action per se. The court now may award damages to the members of the class action and to do so it may look at the claims by dividing them into groups or consider each case individually. This will require that the parents prove the damages suffered. The Commonwealth plans to defend vigorously each individual case. As of June 30, 2009, the Commonwealth accrued $600 million for this legal contingency.

The Commonwealth receives financial assistance from the federal government in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. Substantially, all grants are subject to audit under Circular A 133 of the Office of Management and Budget of the United States of America (OMB Circular A 133), all of which are performed at the individual department or agency level. Disallowance as a result of these audits may become liabilities of the Commonwealth. At June 30, 2009, based on an evaluation of pending federal disallowances, the Commonwealth has recorded approximately $101 million as other long term liabilities in the accompanying statement of net assets (deficit). Expenditures that are still subject to audit could be disallowed but management believes any such future disallowances would not be material to the basic financial statements.

Construction commitments at June 30, 2009, entered by PBA, amounted to approximately $125 million. In addition, the Commonwealth's construction commitments for public housing facilities amounted to approximately $232 million at June 30, 2009.

On November 23, 1998, a global settlement agreement (the Agreement) was entered into by and between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The agreement calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. After 2025, the tobacco companies are to continue making contributions in perpetuity. Pursuant to Act No. 173 of July 30, 1999, which created the Children's Trust (a blended component unit), the Commonwealth assigned and transferred to the Trust all payments that the Commonwealth is entitled to receive under the agreement. Payments received under the agreement and recognized as revenue during the year ended June 30, 2009 amounted to approximately $90 million.

Following is a summary of estimated payments to be received by the Trust through the year ending June 30, 2025 (expressed in thousands):

| Year Ending June 30 | |
|---|---|
| 2010 | $ 77,944 |
| 2011 | 78,918 |
| 2012 | 79,891 |
| 2013 | 80,809 |
| 2014 | 81,698 |
| 2015–2025 | 1,049,815 |
| Total | $ 1,449,075 |

At June 30, 2009, the Trust had approved commitments to provide assistance to several entities through 49 contracts with balances amounting to approximately $47.3 million.

**Discretely Presented Component Units** — In the normal course of their operations, various component units are subject to guarantees, actions brought by third parties seeking damages or entering into commitments. Such actions are disclosed in the separately issued reports of the components units, some of which are summarized below:

**(a) GDB**

The Housing Finance Authority entered into a 30 year lease agreements with the Puerto Rico Department of Housing to rent office space expiring in 2037. During the term of the lease, the Housing Finance Authority will pay an annual rent of $1.5 million.

On August 18, 2002, the Legislature approved Law No. 198, which creates the Cooperative Development Investment Fund. The purpose of this fund is to promote the development of cooperative entities. The purpose of this fund is to promote the development of cooperative entities. This fund will be capitalized through contributions to be provided by GDB up to $25 million to be matched by cooperative entities. As of June 30, 2009, GDB has contributed $15.6 million to the Cooperative Development Investment Fund, $985,000 of which were contributed during the year ended June 30, 2009.

The Development Fund has entered into an agreement (Agreement) with Economic Development Bank of Puerto Rico (EDB) whereby the Development Fund would guarantee a portion of loans granted by EDB under a government program named The Key for Your Business (Program). Under the Agreement, the Development Fund would assign $10 million of its capital for the program. The Development Fund guarantees one-third of the outstanding principal balance of each loan plus the accrued interest and certain other charges. The Development Fund charges one percent of the loan amount as guarantee fee and no loan exceed $50,000. At June 30, 2009, outstanding guarantees amounted to approximately $14.7 million, and the allowance for losses on guarantees amounted to approximately $3.1 million. On August 28, 2008, the Development Fund and EDB amended the Agreement to increase from $10 million to $15 million the Development Fund's capital designated for the program.

**(b) PRHTA**

On February 28, 2003, Siemens Transportation Partnership Puerto Rico S.E. (STT) and others filed legal claims against PRHTA 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, PRHTA filed a counter claim against STT for liquidating damages as stipulated in the contract of $100 million. PRHTA amended its counter claim on November 17, 2008 to include other credits against STT. Therefore, the total claimed damages were increased to $233 million.

On September 22, 2005, PRHTA filed a third party complaint against various contractors in the Urban Train Projects to respond to PRHTA in case STT prevails in its claims in the amount of $25 million. On November 21, 2006, these third parties counter claimed PRHTA for $26 million for work performed and unjust enrichment.

On April 20, 2007, the Administrative Judge designated this case as a complex liquidation and remitted it to the Chief Justice of the Puerto Rico's 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, PRHTA filed 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 PRHTA, due to the complexities of the case, it is not possible to estimate the amount of any potential loss.

PRHTA is defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction in progress. PRHTA, based on legal advice, has recorded an adequate provision to cover possible 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 PRHTA's financial position or results of operations.

**(c) PREPA**

On May 18, 2000, Abengoa, Puerto Rico, S.E. (Abengoa), PREPA's contractor for the repowering of San Juan steam plant units 5 and 6, unilaterally declared a termination of the contract with PREPA and filed a complaint for breach of contract. PREPA believes that the actions by the contractor will not materially affect the ability of PREPA to provide service nor there will be a material difference in the quality of service provided by PREPA.

In June 2004, the Office of the Comptroller of the Commonwealth of Puerto Rico (Comptroller) issued a report stating that PREPA overcharged its clients by approximately $49.8 million, and should reimburse this amount to such clients. After this report was made public, two lawsuits were filed by clients of PREPA against PREPA demanding the reimbursement of such alleged

overcharges. PREPA's position is that the Comptroller incorrectly based his conclusion on data that is not relevant to the calculation of PREPA's rates, and that PREPA's rates were properly established in the year 2000 in accordance with applicable laws and regulations. In particular, PREPA notes that its rates properly take into consideration the cost of the fuel used by PREPA's generating facilities and the cost of the electricity purchased from the two co-generating facilities that sell power to PREPA.

PREPA is a defendant or codefendant in several lawsuits incidental to its business, some involving substantial amounts. In those instances that management and legal counsel believe that the outcome of the litigation will be unfavorable to PREPA, a provision has been made to cover the estimated liability. PREPA's management based on discussions with legal counsel believes that the additional liability, if any, resulting from the ultimate resolution of these matters will not have a material effect on PREPA's financial position or results of operations.

**(d) PRIFA**

At June 30, 2009, PRIFA is a defendant in various legal proceedings arising from its normal operations. Management, based on the advice of its legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on the PRIFA's financial statements. However, management is of the opinion that they will reach settlements in certain cases. A liability to cover claims and other contingencies amounting to $525,000 has been reflected as part of accounts payable and accrued expenses in the accompanying statement of net assets (deficit).

**(e) PRASA**

On April 28, 2006, PRASA entered into a consent decree with EPA that requires PRASA to implement system-wide remedial measures at all of the waste water treatment plants. The decree establishes deadlines for compliance with the conditions set forth in the agreement and stipulates penalties for violation of those deadlines. PRASA was assessed a penalty of $1 million which was paid during fiscal year 2008. In accordance with the consent decree, PRASA has to deposit in an escrow account with GDB, approximately $3 million payable in four payments over two years starting on December 1 , 2006, As of June 30, 2009, PRASA has deposited the total required amount of $3 million in this account. These funds will be used for providing sewer service to a community that has not been connected to PRASA's sewer system.

On May 25, 2006, PRASA entered into a plea agreement with U.S. Department of Justice related to violations of the Clean Water Act, Title 33, USC, Sections 1311(a) and 1319(c)(2)(A). As part of the agreement, PRASA agreed to pay a $9 million fine in equal installments without interest during a five year term period. Until this fine is satisfied in full, all of PRASA's real property will be subject to a statutory lien held by the federal government entitling it to foreclose on such property in order to satisfy this mandatory obligation. During fiscal year 2006, PRASA accrued a liability of $9 million as a result of this plea agreement. As of June 30, 2008, the outstanding balance of the accrued liability was $5.4 million. On August 13, 2008, PRASA paid the total outstanding amount of $5.4 million that was holding the statutory lien on the PRASA's real property. In addition, the agreement required PRASA to comply with several special conditions, such as: (i) upgrade the collection and waste water treatment system in the Ponce de León Avenue area of San Juan for a cost of not less than $10 million to prevent direct discharges to the Martin Peña Channel, (ii) upgrade nine waste water treatment plants for a cost not less than $109 million, and (iii) comply

with a consent decree signed by PRASA with the U.S. government on April, 26, 2006. The plea agreement also established stipulated penalties for violation of any of the deadlines of performance stands set forth in the agreement.

On December 15, 2006, an agreement was signed between PRASA and the Department of Health of the Commonwealth relating to violations of the Safe Drinking Water Act. The agreement was preliminarily approved by the supervising court on March 15, 2007 and it was amended and finally approved by the court on June 20, 2008. PRASA agreed to implement a work plan to remediate the violations, establish preventive and mitigation measures, and execute a preventive maintenance program for the purpose of meeting the requirements of the Safe Drinking Water Act. As part of the agreement, but prior to the amendment and final approval on June 30, 2008, PRASA paid a penalty of approximately $1 million during fiscal year ended June 30, 2007 to the Commonwealth. During fiscal year June 30, 2008 and based on the amendment and final approval of the agreement, PRASA accrued approximately $2.7 million for penalties for noncompliance as stipulated by the final agreement, which were paid during fiscal year 2009. Also, as part of the penalties for noncompliance with the remedial measures of the agreement with the Department of Health during fiscal year 2009, a $1.3 million has to be deposited in an escrow account in three installments. The first payment of $.5 million was made on August 21, 2009 and the remaining two payments of $.4 million each, has to be deposited on September 2009 and October 2009, respectively. As of June 30, 2009, the amount of $1.3 million was accrued.

On November 2007, PRASA entered into negotiation of a consent decree with EPA that requires PRASA to implement system wide remedial measures at all of the sludge treatment systems at the water treatment plants owned and operated by PRASA. The consent decree will establish deadlines for the compliance with the conditions set forth in the proposed agreement and stipulate penalties for violation of any of those deadlines. PRASA will be assessed a penalty of $3.2 million which will be paid during fiscal year 2010. In accordance with this consent decree, PRASA will have to pay a civil penalty of approximately $1 million to the Treasurer of the United States of America and will have to deposit in an escrow account with GDB, $2.2 million. PRASA has accrued this liability as of June 30, 2009.

**(f) PRMSA**

PRMSA has accounts receivable aggregating $22.7 million at June 30, 2009, from the Hospital of the Municipality of San Juan, related to medical services rendered. PRMSA alleges that these amounts are related for services rendered during the period from June 30, 2005 to June 30, 2008.

PRMSA filed at the Department of Justice and with the Commission for the Resolution of Controversies for Over Payment and Debts between Governmental Agencies, demanding the resolution of this matter.

On June 29, 2009, the Commission designated the Puerto Rico Office of Management and Budget (OMB) to serve as a mediator in this claim.

**(g) PRHIA**

PRHIA is codefendant in a case involving a claim for $14 million by a provider of information technology services. PRHIA's legal counsel believes that an estimate of the financial effect, if any, of this litigation on PRHIA's financial statement cannot be made at this time. Accordingly, management has not recorded a provision related to this contingency.

## Environmental Commitments and Contingencies

The following component units' operations include activities that are subject to state and federal environmental regulations:

- *PREPA* — Facilities and operations of PREPA are subject to regulations under numerous federal and Commonwealth environmental laws, including the Clean Air Act, Clean Water Act, and the National Pollutant Discharge Elimination System (NPDES). In February 1992, the Environmental Protection Act (EPA) performed an inspection of various facilities of PREPA and became aware of deficiencies in different areas, principally air opacity, water quality, spill prevention control and countermeasures and underground storage tanks. As result, PREPA agreed to, among other things, make certain capital improvements, undertake supplemental environment projects, and use fuel oil not exceeding certain predetermined levels of sulfur, vanadium, and asphalt in its content.

- *PRSWA* — PRSWA is currently involved in the implementation and development of the Infrastructure Regional Plan for recycling and disposal of solid waste in Puerto Rico. As of June 30, 2009, management of PRSWA believes that, at this time, there is no sufficient information available to determine the potential amount of related losses, if any, and no provision for losses has been made in the accompanying financial statements. Nevertheless, preventive infrastructure has been constructed to minimize any possible impact or events that occur.

- *PRIDCO* — Financial responsibility for cleanup costs has been and/or are being undertaken by the industrial potentially responsible parties (PRPs) at the two Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) sites (i.e. Vega Alta and Guayama) where the federal government named PRIDCO as a PRP solely for being a part-owner of both sites. Under CERCLA and its regulations, liability for the cleanup cost and damage to natural resources and any assessment of health effects may be imposed on the present and past owners or operators of a facility from which there was a release of hazardous substances. In addition, any person who arranged for the disposal or treatment of hazardous substances at a site from which there was a release may also be liable. The resolution of those legal actions included various environmental issues to which PRIDCO did not stipulate liability under the CERCLA and other federal legislation. CERCLA establishes procedures and standards for responding to the release of hazardous substances, pollutants, and contaminants.

  PRIDCO has taken vigorous actions to identify any other potential claims or liability arising from environmental deficiencies and has provided in the accompanying statement of net assets for any of these deficiencies where a probable loss is foreseen. Management believes that any unidentified environmental deficiencies and related costs will not have a material adverse effect on PRIDCO's results of operations and financial condition.

**Construction Commitments** — As of June 30, 2009, the following component units maintained various unspent construction agreements as follows (expressed in thousands):

| | |
|---|---|
| Puerto Rico Highways and Transportation Authority | $ 662,000 |
| Puerto Rico Aqueduct and Sewer Authority | 447,100 |
| Puerto Rico Convention Center District Authority | 7,000 |
| Puerto Rico Electric Power Authority | 127,400 |
| Puerto Rico Trade and Export Company | 956 |
| Port of the America Authority | 75,918 |
| Company for the Integral Development of the "Península de Cantera" | 53,456 |
| Puerto Rico Industrial Development Company | 37,800 |
| Puerto Rico Conservatory of Music Corporation | 24,974 |
| Puerto Rico Ports Authority | 17,800 |
| Puerto Rico Infrastructure Financing Authority | 287,213 |
| Total | $ 1,741,617 |

## 20. RETIREMENT SYSTEMS

The Commonwealth sponsors three contributory pension plans (collectively known as the Retirement Systems), which are reported in the accompanying statement of fiduciary net assets:

- Employees' Retirement System of the Government of Puerto Rico and its instrumentalities (ERS)
- The Puerto Rico Judiciary Retirement System (JRS)
- Puerto Rico System of Annuities and Pensions for Teachers (TRS)

Each system is independent; thus, their assets or liabilities may not be transferred from one system to another or used for any purpose other than to benefit the participants of each system.

The Retirement Systems issue financial reports, which are publicly available and include the basic financial statements, the required trend information, and any other required supplementary information. These reports may be obtained by written request to the corresponding retirement system administrator at the addresses detailed in note 1(b).

### (a) ERS

**Plan Description** — The ERS is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 447 on May 15, 1951. The ERS began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The ERS is a pension trust fund of the Commonwealth. The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the ERS is vested on the board of trustees, composed of two participating employees and one pensioner, who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico, the Executive Director of the Commonwealth's Human Resources Office, and the Municipal Affairs Commissioner.

As of June 30, 2009, the ERS has an unfunded actuarial accrued liability of approximately $17,101 million, representing a 9.7% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, if measures are not taken now to deal with this situation, the ERS will not be able to fully fund pensions in the fiscal years starting after 2020. This situation could have a direct negative effect on the Commonwealth's general fund, since most of the employers under the ERS are government agencies obligated to make actuarial contributions to fund the ERS.

To attend to these issues immediately, the Governor of the Commonwealth (the "Governor"), by Executive Order OE-2010-10 dated March 12, 2010, created the Special Commission on the Retirement Systems Reform (the "Commission"), as an instrument for its members to provide individual and/or group recommendations on actions that the executive and legislative branches can execute to provide immediate alternatives to ease the current crisis and long term solutions that will help the ERS.

The ERS consists of different benefit structures pursuant to Act No. 447 of 1951, as amended, including a cost-sharing multi-employer contributory defined benefit program and a cash balance program, similar to a cash balance plan. The ERS is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities (Commonwealth Agencies, Municipalities, and Public Corporations, including the ERS) are covered by the ERS. All regular, appointed, and temporary employees of the Commonwealth at the date of employment become plan members of the ERS. The ERS is optional for Commonwealth officers appointed by the Governor and Head of Agencies.

Plan members, other than those joining the ERS after March 31, 1990, are eligible for the benefits described below:

*Retirement Annuity* — Plan members are eligible for a retirement annuity upon reaching the following age:

| **Policemen and Firefighters** | **Other Employees** |
|---|---|
| 50 with 25 years of credited service | 55 with 25 years of credited service |
| 58 with 10 years of credited service | 58 with 10 years of credited service |

Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the ERS. The annuity, for which a plan member is eligible, is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

*Merit Annuity* — Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation.

*Deferred Retirement Annuity* — A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the ERS are left within the ERS until attainment of 58 years of age.

*Coordinated Plan* — On the coordinated plan, the participating employee contributes a 5.775% of the monthly salary for the first $550 and 8.275% for the excess over $550. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- $165 per month if retired with 55 years of age and 30 years of credited service
- $110 per month if retired with less than 55 years of age and 30 years of credited service
- All other between $82 and $100 per month
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over $165 per month

*Noncoordinated Plan* — On the noncoordinated plan, the participating employee contributes an 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits.

*Reversionary Annuity* — A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than $240 yearly or greater than the annuity payments being received by the retiree.

*Occupational Disability Annuity* — A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation received at the time of the disability.

*Nonoccupational Disability Annuity* — A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for an annuity of 1.5% of the average compensation of the first 20 years of credited services increased by 2% for every additional year of credited service in excess of 20 years.

**Death Benefits**

*Occupational*

Surviving Spouse — annuity equal to 50% of the participating employee's salary at the date of the death.

Children — $10 per month for each child, minor or student, up to a maximum benefit per family of 100% of the participating employee's salary at the date of the death. If no spouse survives, or dies while receiving the annuity payments, each child, age 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

*Nonoccupational*

Beneficiary — the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.

*Postretirement*

Beneficiary with surviving spouse age 60 or over and child, age 18 or under, up to 50% (60%, if not covered under Title II of the Social Security Act) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $750.

**Refunds** — A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the ERS, plus any interest earned thereon.

**Amendments to Benefits Structure for Plan Members who Joined the ERS on or After April 1, 1990** — Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the ERS effective April 1, 1990. These changes consist principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the merit annuity for participating employees (except policemen and firemen) who have completed 30 years of creditable service.

**Cost of Living Adjustment for Pension Benefits** — Act No. 10 of May 21, 1992, provided for increases of 3% every three years, of the pensions paid by the ERS to those plan members with three or more years of retirement. The Act requires further legislation to grant this increase every three years, subject to the presentation of actuarial studies regarding its costs and the source of financing. Since fiscal year 1992 to 2007 there have been other acts addressing the cost of living allowance (C.O.L.A.) as Act No. 207 of August 13, 1995; Act No. 221 of August 9, 1998; Act No. 40 of June 13, 2001; Act No. 157 of June 27, 2003; and Act No. 35 of April 24, 2007.

On April 24, 2007, the Governor signed the Act No. 35 to provide for an increase of 3% of the pension paid by the ERS to those plan members whose monthly pension is less than $1,250, effective on July 1, 2008.

To protect the financial health of the ERS, the increases granted pursuant to the above laws are being financed through annual appropriations from the Commonwealth and contributions from municipalities and public corporations.

**Other Benefits Granted** — For fiscal years 2003 to 2007, the Commonwealth granted additional benefits to the ERS's retirees. As of June 30, 2009, these increases are being funded through special appropriations from the Commonwealth for the amount corresponding to the Commonwealth agencies and by contributions from the public corporations and municipalities.

**Early Retirement Programs** — During fiscal year 2001, the Commonwealth granted three additional retirement programs through Act No. 370 of December 31, 1999, Act No. 119 of July 13, 2000, and Act No. 174 of August 12, 2000. These acts applied to employees of the Municipality of San Juan, employees of the State Insurance Fund Corporation and the employees within the three branches of the Commonwealth, respectively. These early retirement programs ended in fiscal year 2006, at which time, these employees became fully beneficiaries of the ERS. In order to avoid any economic impact on the ERS, the employers were responsible for contributing to the ERS the amounts to cover the benefit payments and the employer and employee contributions with respect to the plan members covered until the attainment of the normal retirement age.

During fiscal year 2006, the Puerto Rico Industrial and Development Company (PRIDCO) implemented an early retirement program for its employees under Act No. 143, dated November 22, 2005. PRIDCO will reimburse the annuities and other benefits paid by the ERS during a five-year period, plus the employer and employee contributions with respect to the plan members covered until the attainment of the normal retirement age.

During fiscal year 2008, the Commonwealth issued Act No. 70, dated July 13, 2007, to implement an early retirement program for the employees of the Puerto Rico National Parks Company. The Municipality of San Juan issued the Resolution No. 41, dated May 5, 2008, which provided an early retirement program for the municipalities' employees. Also, GDB implemented an early retirement program for its employees under the Act No. 188 of December 12, 2007. The Puerto Rico National Parks Company has already made two payments and would reimburse the remaining balance on annuities and other benefits paid by the ERS in three installments on each July 31 starting on 2009 through 2011. The Municipality of San Juan will reimburse the annuities and other benefits paid by the ERS during a five-year period, plus the employer and employee contributions with respect to the plan members covered until they reach the normal retirement age.

The Land Authority of Puerto Rico (the "Land Authority") implemented an early retirement program for its employees under Law No. 59 of January 31, 2008. The Land Authority has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting on 2009 through 2012.

The Right to Employment Administration (the "Administration") implemented an early retirement program for its employees under Law No. 275 of December 31, 2008. The Administration already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting on 2009 through 2012.

The Puerto Rico Environmental Quality Board (the "EQB") implemented an early retirement program for its employees under the Law 224 Act No. 7 dated August 9, 2008. The EQB already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting on 2009 through 2012.

The Puerto Rico Department of Labor and Human Resources (the "Department of Labor") implemented an early retirement program for its employees under the Law 136 dated July 29, 2008. The Department of Labor already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting on 2009 through 2012.

*Amendment to Act No. 447 Effective January 1, 2000, to Create System 2000* — On September 24, 1999, Law 305, an amendment to Act No. 447 of May 15, 1951, which created the ERS, was enacted to provide for a new benefit structure, similar to a cash balance plan, known as System 2000, to cover employees joining the ERS on or after January 1, 2000.

Employees participating in the ERS as of December 31, 1999, were allowed to elect either to stay in the defined benefit structure or transfer to System 2000. People joining the public sector on or after January 1, 2000, are only allowed to become members of System 2000. Under System 2000, contributions received from participants are pooled and invested by the ERS, together with the assets corresponding to the defined benefit structure. There are no separate accounts for System 2000 participants. Future benefit payments under the original defined benefit structure and System 2000 will be paid from the same pool of assets. As a different benefit structure, System 2000 is not a

separate plan, and as such, is not presented separately from the original defined benefit structure, pursuant to the provisions of GASB Statement No. 25. The Commonwealth does not guarantee benefits at retirement age.

The annuity benefits to participants is based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes or, (2) earns a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Plan members receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000 rather should be provided to those plan members that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.275% of the employee's salary) with respect to employees under System 2000 will continue but will be used to fund the defined benefit plan. System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

At June 30, 2009, System 2000's membership consisted of 64,813 current participating employees.

**Funding Policy** — The contribution requirement to the ERS is established by law and is not actuarially determined. Required employers' contributions consist of 9.275% of applicable payroll in the cases of municipalities, central government, and public corporations. Required employee contribution consists of 5.775% of the first $550 of the monthly salary with the excess at 8.275% for the coordinated benefit structure and 8.275% of the total monthly salary for participating employee's contributions for the noncoordinated benefit structure. If necessary, additional non payroll related contributions from the Commonwealth should ultimately cover any deficiency between the participating employers' and employee's contributions and the ERS's pension benefit obligations and general and administrative deductions.

**(b) JRS**

**Plan Description** — The Commonwealth of Puerto Rico Judiciary Retirement System (the "JRS") is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the "Administration") and was created by Act No. 12 on October 19, 1954 ("Act No. 12 of 1954"). The JRS is a pension trust fund of the Commonwealth and is not an employer. The JRS provides retirement benefits to the employees of the judiciary branch of the Commonwealth. The JRS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the JRS is vested on a board of trustees, composed of two participating employees and one pensioner, who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico, the Commissioner of Municipalities Affairs, and the Executive Director of the Human Resources Office of the Commonwealth of Puerto Rico.

As of June 30, 2009, the JRS has an unfunded actuarial accrued liability of approximately $273,362 million, representing a 15.6% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, if measures are not taken now to deal with this situation, the JRS

will not be able to fully fund pensions in the fiscal years starting after 2015. This situation could have a direct negative effect on the Commonwealth's general fund, since the Commonwealth is the plan sponsor and is obligated to make actuarial contributions to fund the JRS.

To attend to these issues immediately, the Governor of the Commonwealth (the "Governor"), by Executive Order OE-2010-10 dated March 12, 2010, created the Special Commission on the Retirement Systems Reform (the "Commission"), as an instrument for its members to provide individual and/or group recommendations on actions that the executive and legislative branches can execute to provide immediate alternatives to ease the current crisis and long term solutions that will help the JRS.

Members of the JRS are eligible for the following benefits:

*Retirement Annuity* — Plan members with 10 years of credited service are eligible for retirement upon reaching 60 years of age.

Plan members are eligible for monthly benefit payments determined by the application of a stipulated benefit to the plan member's average compensation. Average compensation is computed based on the last month of compensation. The annuity for which a plan member is eligible, is limited to a minimum of 25% and a maximum of 75% of the average compensation, except for the judges of the Supreme Court for whom the annuity is limited to a minimum of 50% and a maximum of 100% of the average compensation received by the active members of the Supreme Court.

*Reversionary Annuity* — A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependants. The payments would start after the death of the retiree, for an amount not less than $120 yearly or greater than the annuity payments being received by the retiree.

*Occupational Disability Annuity* — A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation, received at the time of the disability.

*Nonoccupational Disability Annuity* — A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for annuity of 30% of the average compensation of the first 10 years of credited services, increased by 1% for every additional year of credited service in excess of 10 years, up to a maximum of 50% of the average compensation.

*Death Benefits*

Occupational

- Surviving spouse — annuity equal to 50% of the participating employee's salary at the date of the death.

- Children — $10 per month for each child, minor or student, up to a maximum benefit per family of 75% of the participating employee's salary at the date of the death. If no spouse survives or dies while receiving the annuity payments, each child, 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational

The contributions and interest accumulated as of the date of the death, plus an amount equal to the annual compensation at the time of the death.

Postretirement

- Surviving spouse and child, 21 or under — up to 60% of the retiree's pension.
- Other designated by the retiree — the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $500.

*Refunds* — A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the JRS, plus any interest earned thereon.

*Cost of Living Adjustment for Pension Benefits* — Act No. 177 of 1997 provides, effective January 1, 1999, for increases of 3%, every three years, of the pensions paid by the JRS to those plan members with three or more years of retirement. The act requires further legislation to grant this increase every three years. To protect the financial health of the JRS, the increase granted in 2002 is being financed through appropriations by the general fund.

**Funding Policy** — The contributions to the JRS are established by law and are not actuarially determined. During 2009, the JRS and the Office of the Administration of Court Facilities (the "Employer") entered into an agreement to increase the Employer's contributions from 20% to 30.34% effective on July 1, 2008. Employees' contributions consist of 8% of the employees' monthly salary. Contributions from the Commonwealth should ultimately cover any deficiency between the employer's and employees' contributions and the JRS's pension benefit obligations and administrative costs.

**(c) TRS**

**Plan Description** — The Puerto Rico System of Annuities and Pensions for Teachers (the "TRS") is a defined benefit plan administered by the Puerto Rico Teachers Retirement System and was created by Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. The TRS is considered an integral part of the Commonwealth's financial reporting and is included in the Commonwealth's financial statements as a pension fund. The TRS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974.

The responsibility for the proper operation and administration of the TRS is vested in a Board of Trustees (the "Board").

The TRS is a defined benefit plan sponsored by the Commonwealth. Substantially, all active teachers of the Commonwealth's Department of Education are covered by the TRS under the terms of Act No. 91 of March 29, 2004, that superseded Act No. 218 of 1951. The new law gives the Puerto Rico Teachers Retirement System's active employees as of March 29, 2004, the option to participate in the plan. Employees recruited by the Puerto Rico Teachers Retirement System after the approval of the new law become members of the plan. All active teachers of the Department of

Education become plan members of the TRS at their date of employment. Licensed teachers working in private schools or other educational organizations can be members of the TRS at their own choice as long as the required employer and employee contributions are satisfied.

The plan members of the TRS are eligible for the benefits described below:

*Retirement Annuity* — Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the TRS. The annuity for which a plan member is eligible is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

The plan members are eligible for retirement annuity benefits upon complying with the following:

| Age | Years of Creditable Services | Retirement Annuity Compensation |
|---|---|---|
| Fifty | Thirty or more | 75% of average compensation |
| Under fifty | Thirty or more | 65% of average compensation |
| Sixty | At least 10 but less than 25 | 1.8% of average compensation times years of service |
| Fifty | At least 25 but less than 30 | 1.8% of average compensation times years of service |
| Forty-seven but less than Fifty | At least 25 but less than 30 | 95% of the annual pension that would have received with 50 years of age |

*Deferred Retirement Annuity* — A participating employee who terminates service before age 60, after having accumulated a minimum of ten years of creditable services, qualifies for a deferred retirement annuity payable beginning at age 60. A participating employee who has completed 25 or more years of creditable services and is under the age of 47 at termination, qualifies for a deferred retirement annuity payable beginning at age 47. The vested rights described above are provided if his/her contributions to the TRS are left within the TRS until the attainment of the respective retirement age.

*Occupational Disability Annuity* — A participating employee, who as a direct result of the performance of his/her occupation becomes disabled, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months or the number of months of creditable services, if less than five years, recognized by the TRS, times years of creditable services; but not less than $400 per month.

*Nonoccupational Disability Annuity* — A participating employee disabled for causes not related to his/her occupation, and with at least five years of credited service, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months recognized by the TRS, times years of service; but not less than $400 per month.

*Death Benefits:*

Pre-retirement

- The beneficiaries receive the contributions made to the plan and 2% interest accumulated as of the date of death (after discounting debts with the TRS), plus an amount equal to the annual compensation of the member at the time of death.

Post-retirement

- The surviving spouse receives 50% of the retiree's pension and if there are children under 22 years of age or disabled (until disability ceases), they receive the other 50% of the pension. If there is no surviving spouse or children that qualify, the beneficiaries receive the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $1,000.

*Refunds* — A participating employee who ceases his/her employment with the Commonwealth without the right to a retirement annuity has the right to a refund of the employee contributions paid to the TRS, plus any interest earned thereon.

*Early Retirement Program* — On January 27, 2000, Act No. 44 was approved, which provided that effective March 9, 2000, plan members are eligible for early retirement upon attaining the age of 50 and 28 years of services in the first year of implementation and age 50 and 25 years of service in subsequent years. Those who select early retirement under these conditions will receive monthly benefits equal to 75% of their average compensation, which is computed based on the highest 36 months of compensation recognized by the TRS. Effective July 31, 2001, the option for early retirement was closed.

*Special Benefits* — Special benefits include the following:

- *Christmas Bonus* — An annual bonus of $600 for each retiree and disabled member paid each December. The TRS pays $150 per retiree and disabled member and the remaining bonus is paid by the Commonwealth.

- *Summer Bonus* — An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July. This benefit is prorated if there are multiple beneficiaries and is funded by the Commonwealth.

- *Medication Bonus* — An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July to cover health costs. Evidence of coverage is not required. This benefit is funded by the Commonwealth.

- *Cost-of-Living Adjustments* — Act No. 62 of 1992 provided, subject to the approval of the Legislature of the Commonwealth (the "Legislature"), for increases of 3% every three years in pensions to those plan members with three or more years of retirement. In years 1995, 1998, 2001, 2004, and 2007, the Legislature has replicated the benefit granted per Act No. 62. This benefit is funded by the Commonwealth.

**Funding Policy** —The law requires the employer to contribute 8.5% of the applicable payroll. Participating employees are required to contribute 9% of their compensation. Commonwealth contributions should ultimately cover any deficiency between the participating employees' contributions and the TRS's pension benefit obligations and administrative costs. The employer and participants' contributions will be evaluated at least every five years.

Other relevant information on the Commonwealth's Retirement Systems is presented below (as of June 30, 2009, for ERS, JRS, and TRS):

### (d) Membership

| | ERS | JRS | TRS | Total |
|---|---|---|---|---|
| Retirees and beneficiaries currently receiving benefits | 104,971 | 373 | 33,224 | 138,568 |
| Current participating employees | 160,053 | 345 | 46,295 | 206,693 |
| Total | 265,024 | 718 | 79,519 | 345,261 |

### (e) Annual Pension Cost and Net Pension Obligation

The Commonwealth's annual pension cost and net pension obligation of the three pension plans for the year ended June 30, 2009 were as follows (expressed in thousands):

| | ERS | JRS | TRS | Total |
|---|---|---|---|---|
| Annual required contributions | $ 1,258,695 | $ 22,195 | $ 393,871 | $ 1,674,761 |
| Interest on net pension obligation | 365,838 | 615 | 80,521 | 446,974 |
| Adjustment to annual required sponsors' contributions | (417,046) | (688) | (14,747) | (432,481) |
| Annual pension cost | 1,207,487 | 22,122 | 459,645 | 1,689,254 |
| Statutory sponsors' contributions made | (594,509) | (11,105) | (172,841) | (778,455) |
| Increase in net pension obligation | 612,978 | 11,017 | 286,804 | 910,799 |
| Net pension obligation at beginning of year | 4,877,846 | 8,203 | 957,382 | 5,843,431 |
| Net pension obligation at end of year | $ 5,490,824 | $ 19,220 | $ 1,244,186 | $ 6,754,230 |

The net pension obligation for ERS, JRS and TRS of $6.8 billion, are recorded in the accompanying statement of net assets (deficit).

| | ERS | JRS | TRS |
|---|---|---|---|
| Date of latest actuarial valuation | June 30, 2009 | June 30, 2009 | June 30, 2009 |
| Actuarial-cost method | Projected unit credit cost method with straight proration based on service to decrement | Projected unit credit cost method with straight proration based on service to decrement | Entry age normal |
| Amortization method | 30 years closed, level percentage of the projected payroll | 30 years closed, level percentage of the projected payroll | 30 years closed, level percentage of the projected payroll |
| Remaining amortization period | 28 years | 17 years | 28 years |
| Amortization approach | Closed | Closed | Closed |

The annual required contribution was determined by actuarial valuations for each of the pension plans as described below:

| | ERS | JRS | TRS |
|---|---|---|---|
| Asset-valuation method | Market value of assets | Market value of assets | Market value of assets |
| Actuarial assumptions: | | | |
| Inflation | 2.5% | 2.5% | 2.5% |
| Investment rate of return | 7.5 | 7.5 | 8.0 |
| Projected salary increases per annum | 3% (no increase in 2009–10 and 2010–11) | 3.0 | 3.5 % (general wage inflation, plus service - based merit increase) |
| Cost-of-living adjustments | 0.99 annually to approximate 3% triennial increases | 0.99 annually to approximate 3% triennial increases | None |

**(f) Three Year Trend Information**

The three year trend information is as follows (expressed in thousands):

| | ERS | JRS | TRS |
|---|---|---|---|
| Annual pension cost (APC): | | | |
| Year ended June 30, 2009 | $ 1,207,487 | $ 22,122 | $ 459,645 |
| Year ended June 30, 2008 | 1,149,597 | 19,829 | 355,742 |
| Year ended June 30, 2007 | 634,882 | 9,553 | 355,407 |
| Percentage of APC contributed: | | | |
| Year ended June 30, 2009 | 49.2 % | 50.2 % | 42.0 % |
| Year ended June 30, 2008 | 50.6 | 36.6 | 52.0 |
| Year ended June 30, 2007 | 72.5 | 69.4 | 49.0 |
| Net pension obligation (asset): | | | |
| Year ended June 30, 2009 | 5,490,824 | 19,220 | 1,244,186 |
| Year ended June 30, 2008 | 4,877,846 | 8,203 | 957,382 |
| Year ended June 30, 2007 | 4,309,534 | (4,364) | 786,790 |

**(g) Funded Status**

Funded status of the pension plans as of June 30, 2009, the most recent actuarial valuation date, is as follows (expressed in thousands):

| | ERS | JRS | TRS | Total |
|---|---|---|---|---|
| Actuarial accrued liability | $ 18,943,586 | $ 323,928 | $ 8,722,000 | $ 27,989,514 |
| Actuarial value of assets | 1,842,143 | 50,566 | 2,158,000 | 4,050,709 |
| Unfunded actuarial accrued liability | $ 17,101,443 | $ 273,362 | $ 6,564,000 | $ 23,938,805 |
| Funded Ratio | 9.70 % | 15.61 % | 24.74 % | 14.47 % |

The schedule of funding progress included as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

On August 12, 2000, Act No. 174 was approved to allow certain ERS participants to be eligible for early retirement upon attaining at least age 55 with 25 years of service, provided they made their election on or before April 1, 2001. Those who elected early retirement under this law will receive monthly benefits of 75% (if 25 or more years of service and age 55, or 30 or more years of service and age 50) or benefits of 65% (if 25 years of service by less than age 55) of their average compensation, which is computed based on the highest 36 months of compensation recognized by ERS. In these cases, the sponsor is responsible for contributing to ERS amounts to cover the benefit payments and the sponsor contribution with respect to the participants covered until the participants reach the normal retirement age.

## 21. OTHER POSTEMPLOYMENT BENEFITS

The Commonwealth provides postemployment healthcare benefits through defined benefit plans that are administered by the Retirement Systems:

- Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (ERS MIPC)
- he Puerto Rico Judiciary Retirement System Medical Insurance Plan Contribution (JRS MIPC)
- Puerto Rico System of Annuities and Pensions for Teachers Medical Insurance Plan Contribution (TRS MIPC)

### (a) Plans Descriptions

ERS MIPC is a cost sharing multiple employer defined benefit other postemployment benefit (OPEB) plan sponsored by the Commonwealth. JRS MIPC and TRS MIPC are single employer defined benefit OPEB plans sponsored by the Commonwealth. These OPEB plans were created under Act No. 95 approved on June 29, 1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS MIPC covers substantially all full time employees of: (1) the Commonwealth's primary government and (2) certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan. JRS MIPC covers all judges of Judiciary Branch of the Commonwealth. TRS MIPC covers all active teachers of the Department of Education of the Commonwealth.

Commonwealth employees become plan members upon their date of employment. Plan members are eligible for benefits upon reaching the following age:

**ERS MIPC**
**Police and Firemen**

50 with 25 years of credited service
58 with 10 years of credited service

**Other Employees**

55 with 25 years of credited service
58 with 10 years of credited service

**JRS MIPC**

60 with 10 years of credited service

**TRS MIPC**

47 with 25 years of credited service
60 with 10 years of credited service

**Funding Policy** — The contribution requirement of ERS MIPC, JRS MIPC and TRS MIPC are established by Act No. 95 approved on June 29, 1963. The benefits are paid directly by the Commonwealth to the insurance providers at a rate of a maximum of $100 per month per retiree. All these OPEB plan are financed on a pay-as-you-go basis. There is no contribution requirement for plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. The amount contributed during the year ended June 30, 2009 was as follows (expressed in thousands):

| | |
|---|---|
| ERS MIPC | $ 86,739 |
| JRS MIPC | 261 |
| TRS MIPC | 27,823 |

**(b) Funded Status**

Funded status of the postemployment healthcare benefit plans as of June 30, 2009, the most recent actuarial valuation date, is as follows (in thousands):

| | ERS MIPC | JRS MIPC | TRS MIPC | Total |
|---|---|---|---|---|
| Actuarial accrued liability (AAL) | $ 1,633,159 | $ 5,643 | $ 750,382 | $ 2,389,184 |
| Actuarial value of assets | - | - | - | - |
| Unfunded actuarial accrued liability | $ 1,633,159 | $ 5,643 | $ 750,382 | $ 2,389,184 |

The schedule of funding progress included as required supplementary information present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**(c) Membership**

| | ERS MIPC | JRS MIPC | TRS MIPC | Total |
|---|---|---|---|---|
| Retirees and beneficiaries currently receiving benefits | 104,971 | 373 | 33,224 | 138,568 |
| Current participating employees | 160,053 | 345 | 46,295 | 206,693 |
| Total | 265,024 | 718 | 79,519 | 345,261 |

**(d) Annual OPEB costs and Net OPEB obligation**

The annual OPEB cost and the annual required contribution (ARC) were computed as part of an actuarial valuation in accordance with parameters of GASB Statement No. 45 based on current years demographic data.

The annual ARC for the postemployment healthcare benefit plans were as follows (in thousands):

| | ERS MIPC | JRS MIPC | TRS MIPC | Total |
|---|---|---|---|---|
| ARC | | | | |
| Normal costs | $ 22,368 | $ 134 | $ 13,083 | $ 35,585 |
| Amortization of unfunded AAL | 89,315 | 291 | 24,932 | 114,538 |
| ARC | $ 111,683 | $ 425 | $ 38,015 | $ 150,123 |

The annual OPEB cost and the net OPEB obligation for the postemployment healthcare benefits plans were as follows (in thousands):

| | ERS MIPC | JRS MIPC | TRS MIPC | Total |
|---|---|---|---|---|
| Annual OPEB cost: | | | | |
| ARC | $ 111,683 | $ 425 | $ 38,015 | $ 150,123 |
| Interest on net OPEB cost | 1,234 | 7 | 433 | 1,674 |
| Adjustment to annual required contribution | (1,817) | (10) | (914) | (2,741) |
| Annual OPEB cost | 111,100 | 422 | 37,534 | 149,056 |
| Statutory sponsors' contributions made | (86,739) | (261) | (27,823) | (114,823) |
| Increase in net OPEB obligation | 24,361 | 161 | 9,711 | 34,233 |
| Net OPEB obligation at beginning of year | 30,856 | 181 | 11,336 | 42,373 |
| Net OPEB obligation at year end | $ 55,217 | $ 342 | $ 21,047 | $ 76,606 |

The net OPEB obligation for ERS MIPC, JRS MIPC, and TRS MIPC totaling $76.6 million is recorded in the accompanying statement of net assets (deficit).

**(e) Actuarial Assumptions**

Actuarial valuations of an ongoing plan involve estimates of the net 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 ARC of the employer are subject to continuous revision as actual results are compared with past expectations and new estimates are made about the future.

| | ERS MIPC | JRS MIPC | TRS MIPC |
|---|---|---|---|
| Date of latest actuarial valuation | June 30, 2009 | June 30, 2009 | June 30, 2009 |
| Actuarial-cost method | Projected unit credit cost method | Projected unit credit cost method | Entry age normal |
| Amortization method | Level percentage of the projected payroll | Level percentage of the projected payroll | Level percentage of the projected payroll |
| Discount rate | 4% | 4% | 4% |
| Remaining amortization period | 28 years | 17 years | 28 years |
| Amortization approach | Closed | Closed | Closed |

## 22. SUBSEQUENT EVENTS

**Primary Government** — On September 17, 2009, the Commonwealth issued Public Improvements Refunding Bonds Series 2009 A amounting to $3,425,000. The net proceeds were used to refund on a

current basis a portion of the Public Improvements Refunding Bonds Series 2007 A-4 and funding a portion of a termination payment under a certain interest rate swap agreement entered into in connection with the issuance of the refunded bonds.

On November 17, 2009, the Commonwealth issued Public Improvements Refunding Bonds, Series 2009 B amounting $372,685,000. The net proceeds were used to refund interest on certain bonds, repay certain advances made to the Commonwealth under a credit line facility and to pay capitalized interest.

On December 16, 2009, the Commonwealth issued Public Improvement Refunding Bonds Series 2009 C amounting to $210,250,000. The net proceeds were used to refund interest (but not principal) on certain bonds.

On July 1, 2009, Public Buildings Authority (PBA), a blended component unit, issued Government Facilities Revenue Refunding Bonds, Series P, guaranteed by the Commonwealth of Puerto Rico amounting to $330,935,000. The bonds were issued to refund certain bonds issued under the 1995 bond resolution, and fund swap termination payments and related fees. On the same date, PBA elected to convert the Series K Term Bonds in the principal amount of $50,000,000 maturing July 1, 2027 from a LIBOR-based variable interest rate to a fixed rate. The Series K Bonds were originally issued on May 27, 2004 in the original amount of $347,065,000.

On July 29, 2009, PBA approved an amendment to the $64,540,000 loan with GDB, a discretely component unit, dated February 27, 2009. In this amendment PBA accepted the terms and conditions of a loan in a principal amount not to exceed $91,192,000 to pay the interest component of certain of its outstanding Revenue Refunding Bonds becoming due during the twelve months after the date of the first drawing under the loan agreement.

On October 16, 2009, PBA issued Government Facilities Revenue Refunding Bonds, Series Q, Guaranteed by the Commonwealth of Puerto Rico amounting to $152,154,000. The bonds were issued to refund interest (but not principal) on certain bonds issued by PBA under the 1995, 1978 and 1970 Bond Resolutions, repay certain advances made to PBA by GDB under a line of credit facility and pay capitalized interest.

On July 1, 2009, Cofina made a payment to GDB, as repayment of certain loans made by GDB to certain public corporations and agencies of the Commonwealth, amounting to $70.8 million, consisting of $32.3 million of principal and $38.5 million of interest.

During the first quarter of fiscal year 2010, Cofina issued an anticipation note to a financial institution amounting to $500 million, which was repaid in February 2010, with part of the proceeds of the Sales Tax Revenue Bonds, First Subordinate Series 2010A indicated below.

In January 2010, GDB made an advance to Cofina for $172.1 million, which will be repaid with a future bond issuance.

On February 10, 2010, Cofina issued Sales Tax Revenue Bonds, First Subordinate Series 2010A amounting to $1,824 million. The proceeds from the issuance will be used mainly to cover operational expenses of the Commonwealth for fiscal years 2010 and 2011 and to fund the Puerto Rico Economic Stimulus Fund.

On June 24, 2010, Cofina issued Sales Tax Revenue Bonds, First Subordinate Series 2010C amounting to $1,619,404,596. Cofina will use the proceeds of the issuance to redeem prior to maturity the

Series 2009A Mandatory Tender Bonds, repay certain of its outstanding obligations, and provide funds to the Commonwealth for the authorized uses, as defined.

On June 24, 2010, Cofina issued Sales Tax Revenue Bonds, First Subordinate Series 2010D amounting to $89,435,000 and Sales Tax Revenue Bonds, First Subordinate Series 2010E amounting to $92,755,000. Cofina will use the proceeds of the issuance to repay certain of its outstanding obligations, and provide funds to the Commonwealth for the authorized uses, as defined.

On September 11, 2009, the Secretary of the Treasury elected to convert and remarket $93,835,000 principal amount of the Series 2007 A-4 Bonds at a Long-Term Interest Rate for a Long-Term Interest Rate Period. The Bonds will bear interest at the Long-Term Interest Rate, as defined, to maturity (or earlier redemption). Interest on the Bonds will be payable semi-annually on each January 1 and July 1, commencing on January 1, 2010.

**Recent Rating Action from Moody's Investor Service** — On August 10, 2010, Moody's Investor Service ("Moody's") reaffirmed its "A3" rating on the Commonwealth's general obligation bonds. Moody's also changed its outlook on the credit from stable to negative, indicating that the funded status of the Puerto Rico Government Employee Retirement System represents a challenge that could affect Puerto Rico's credit rating in the future. The negative outlook affects general obligation bonds of the Commonwealth, and also affects bonds whose ratings are determined by or linked to that of the Commonwealth, such as pension funding bonds, Puerto Rico Infrastructure Finance Authority Special Tax Revenue Bonds, Convention Center District Authority Hotel Occupancy Tax Revenue Bonds, GDB's 2006 AMT Senior Notes, Municipal Finance Authority Bonds, Puerto Rico Highways and Transportation Authority Transportation Revenue Bonds, Puerto Rico Highways and Transportation Authority Highway Revenue Bonds, and bonds backed by general fund appropriations.

**Component Units**

**(a) GDB**

On August 21, 2009, the Board of Directors of the Housing Finance Authority (HFA), a blended component unit of GDB, authorized to liquidate the Special Obligations Refunding Bonds — Debt Service fund and transfer its net assets to the Affordable Housing Mortgage Subsidy Program Stage 7 funds. HFA will use the proceeds to partially repay the amounts due to GDB.

On December 23, 2009, GDB issued $1,013,200,000 Senior Notes, 2009 Series C and $342,867,000 Series Notes, 2009 Series D. The proceeds were used by GDB for general corporate purposes, including, but not limited to: increasing its investment portfolio and making loans to, and purchase of obligations of, the Commonwealth and its public corporations, instrumentalities and municipalities, and repaying certain outstanding debts.

On January 28, 2010, the Bank partially redeemed $263 million in notes (senior Notes 2008 A & B).

On December 23, 2009, GDB elected to convert the Adjustable Refunding Bonds, Series 1985 from the current variable interest rate to the Fixed Rate, as defined. The Bonds will bear interest at the Fixed Rate until maturity or earlier redemption.

On July 23, 2010, GDB issued $1,448,741,000 Senior Notes, 2010 Series A. GDB will use the proceeds for general corporate purposes, including, but not limited to, redeem certain outstanding notes, increasing its investment portfolio, making loans to, and purchasing obligations of, the

Commonwealth and its public corporations, instrumentalities and municipalities, and repaying certain outstanding debt.

On July 23, 2010, GDB issued $151,259,000 Senior Notes, 2010 Series B. GDB will use the proceeds for making loans to the Commonwealth and its public corporations, instrumentalities and municipalities to be used to finance capital expenditures.

On August 24, 2010, GDB issued $1,086,478,000 Senior Notes, 2010 Series C. GDB will use the proceeds for general corporate purposes, including, but not limited to, redeem certain outstanding notes, increasing its investment portfolio, making loans to, and purchasing obligations of, the Commonwealth and its public corporations, instrumentalities and municipalities, and repaying certain outstanding debt.

On August 24, 2010, GDB issued $96,411,000 Senior Notes, 2010 Series D. GDB will use the proceeds for making loans to the Commonwealth and its public corporations, instrumentalities and municipalities to be used to finance capital expenditures.

**(b) PREPA**

On January 10, 2008, PREPA and Skanska Energy Services, LLC ("Skanska") entered into an Engineer Procure Construct Finance Contract for the construction of the Gasoducto del Sur Project (the "Project") for an original Contract Price of $74,324,259. On December 2, 2008, the Superior Court of Ponce issued an injunction stopping all construction. On July 23, 2009, PREPA's Governing Board authorized the termination and settlement of the Contract. PREPA obtained title to all equipment and material procured and 100% of engineering documents and all pending disputes were settled for a lump-sum payment of $59,000,000 due to the Contractor. The Termination and Settlement Agreement was executed on August 7, 2009.

Pursuant to an Asset Purchase Agreement dated August 17, 2009, PREPA sold the assets of the Gasoducto del Sur Project to The Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (AFICA by its Spanish acronym) for approximately $36 million. In addition, PREPA entered into a Subordinated Loan Agreement with GDB for $35,000,000 evidenced by a 24-month subordinated note until such time that Puerto Rico Aqueduct and Sewer Authority (PRASA) shall purchase from AFICA the Project.

On December 16, 2009, PREPA and a financial institution entered into an agreement for a line of credit of $150 million to finance a portion of the cost of various projects under its capital improvement program. This line of credit was paid with the proceeds of a bond issuance.

On March 26, 2010, PREPA issued $822,210,000 Power Revenue Bonds, Series XX. The proceeds were used to pay the cost of improvements, including the repayment of lines of credit from certain private banks and GDB used to finance a portion of said improvements, pay capitalized interest, and for other corporate purposes.

On April 22, 2010, PREPA issued $320,175,000 Power Revenue Bonds, Series YY. The proceeds were used to finance PREPA's capital improvement program.

On April 22, 2010, PREPA issued $631,160,000 Power Revenue Bonds, Series ZZ. The proceeds were used to pay on July 1, 2010, the interest payable on all outstanding Power Revenue Bonds (other than the Refunded Bonds, refund certain bonds, and repay certain outstanding lines of credit from private banks used to finance a portion of PREPA's working capital needs.

On May 20, 2010, PREPA issued $76,800,000 Power Revenue Bonds, Series BBB. The proceeds were used to refinance principal and interest due under certain lines of credit provided by GDB.

On April 22, 2010, PREPA issued $363,075,000 Power Revenue Bonds, Series AAA. The proceeds were used to provide funds to purchase certain of the PREPA's outstanding Power Revenue Refunding Bonds (the "Purchased Bonds"), and finance other proper corporate purposes, including the termination payment in connection with swap agreements relating to such Purchased Bonds.

On May 20, 2010, PREPA issued $316,920,000 Power Revenue Bonds, Series CCC. The proceeds were used to repay certain outstanding lines of credit from private banks and pay capitalized interest.

**(c) PRASA**

On September 24, 2009, PRASA issued $15 million of Series GG USDA Rural Development Program Bonds. The proceeds were used to partially repay the outstanding balance of USDA Rural Development Program lines of credit for construction projects from GDB. The payment of principal and interest on these bonds is guaranteed by the Commonwealth.

Act No. 75 of July 12, 2012 extended the Commonwealth guarantee over all future bonds and State Revolving Fund Program loans that may be issued by PRASA through June 30, 2015.

**(d) PRHTA**

On August 27, 2009, PRHTA extended the maturity date of the $400 million LIBOR based interest rate bonds as follows: $300 million maturing December 21, 2009 and $100 million maturing August 31, 2011. On December 21, 2009, the maturing date of the $300 million was extended to August 30, 2011 with an option to extend the maturity until August 30, 2013.

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%. PRHTA 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 PRHTA 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.

GDB agreed to exercise its option to extend until June 30, 2011 the maturity date of three non-revolving lines of credit and one revolving line of credit, which matured on September 2010. The total principal amount of these four lines of credit is $322,113,000.

On June 17, 2010, PRHTA reoffered $297,945,000 Highway Revenue Refunding Bonds, Series AA. The Series AA Bonds and the Series H Bonds were originally issued to refund certain bonds issued under their respective resolutions. The proceeds of the reoffering will be applied to pay the purchase price of the bonds on the conversion date.

On June 30, 2010, GDB approved non-revolving lines of credit of $3 million. Maturity date will be December 31, 2011.

On June 30, 2010, GDB approved non-revolving lines of credit of $45 million. Maturity date will be December 31, 2011.

On July 13, 2010, GDB approved non-revolving lines of credit of $63 million. The principal amount shall mature on August 30, 2012 with an option to extend the maturity until August 30, 2013.

On August 27, 2010, GDB approved non-revolving lines of credit of $118.3 million. The principal amount shall mature on August 30, 2013.

**(e) EDB**

On September 30, 2009, EDB entered into an agreement with the issuer of $75 million floating rate notes (the "Notes") due on September 12, 2011 and owned by EDB as of June 30, 2009, to eliminate EDB's right to resell the Notes to the issuer on certain dates prior to the stated maturity. In exchange for relinquishing this right, the issuer agreed to pay additional interest of 1.5% per annum on the Notes, raising the interest from LIBOR plus 6% to LIBOR plus 7.50% (subject to adjustment based on the credit ratings of the issuer). As a result, on September 30, 2009, EDB recorded an unrealized loss of approximately $2.8 million on this investment existing at June 30, 2009.

**(f) Public-Private Partnership Authority (APP by its Spanish name)**

Pursuant to Act No. 29 of June 8, 2009, "Ley de Alianzas Publico-Privadas (APP)", on December 19, 2009, GDB approved a $20 million revolving line of credit to the Public Private Partnership Authority for operational purposes. Article 6 of Act No. 29, establishes that funds received by the Authority from services provided and charges imposed by such Authority will be used as repayment source.

**(g) PRPA**

On July 1, 2009 PRPA and GDB entered in a Fiscal Oversight Agreement in which the Authority requested to GDB to provide financial assistance in the form of an emergency liquidity support facility. As a condition to provide emergency liquidity support to PRPA, GDB has required PRPA to implement a comprehensive expense reduction program, including certain fiscal oversight controls, subject to laws and existing agreements of PRPA, designed to minimize future tariff increases to households, the private sector, and to protect and improve the credit rating of PRPA.

On August 5, 2009 PRPA and GDB entered in a Letter of Credit Disbursement and Reimbursement Agreement in which GDB agreed to issue a Letter of Credit in the amount of $73,066,431 in favor of Wachovia as security for PRPA's repayment obligation under that certain second amended and restated credit agreement, dated as of August 5, 2009, between PRPA and Wachovia.

On November 2, 2009, Moody's revised to negative the outlook on PRPA's bonds and the Baa3 was confirmed.

On November 18, 2009, the United States Bankruptcy Court ordered a Writ of Execution in the amount of $4,422,159 plus any additional interest thereon at the rate of eight (8%) simple interest from October 20, 2009, at the daily rate of $530.42 until paid in full by PRPA. PRPA has failed to pay the debtor the money ordered to be paid under the Judgment. The Award of Arbitrator was no appealable according to Section 5.13 of the Development Agreement dated October 3, 1995. The written decision of the Independent Arbitrator selected is binding and conclusive upon the parties and final with no right of appeal to a court of law except if such challenge is based upon grounds

permissible for the challenge of an arbitration procedure under the state law. Also, the Decision and Order in case before the Bankruptcy Court confirm the Award of Arbitrator based in the contract Section 5.13.

On December 22, 2009 the Federal Aviation Administration informed PRPA that the preliminary application for LMMIA's participation in the Airport Privatization Pilot Program was accepted for further review. This program allows only for the lease of the facilities to qualified concessionaires. Assets under this agreement may not be sold to third parties.

## 23. DEBT SERVICE DEPOSIT AGREEMENTS

On May 26, 2005 (but effective on July 1, 2005), the Commonwealth, PFC, and GDB (together the Commonwealth) and Lehman Brothers Special Financing Inc. (Lehman) entered into Debt Service Deposit Agreements (DSD Agreements), the objective of which was for the Commonwealth to secure an upfront payment in exchange for granting Lehman the rights to earnings generated from eight of its debt service funds. On September 25, 2009, as a result of Lehman commencing a case in the United States Bankruptcy Court for the Southern District of New York under chapter 11 of the United States Code, Lehman selected Hexagon Securities LLC to act as the Qualified Dealer under the DSD Agreements and delivered Qualified Securities as permitted under the DSD Agreement. Seven of the funds are associated with the Commonwealth's PFC bonds, presented in the accompanying basic financial statements as Commonwealth appropriation bonds, and one fund is associated with the Commonwealth's general obligation bonds. The upfront payment, which amounted to $82.7 million, was received on May 26, 2005 and equaled the present value of the projected earnings income adjusted for credit timing risks as well as an appropriate amount of compensation for Lehman.

With the upfront payment made as explained above, the Commonwealth delivered to Lehman the required and scheduled debt service deposits and Lehman delivered qualified government debentures, which will mature before the next debt service payment date at an amount approximating such next debt service payment. Lehman will attempt to earn sufficient funds on the debt service deposit amounts, less its cost for the qualified government debentures, to make back the $82.7 million over time. At the same time, the Commonwealth will be managing its borrowings and investments by increasing the predictability of its cash flows from earnings on its investments and not for purpose of speculation. The Commonwealth acknowledges that, in exchange for the upfront payment received, it is foregoing its right to receive investment earnings on the deposit amounts referred to above in the future and that, by accepting the upfront payment, the Commonwealth has minimized the risks resulting from fluctuations in interest rates during the term of the DSD Agreements but also has foregone the possibility of receiving greater returns on such amounts from such fluctuations.

Under the DSD Agreements, the Commonwealth will be exposed to the payment to Lehman of a Termination Amount, as defined in the agreement, principally upon the occurrence of redemption or a defeasance of the related bonds on or prior to the last scheduled deposit date. The amount of the Termination Amount will vary depending on various market conditions, as defined in the DSD Agreements. Under certain market conditions, the Termination Amount owed to Lehman by the Commonwealth may exceed the amount of the original upfront payment received.

The $82.7 million upfront payment received by the Commonwealth was recognized as other revenue for budgetary purposes in 2005; however, under U.S. Generally Accepted Accounting Principles, such upfront payment was deferred and is being recognized proportionally over the future periods the Commonwealth would have otherwise earned such interest earnings. As the effective date of

DSD Agreements was July 1, 2005, all of the $82.7 million upfront payment received in 2005 had been recorded as deferred revenue. During fiscal year 2009, approximately $6 million was amortized into other revenue in the accompanying statement of activities.

## 24. DERIVATIVES

As of June 30, 2009, the Commonwealth was party to the following interest rate swap agreements (notional amount and fair value in thousands):

| Date | Notional Amount | Floating Rate Indicator (Pays) | June 30, 2009 Pays Type | Pays Rate | Receives Type | Receives Rate | Maturity Date | Fair Value June 30, 2009 |
|---|---|---|---|---|---|---|---|---|
| August 8, 2006 | $ 280,000 | LIBOR | Fixed | 3.7658 % | Variable | 67% 1M LIBOR | July 1, 2021 | $ (35,958) |
| August 8, 2006 | 29,165 | LIBOR | Forward | 3.8510 | Swap | 67% 1M LIBOR | July 1, 2031 | (2,591) |
| September 8, 2006 | 40,000 | LIBOR | Forward | 3.7684 | Swap | 67% 1M LIBOR | July 1, 2031 | (3,049) |
| September 8, 2006 | 174,982 | LIBOR | Fixed | 3.6815 | Variable | 67% 1M LIBOR | July 1, 2028 | (22,590) |
| April 13, 2004 | 56,000 | LIBOR | Fixed | 3.5820 | Variable | 59.80% 1M LIBOR + 0.25% | July 1, 2024 | (6,919) |
| April 13, 2004 | 56,000 | LIBOR | Fixed | 3.5590 | Variable | 58.30% 1M LIBOR + 0.24% | July 1, 2027 | (7,671) |
| April 13, 2004 | 55,975 | LIBOR | Fixed | 3.5750 | Variable | 58.30% 1M LIBOR + 0.24% | July 1, 2028 | (8,194) |
| April 13, 2004 | 49,325 | LIBOR | Fixed | 3.3080 | Variable | 59.80% 1M LIBOR + 0.25% | July 1, 2021 | (3,884) |
| April 13, 2004 | 62,000 | LIBOR | Fixed | 3.5090 | Variable | 57.3% 1M LIBOR + 0.24% | July 1, 2032 | (9,412) |
| April 13, 2004 | 61,975 | LIBOR | Fixed | 3.5740 | Variable | 58.3% 1M LIBOR + 0.24% | June 30, 2031 | (9,243) |
| April 13, 2004 | 50,000 | LIBOR | Fixed | 3.5730 | Variable | 58.3% 1M LIBOR + 0.24% | June 29, 2029 | (7,317) |
| June 21, 2006 | 1,273,778 | LIBOR SIFMA | Variable | SIFMA | BMA | 67% 3M LIBOR + 0.4409% | July 1, 2035 | (70,315) |
| September 8, 2006 | 97,403 | LIBOR | Fixed | 3.6815 | Variable | 67% 1M LIBOR | July 1, 2028 | (12,636) |
| June 21, 2006 | 424,593 | LIBOR SIFMA | Variable | SIFMA | LIBOR Basis | 67% 3M LIBOR + 0.4409% | July 1, 2035 | (22,599) |
| August 1, 2006 | 32,815 | CPI | Fixed | 4.2000 | CPI | CPI+.90% | July 1, 2021 | (2,709) |
| August 1, 2006 | 32,625 | CPI | Fixed | 4.3200 | CPI | CPI+1.02% | July 1, 2020 | (2,774) |
| August 1, 2006 | 31,280 | CPI | Fixed | 4.2900 | CPI | CPI+1.00% | July 1, 2019 | (2,713) |
| August 1, 2006 | 30,005 | CPI | Fixed | 4.2600 | CPI | CPI+.98% | July 1, 2018 | (2,601) |
| October 2, 2007 | 14,925 | LIBOR | Fixed | 3.5180 | Variable | 66% 1M LIBOR | July 1, 2029 | (1,750) |
| October 2, 2007 | 14,915 | LIBOR | Fixed | 3.5180 | Variable | 66% 1M LIBOR | July 1, 2029 | (1,748) |
| October 2, 2007 | 14,526 | LIBOR | Fixed | 3.5180 | Variable | 66% 1M LIBOR | July 1, 2031 | (1,900) |
| October 2, 2007 | 7,503 | LIBOR | Fixed | 3.5180 | Variable | 66% 1M LIBOR | July 1, 2034 | (1,034) |
| October 2, 2007 | 7,500 | LIBOR | Fixed | 3.5180 | Variable | 66% 1M LIBOR | July 1, 2033 | (1,028) |
| October 2, 2007 | 7,500 | LIBOR | Fixed | 3.5180 | Variable | 66% 1M LIBOR | July 1, 2034 | (1,044) |
| October 2, 2007 | 7,496 | LIBOR | Fixed | 3.5180 | Variable | 66% 1M LIBOR | July 1, 2033 | (1,019) |
| October 2, 2007 | 17,365 | LIBOR | Fixed | 3.5180 | Variable | 66% 1M LIBOR | July 1, 2031 | (2,409) |
| October 2, 2007 | 14,925 | LIBOR | Fixed | 3.5180 | Variable | 66% 1M LIBOR | July 1, 2029 | (1,885) |
| October 2, 2007 | 14,915 | LIBOR | Fixed | 3.5180 | Variable | 66% 1M LIBOR | July 1, 2029 | (1,884) |
| June 14, 2007 | 283,333 | LIBOR SIFMA | Variable | SIFMA | LIBOR Basis | 88.4% 10Y SIFMA | July 1, 2035 | 15,829 |
| July 31, 207 | 136,000 | LIBOR | Fixed | 4.92 | Variable | 67% 1M LIBOR | August 1, 2057 | (34,872) |
| October 2, 2007 | 374,205 | LIBOR | Fixed | 3.5180 | Variable | 66% 1M LIBOR | July 1, 2034 | (47,653) |
| | $ 3,753,029 | | | | | | | $ (315,572) |

The purpose of the interest rate agreements issued on April 13, 2004 in the notional amount of $448 million was to hedge the Commonwealth's variable rate debt exposure and the interest rate risks associated therewith in relation to the Puerto Rico Public Improvement Refunding Bonds, Series 2004 B.

On June 21, 2006 (with effective date of July 1, 2006), the Commonwealth entered into a basis swap agreement in the notional amount of $1.3 billion with an amortization schedule matching the long term maturities of outstanding general obligation and refunding bonds issued in various years from 1998 to 2005. Additional basis swap agreements are expected to cover the 2006 General Obligation Bonds awaiting issuance. Under the terms of a master swap agreement, the Commonwealth will pay quarterly commencing on October 1, 2006 a floating rate equal to the tax exempt Bond Market Association

(BMA) index in exchange for receiving a floating rate equal to 67% of the taxable LIBOR index reset each week and a fixed rate payment of 0.44% per annum, quarterly for the term of swaps. This basis swap provides the Commonwealth the cash flow benefit of the basis annuity in exchange for the Commonwealth taking tax and other basis risks similar to the risks taken in its outstanding LIBOR hedged synthetic fixed rate Public Refunding Bonds, Series 2004 described above.

On August 2, 2006 (with effective date of August 10, 2006), the Commonwealth entered into an interest rate swap agreement in the notional amount of $126.7 million. Said agreement is in connection with the issuance of the Public Improvement Bonds of 2006, Series A, subject to bear interest at the Consumer Price Index (CPI) rate. Through this agreement, the Commonwealth is required to pay a fixed interest rate and is entitled to receive a floating interest rate equal to the CPI rate, each based on a notional amount equal to the principal amount of the CPI bonds.

By using derivative financial instruments to hedge the exposure to changes in interest rates, the Commonwealth exposes itself to credit risk, market access risk, and basis risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Commonwealth, which creates a credit risk for the Commonwealth. When the fair value of the derivative contract is negative, the Commonwealth owes to the counterparty and, therefore, does not possess credit risk. The Commonwealth 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 Commonwealth.

Market risk is the adverse effect on the value of a financial statement instrument that results from a change in interest rates. The market risk associated with an interest rate swap contract is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. The Commonwealth assesses interest rate cash flows risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected cash flows and evaluating hedging opportunities. The Commonwealth maintains risk management control systems to monitor interest rate cash flow risk attributable to both the Commonwealth outstanding or forecasted debt obligations as well as the Commonwealth offsetting hedge positions.

Basis risk arises when different indexes are used in connection with a derivative. The 2006 swap exposes the government to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized. The Commonwealth assesses basis risk by following the aforementioned market risks control system.

Termination risk arises when the Commonwealth or the counterparty may terminate the swap if the other fails to perform under the terms of the contract. In addition, the counterparty may terminate the swap at the date stipulated in the respective agreements. If at the time of termination the swap has a negative fair value, the Commonwealth would be liable to the counterparty for that payment.

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# REQUIRED SUPPLEMENTARY INFORMATION

# COMMONWEALTH OF PUERTO RICO

## REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
## SCHEDULE OF FUNDING PROGRESS — RETIREMENT SYSTEMS
## JUNE 30, 2009

Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (expressed in thousands):

| Actuarial Valuation Date | Actuarial Value of Assets | AAL | UAAL | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| June 30, 2009 | $1,842,143 | $18,943,586 | $17,101,443 | 9.7 % | $4,292,552 | 398.4 % |
| June 30 2007 | 2,891,501 | 16,769,512 | 13,878,011 | 17.2 | 4,246,409 | 326.8 |
| June 30, 2005 | 2,327,871 | 13,969,000 | 11,641,129 | 16.7 | 4,125,866 | 282.2 |

The Puerto Rico Judiciary Retirement System (expressed in thousands):

| Actuarial Valuation Date | Actuarial Value of Assets | AAL | UAAL | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| June 30, 2009 | $50,566 | $323,928 | $273,362 | 15.6 % | $30,587 | 893.7 % |
| June 30 2007 | 81,473 | 258,577 | 177,104 | 31.5 | 31,256 | 566.6 |
| June 30, 2005 | 69,797 | 174,454 | 104,657 | 40.0 | 29,331 | 356.8 |

Puerto Rico System of Annuities and Pensions for Teachers (expressed in thousands):

| Actuarial Valuation Date | Actuarial Value of Assets | AAL | UAAL | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| June 30, 2009 | $2,158,000 | $8,722,000 | $6,564,000 | 25 % | $1,418,000 | 463 % |
| June 30 2007 | 3,163,000 | 7,756,000 | 4,593,000 | 41 | 1,370,000 | 335 |
| June 30, 2004 | 2,403,000 | 4,702,000 | 2,299,000 | 51 | 1,294,000 | 178 |

See accompanying independent auditors' report.

# COMMONWEALTH OF PUERTO RICO

## REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
## SCHEDULE OF FUNDING PROGRESS — POSTEMPLOYMENT HEALTHCARE BENEFITS
## JUNE 30, 2009

Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (expressed in thousands):

| Actuarial Valuation Date | Actuarial Value of Assets | AAL | UAAL | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| June 30, 2009 | $ - | $1,633,159 | $1,633,159 | - % | $4,292,552 | 38 % |
| July 1, 2007 | - | 1,566,809 | 1,566,809 | - | 4,246,409 | 37 |

The Puerto Rico Judiciary Retirement System (expressed in thousands):

| Actuarial Valuation Date | Actuarial Value of Assets | AAL | UAAL | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| June 30, 2009 | $ - | $5,643 | $5,643 | - % | $30,587 | 18.5 % |
| June 30 2007 | - | 4,677 | 4,677 | - | 31,256 | 15.0 |

Puerto Rico System of Annuities and Pensions for Teachers (expressed in thousands):

| Actuarial Valuation Date | Actuarial Value of Assets | AAL | UAAL | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| June 30, 2009 | $ - | $750,382 | $750,382 | - % | $1,418,304 | 53 % |
| June 30 2007 | - | 652,157 | 652,157 | - | 1,369,770 | 48 |

See accompanying independent auditors' report.

# COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

## GENERAL FUND

The general fund is the primary operating fund of the Commonwealth. The general fund is used to account for resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund. Included are transactions for services such as general government, public safety, health, public housing and welfare, education, and economic development. Following is the supplemental schedule of expenditures — budget and actual — general fund.

# COMMONWEALTH OF PUERTO RICO

## SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL
## BUDGET BASIS — GENERAL FUND
## YEAR ENDED JUNE 30, 2009
## (In thousands)

| | Original Budget | Amended Budget | Actual |
|---|---|---|---|
| Expenditures: | | | |
| Current: | | | |
| General government: | | | |
| Senate of Puerto Rico | $ 43,581 | $ 41,033 | $ 40,218 |
| House of Representatives of Puerto Rico | 47,746 | 48,128 | 48,128 |
| Comptroller's Office | 43,000 | 43,000 | 43,018 |
| Governor's Office | 4,592 | 4,215 | 6,175 |
| Office of Management and Budget | 35,692 | 35,692 | 52,707 |
| Planning Board | 16,269 | 15,631 | 14,631 |
| Constructions and Land Subdivisions Appeals Board | 1,414 | 1,367 | 1,318 |
| Department of State | 9,573 | 9,602 | 9,175 |
| Department of the Treasury | 160,369 | 88,972 | 508,640 |
| Central Office of Personnel Administration | 7,205 | 7,205 | 6,761 |
| Commonwealth Elections Commission | 63,539 | 63,531 | 68,241 |
| Federal Affairs Administration | 6,044 | 6,037 | 5,520 |
| General Services Administration | 571 | 548 | 521 |
| Municipal Complaints Hearing Commission | 4,935 | 4,892 | 4,882 |
| Civil Rights Commission | 1,221 | 1,221 | 1,237 |
| Office of the Citizen's Ombudsman | 5,481 | 5,481 | 5,499 |
| Apellative Board of the Personnel System Administration | 1,993 | 1,868 | 1,734 |
| Rules and Permits Administration | 5,918 | 5,895 | 5,322 |
| Commonwealth's Commission to Settle Municipal Complaints | 253 | 205 | 193 |
| Legislative Affairs Office | 700 | 289 | 289 |
| Commissions for the Public Work Relations | 2,500 | 2,479 | 2,344 |
| Government Ethics Board | 10,290 | 10,290 | 10,290 |
| Legislative Affairs Office | 11,810 | 11,810 | 11,882 |
| Office of the Superintendent of the Capitol | 10,318 | 10,384 | 11,656 |
| Comptroller's Special Reports Joint Commission | 691 | 691 | 699 |
| Legislative Donation Commission | 20,765 | (2,995) | (3,015) |
| Coordination Office for Special Communities of Puerto Rico | 9,494 | 9,242 | 8,946 |
| Public Affairs | 4,278 | 3,322 | 3,349 |
| Governor's Secretary Office | 10,535 | 13,496 | 13,574 |
| Puerto Rico Statistics Institute | 977 | - | 977 |
| Corporation "Enlace" Caño Martín Peña | 1,500 | 1,500 | 1,457 |
| Total general government | 543,254 | 445,031 | 886,368 |
| Public Safety: | | | |
| Puerto Rico General Court of Justice | 357,810 | 356,810 | 381,605 |
| Civil Defense | 72 | 72 | 72 |
| Commission of Investigation, Processing and Appeals Board | 685 | 682 | 659 |
| Department of Justice | 144,779 | 131,975 | 154,308 |
| Puerto Rico Police Department | 877,487 | 874,066 | 882,794 |
| Puerto Rico Firefighters Corps | 74,640 | 73,765 | 73,765 |
| Puerto Rico National Guard | 8,250 | 8,250 | 8,739 |
| Public Service Commission | 12,489 | 12,209 | 11,685 |
| Consumer Affairs Department | 15,453 | 15,221 | 15,153 |
| Juvenile Institutions Administrations | 78,706 | 86,265 | 89,619 |
| Corrections Administration | 393,099 | 394,185 | 426,348 |
| Natural Resources Administration | 49,157 | 51,497 | 49,069 |
| Department of Correction and Rehabilitation | 4,704 | 4,830 | 4,539 |

# COMMONWEALTH OF PUERTO RICO

## SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL
## BUDGET BASIS — GENERAL FUND
## YEAR ENDED JUNE 30, 2009
## (In thousands)

| | Original Budget | Amended Budget | Actual |
|---|---|---|---|
| Public Safety (continued): | | | |
| Parole Board | $ 3,365 | $ 3,355 | $ 3,215 |
| Forensic Sciences Institute | 18,188 | 18,188 | 17,147 |
| Special Prosecutor Panel | 1,925 | 1,925 | 1,831 |
| Pre-Trial Services Office | 7,515 | 7,849 | 7,621 |
| Correctional Health | 83,680 | 86,769 | 104,475 |
| Medical Emergencies Service | 28,344 | 30,790 | 37,458 |
| Criminal Justice College | 7,217 | 8,717 | 8,116 |
| Total public safety | 2,167,565 | 2,167,420 | 2,278,218 |
| Health: | | | |
| Environmental Quality Board | 12,027 | 11,998 | 14,066 |
| Department of Health | 311,493 | 343,915 | 382,484 |
| Puerto Rico Medical Services Administration | 16,700 | 16,700 | 16,700 |
| Mental Health and Drug Addiction Services Administration | 121,728 | 127,314 | 120,289 |
| Puerto Rico Solid Waste Authority | 4,697 | 4,697 | 4,344 |
| Puerto Rico Health Insurance Administration | 1,005,459 | 1,005,334 | 1,005,006 |
| Total health | 1,472,104 | 1,509,958 | 1,542,889 |
| Public housing and welfare | | | |
| Office of Youth Affairs | 6,278 | 7,388 | 7,896 |
| New Business Training Administration | 10,735 | 12,866 | 12,866 |
| Department of Labor and Human Resources | - | 552 | 75,893 |
| Labor Relations Board | 1,083 | 1,067 | 951 |
| Department of Housing | 27,653 | 27,651 | 41,966 |
| Department of Recreation and Sports | 51,098 | 53,562 | 67,078 |
| Administration for the Horse Racing Sport and Industry | 4,513 | 4,140 | 4,250 |
| Women's Affairs Commission | 5,584 | 4,845 | 4,429 |
| Office of the Veteran's Ombudsman | 3,427 | 3,401 | 3,355 |
| Department of Family | 50,101 | 54,262 | 54,557 |
| Family and Children Administration | 164,859 | 179,655 | 193,816 |
| Minors Support Administration | 12,489 | 12,173 | 12,173 |
| Vocational Rehabilitation Administration | 14,015 | 14,015 | 14,061 |
| Social Economic Development Administration | 105,720 | 99,876 | 126,955 |
| Office of the Disabled Persons Ombudsman | 3,598 | 3,598 | 3,616 |
| Office for Elderly Affairs | 3,535 | 3,498 | 3,567 |
| Right to Employment Administration | 14,895 | 14,895 | 14,895 |
| Cantera's Peninsula Integral Development Company | 411 | 411 | 411 |
| Industries for the Blind, Mentally Retarded, and Other Disabled Persons of Puerto Rico | 550 | 550 | 550 |
| Patient Ombudsman | 4,350 | 4,355 | 4,025 |
| Administration for the Care and Development of the Childhood | 16,866 | 15,491 | 15,594 |
| Total public housing and welfare | 501,760 | 518,251 | 662,904 |

# COMMONWEALTH OF PUERTO RICO

## SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL
## BUDGET BASIS — GENERAL FUND
## YEAR ENDED JUNE 30, 2009
## (In thousands)

| | Original Budget | Amended Budget | Actual |
|---|---|---|---|
| Education: | | | |
| Department of Education | $2,460,054 | $2,522,921 | $ 2,761,459 |
| Institute of Puerto Rican Culture | 28,258 | 30,289 | 29,296 |
| Puerto Rico School of Plastics Arts | 3,382 | 3,382 | 3,325 |
| State Office for Historic Preservation | 2,157 | 2,149 | 2,407 |
| General Education Council | 2,009 | 1,978 | 1,908 |
| University of Puerto Rico | 873,013 | 873,313 | 873,313 |
| Puerto Rico Council on Higher Education | 29,627 | 29,627 | 29,389 |
| Musical Arts Corporation | 6,591 | 8,291 | 8,291 |
| Fine Arts Center Corporation | 3,590 | 3,590 | 3,387 |
| Puerto Rico Public Broadcasting Corporation | 20,083 | 20,083 | 19,216 |
| Athenaeum of Puerto Rico | 500 | 500 | 500 |
| Puerto Rico Conservatory of Music Corporation | 5,552 | 5,552 | 5,552 |
| Total education | 3,434,816 | 3,501,675 | 3,738,043 |
| Economic development | | | |
| Department of Transportation and Public Works | 75,587 | 86,445 | 133,807 |
| Department of Natural and Environmental Resources | 1,535 | 1,588 | 5,758 |
| Department of Agriculture | 21,566 | 23,391 | 41,188 |
| Cooperative Enterprises Development Administration | 3,667 | 3,667 | 3,579 |
| Cooperative Enterprises Inspector's Office | 955 | 1,115 | 1,047 |
| Rural Development Corporation | 4,023 | 4,186 | 3,989 |
| Department of Economic Development and Commerce | 4,609 | 4,647 | 4,619 |
| Energy Affairs Administration | 701 | 538 | 538 |
| Puerto Rico Industrial Development Company | 5,000 | 5,000 | 5,000 |
| Government Development Bank for Puerto Rico | 1,000 | 1,000 | 1,000 |
| Puerto Rico Metropolitan Bus Authority | 5,000 | 6,900 | 6,900 |
| Puerto Rico Maritime Transportation Authority | 17,000 | 17,000 | 17,000 |
| Agricultural Services and Development Administration | 79,152 | 92,737 | 92,737 |
| Culebra Conservation and Development Authority | 746 | 746 | 710 |
| National Parks Company of Puerto Rico | 21,959 | 21,959 | 21,206 |
| Corporation for the Development of the Film Industry in Puerto Rico | 688 | 650 | 666 |
| Puerto Rico Trade and Export Company | 4,016 | 5,517 | 5,516 |
| Puerto Rico Infrastructure Financing Authority | 90,000 | 90,000 | 90,000 |
| Total economic development | 337,204 | 367,086 | 435,260 |
| Intergovernmental — Municipal Service Administration | 383,697 | 384,538 | 383,788 |
| Total intergovernmental | 383,697 | 384,538 | 383,788 |
| Total expenditures | $8,840,400 | $8,893,959 | $ 9,927,470 |
| Operating transfer-out to other funds: | | | |
| Office of Management and Budget | $ 18,904 | $ 18,904 | $ 18,905 |
| Port of the Americas | - | 300 | 300 |
| Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities | 238,093 | 236,593 | 234,492 |
| Puerto Rico System of Annuities and Pensions for Teachers | 75,548 | 75,548 | 75,548 |
| Contributions to Political Parties | 27,055 | 26,176 | 25,876 |
| Transfer of Treasury-Transfer to Debt Service | 288,000 | 230,335 | 607,306 |
| | $ 647,600 | $ 587,856 | $ 962,427 |

See notes to independent auditors' report.

## NONMAJOR GOVERNMENTAL FUNDS

### Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specific purposes.

**Public Buildings Authority Special Revenue Fund:** The operating fund of a blended component unit used to account for the operation, maintenance, equipment replacement, and other extraordinary operation and maintenance costs of the buildings and facilities that, when constructed, are leased to the Commonwealth's primary government agencies.

**The Children's Trust Special Revenue Fund:** The Children's Trust special revenue fund is used to account for the money received by the Commonwealth from a global settlement agreement dated November 23, 1998 between certain tobacco companies and certain states, territories, and other jurisdictions of the United State of America, including the Commonwealth. The financial resources received by this fund are used to carry out projects aimed at promoting the well-being of children and youth of Puerto Rico.

### Debt Service Funds

The debt service funds are used to account for the accumulation of resources predominantly for, and the payment of, general long term bonds principal, interest, and related costs other than bonds payable from operations of proprietary fund types, pension trust funds, and discretely presented component units. Long term debt and interest due on July 1 of the following year are accounted for as a fund liability if resources are available as of June 30 for its payment.

**The Children's Trust Debt Service Fund:** The debt service fund of The Children's Trust (a blended component unit) accounts for the accumulation of resources for payment of interest and principal on long term obligations financed with moneys to be received by the Commonwealth from the global settlement agreement signed by certain tobacco companies.

**Public Buildings Authority Debt Service Fund:** A blended component unit engaged in the construction and/or acquisition of building facilities for lease mainly to the Commonwealth's primary government agencies. Its debt service fund is used to account for the accumulation of resources for the payment of revenue bonds and other liabilities incurred to finance the construction of the buildings and facilities.

**Puerto Rico Maritime Shipping Authority Debt Service Fund:** This is the remainder of a former shipping company owned by the Commonwealth. Its debt service fund is used to account for the accumulation of resources for the payment of the long term liability that resulted from the sale of its marine operations. This fund is mainly subsidized from appropriations and operating transfers from the general fund.

### Capital Project Funds

Capital project funds are used to account for the financial resources used by the primary government for the acquisition or construction of mayor capital facilities not being financed by the Public Building Authority's Capital Projects Fund, proprietary fund types, pension trust funds, and discretely presented component units.

**Public Building Authority's Capital Projects Fund:** The Public Building Authority's capital projects fund is used to account for the financial resources used for the acquisition or construction of major capital facilities not financed by proprietary fund types, pension trust funds, and discretely presented component units.

**Commonwealth Public Improvements Funds and Other Funds:** These funds present the activities of the capital improvements program of the Commonwealth, financed with the proceeds of the general obligation bonds.

# COMMONWEALTH OF PUERTO RICO

## COMBINING BALANCE SHEET — NONMAJOR GOVERNMENTAL FUNDS
## JUNE 30, 2009
## (In thousands)

| | Special Revenue | | Debt Service | | | Capital Projects | | Total Nonmajor Governmental Funds |
|---|---|---|---|---|---|---|---|---|
| | Public Buildings Authority | The Children's Trust | The Children's Trust | Public Buildings Authority | Puerto Rico Maritime Shipping Authority | Commonwealth of Puerto Rico | PBA | |
| **ASSETS** | | | | | | | | |
| CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS | $ 13,556 | $ - | $ - | $ - | $ - | $107,532 | $ - | $ 121,088 |
| CASH AND CASH EQUIVALENTS IN GOVERNMENTAL BANKS | 20,023 | 26,051 | - | - | 1,900 | 316,410 | - | 364,384 |
| INVESTMENTS | - | 36,220 | 113,091 | - | - | - | - | 149,311 |
| RECEIVABLES — Net of allowance for uncollectibles: | | | | | | | | |
| Accounts | 657 | - | - | - | - | 671 | - | 1,328 |
| Intergovernmental | 3,420 | - | - | - | - | - | - | 3,420 |
| Loans | - | - | - | - | - | 39 | - | 39 |
| Accrued interest | - | 2 | 448 | - | - | - | - | 450 |
| Other | 5,763 | - | - | - | - | - | - | 5,763 |
| DUE FROM: | | | | | | | | |
| Other funds | 190,968 | - | - | 7,735 | - | 4,256 | - | 202,959 |
| Component units | 47,225 | - | - | - | - | - | - | 47,225 |
| Other governmental entities | 7,992 | - | - | - | - | - | - | 7,992 |
| RESTRICTED ASSETS: | | | | | | | | |
| Cash and cash equivalents in commercial banks | - | - | - | 112,497 | - | - | 88,145 | 200,642 |
| Cash and cash equivalents in governmental banks | - | - | - | 46,432 | 37 | - | - | 46,469 |
| REAL ESTATE HELD FOR SALE OR FUTURE DEVELOPMENT | 14,740 | - | - | - | - | 1,853 | - | 16,593 |
| TOTAL ASSETS | $ 304,344 | $ 62,273 | $113,539 | $166,664 | $1,937 | $430,761 | $88,145 | $1,167,663 |
| **LIABILITIES AND FUND BALANCES** | | | | | | | | |
| LIABILITIES: | | | | | | | | |
| Accounts payable and accrued liabilities | $ 53,700 | $ 1,099 | $ - | $ - | $ 762 | $ 38,189 | $49,642 | $ 143,392 |
| Due to component units | 61,934 | - | - | - | - | - | - | 61,934 |
| Bonds payable | - | - | - | 79,535 | - | - | - | 79,535 |
| Interest payable | - | - | - | 74,301 | 48 | - | - | 74,349 |
| Total liabilities | 115,634 | 1,099 | - | 153,836 | 810 | 38,189 | 49,642 | 359,210 |
| FUND BALANCES: | | | | | | | | |
| Reserved for encumbrances | | | | | | 6,595 | | 6,595 |
| Unreserved: | | | | | | | | |
| Debt service | - | - | 113,539 | 12,828 | 1,127 | - | - | 127,494 |
| Special revenue funds | 188,710 | 61,174 | - | - | - | - | - | 249,884 |
| Capital projects funds | - | - | - | - | - | 385,977 | 38,503 | 424,480 |
| Total fund balances | 188,710 | 61,174 | 113,539 | 12,828 | 1,127 | 392,572 | 38,503 | 808,453 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 304,344 | $ 62,273 | $113,539 | $166,664 | $1,937 | $430,761 | $88,145 | $1,167,663 |

See accompanying independent auditors' report.

# COMMONWEALTH OF PUERTO RICO

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — NONMAJOR GOVERNMENTAL FU
## YEAR ENDED JUNE 30, 2009
## (In thousands)

| | Special Revenue | | Debt Service | | | Capital Projects | | Total |
|---|---|---|---|---|---|---|---|---|
| | Public Buildings Authority | The Children's Trust | The Children's Trust | Public Buildings Authority | Puerto Rico Maritime Shipping Authority | Commonwealth of Puerto Rico | PBA | Nonmajor Governmental Funds |
| REVENUES: | | | | | | | | |
| Interest and investment earnings | $ 7,047 | $ 749 | $ 3,690 | $ - | $ 18 | $ 18 | $ - | $ 11,522 |
| Intergovernmental | 11,599 | - | - | - | 5,859 | 54,951 | - | 72,409 |
| Total revenues | 18,646 | 749 | 3,690 | - | 5,877 | 54,969 | - | 83,931 |
| EXPENDITURES: | | | | | | | | |
| Current: | | | | | | | | |
| General government | 148,898 | 284 | 7 | - | - | - | - | 149,189 |
| Health | - | 608 | - | - | - | - | - | 608 |
| Education | - | 4,893 | - | - | - | - | - | 4,893 |
| Economic development | - | 954 | - | - | 323 | - | - | 1,277 |
| Intergovernmental | - | 4,040 | - | - | - | 183,575 | - | 187,615 |
| Capital outlay | - | - | - | - | - | 188,697 | 103,201 | 291,898 |
| Debt service: | | | | | | | | - |
| Principal | - | - | 36,155 | 79,535 | - | - | - | 115,690 |
| Interest | - | - | 58,370 | 145,265 | 5,859 | - | - | 209,494 |
| Other — debt issuance costs | - | - | - | - | - | 1,973 | - | 1,973 |
| Total expenditures | 148,898 | 10,779 | 94,532 | 224,800 | 6,182 | 374,245 | 103,201 | 962,637 |
| DEFICIENCY OF REVENUES UNDER EXPENDITURES | (130,252) | (10,030) | (90,842) | (224,800) | (305) | (319,276) | (103,201) | (878,706) |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Transfers in | 48,996 | - | 90,073 | 228,368 | - | - | 53,060 | 420,497 |
| Transfers out | - | - | - | - | - | (5,500) | - | (5,500) |
| Sale of capital assets | 29,699 | - | - | - | - | - | - | 29,699 |
| Long term debt issued | 110,541 | - | - | - | - | 297,116 | - | 407,657 |
| Bond proceeds — premium | - | - | - | - | - | 2,549 | - | 2,549 |
| Total other financing sources | 189,236 | - | 90,073 | 228,368 | - | 294,165 | 53,060 | 854,902 |
| NET CHANGE IN FUND BALANCES | 58,984 | (10,030) | (769) | 3,568 | (305) | (25,111) | (50,141) | (23,804) |
| FUND BALANCES — Beginning of year | 129,726 | 71,204 | 114,308 | 9,260 | 1,432 | 417,683 | 88,644 | 832,257 |
| FUND BALANCES — End of year | $ 188,710 | $ 61,174 | $113,539 | $ 12,828 | $ 1,127 | $ 392,572 | $ 38,503 | $ 808,453 |

See accompanying independent auditors' report.

## NONMAJOR PROPRIETARY FUNDS

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the government is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**Disability Insurance:** It was created by Act 139 on June 26, 1968. It is used to account for disability benefits to remedy temporarily the loss of income as a result of disability caused by sickness or accident unrelated to the employment.

**Drivers' Insurance:** It was created by Act 428 on May 15, 1950. It is used to account for contributions made by the drivers and their employers to provide a social security plan for the benefit of the drivers in Puerto Rico. The plan also includes payment of benefits for health and life insurance.

**Puerto Rico Water Pollution Control Revolving Fund:** It was created by Act No. 44 on June 21, 1988, as amended. It is administered, pursuant to Act No. 9 of June 18, 1970, as amended, by the Puerto Rico Environmental Quality Board (EQB). Pursuant to such Act, EQB is authorized to enter into operating agreements and capitalization grant agreements with the U.S. Environmental Protection Agency (EPA) for lending activities.

**Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund:** It was created by Act No. 32 on July 7, 1997. It is administered, pursuant to Act No. 9 of June 18, 1970, as amended, by the Puerto Rico Department of Health (DOH). Pursuant to such act, DOH, on behalf of the Commonwealth, is authorized to enter into operating and capitalization grant agreements with the EPA for lending activities.

# COMMONWEALTH OF PUERTO RICO

## COMBINING STATEMENT OF NET ASSETS — NONMAJOR PROPRIETARY FUNDS
## JUNE 30, 2009
## (In thousands)

| | Business-Type Activities — Nonmajor Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Disability Insurance | Drivers' Insurance | Puerto Rico Water Pollution Control Revolving Fund | Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund | Total |
| **ASSETS** | | | | | |
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents in commercial banks | $ 127 | $ - | $ - | $ - | $ 127 |
| Cash and cash equivalents in governmental banks | 53,409 | 7,923 | 78,633 | 11,193 | 151,158 |
| Insurance premiums receivables, net | 3,365 | 914 | - | - | 4,279 |
| Due from component units | - | - | 10,710 | 4,103 | 14,813 |
| Accrued interest receivable | 191 | - | 2,014 | 1,017 | 3,222 |
| Other receivables | 7 | 35 | 114 | - | 156 |
| Total current assets | 57,099 | 8,872 | 91,471 | 16,313 | 173,755 |
| NONCURRENT ASSETS: | | | | | |
| Loans receivable from component units | - | - | 196,305 | 110,097 | 306,402 |
| Due from other funds | - | 26,006 | - | - | 26,006 |
| Restricted investments | 29,830 | - | - | - | 29,830 |
| Other | - | - | 1,486 | - | 1,486 |
| TOTAL ASSETS | $ 86,929 | $ 34,878 | $ 289,262 | $ 126,410 | $ 537,479 |
| **LIABILITIES AND NET ASSETS** | | | | | |
| CURRENT LIABILITIES: | | | | | |
| Accounts payable and accrued liabilities | $ 1,076 | $ 300 | $ 993 | $ 64 | $ 2,433 |
| Deferred revenue | - | 28 | - | - | 28 |
| Compensated absences | 348 | - | - | - | 348 |
| Insurance benefits payable | 621 | 320 | - | - | 941 |
| Total current liabilities | 2,045 | 648 | 993 | 64 | 3,750 |
| NONCURRENT LIABILITIES — | | | | | |
| Compensated absences | 460 | 402 | - | - | 862 |
| TOTAL LIABILITIES | 2,505 | 1,050 | 993 | 64 | 4,612 |
| NET ASSETS: | | | | | |
| Restricted for payment of insurance benefits | 29,209 | - | - | - | 29,209 |
| Unrestricted | 55,215 | 33,828 | 288,269 | 126,346 | 503,658 |
| TOTAL NET ASSETS | $ 84,424 | $ 33,828 | $ 288,269 | $ 126,346 | $ 532,867 |

See accompanying independent auditors' report.

# COMMONWEALTH OF PUERTO RICO

## COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS — NONMAJOR PROPRIETARY FUNDS
## YEAR ENDED JUNE 30, 2009
## (In thousands)

| | Business-Type Activities — Nonmajor Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Disability Insurance | Drivers' Insurance | Puerto Rico Water Pollution Control Revolving Fund | Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund | Total |
| OPERATING REVENUES: | | | | | |
| Insurance premiums | $ 13,757 | $ 4,813 | $ - | $ - | $ 18,570 |
| Interest | | | 4,659 | 2,104 | 6,763 |
| Total operating revenues | 13,757 | 4,813 | 4,659 | 2,104 | 25,333 |
| OPERATING EXPENSES: | | | | | |
| Insurance benefits | 2,871 | 1,218 | - | - | 4,089 |
| General, administrative, and other operating expenses | 20,166 | 6,681 | 440 | 571 | 27,858 |
| Total operating expenses | 23,037 | 7,899 | 440 | 571 | 31,947 |
| OPERATING INCOME (LOSS) | (9,280) | (3,086) | 4,219 | 1,533 | (6,614) |
| NONOPERATING REVENUES: | | | | | |
| Contributions from U.S. government | - | - | 12,756 | 16,767 | 29,523 |
| Interest and investment earnings (losses) | (4,317) | 92 | - | - | (4,225) |
| Total nonoperating revenues | (4,317) | 92 | 12,756 | 16,767 | 25,298 |
| INCOME (LOSS) BEFORE TRANSFERS | (13,597) | (2,994) | 16,975 | 18,300 | 18,684 |
| TRANSFERS FROM OTHER FUNDS | - | - | 2,551 | 3,327 | 5,878 |
| NET CHANGE IN NET ASSETS | (13,597) | (2,994) | 19,526 | 21,627 | 24,562 |
| NET ASSETS — Beginning of year | 98,021 | 36,822 | 268,743 | 104,719 | 508,305 |
| NET ASSETS — End of year | $ 84,424 | $ 33,828 | $288,269 | $126,346 | $532,867 |

See accompanying independent auditors' report.

# COMMONWEALTH OF PUERTO RICO

## COMBINING STATEMENT OF CASH FLOWS — NONMAJOR PROPRIETARY FUNDS
## YEAR ENDED JUNE 30, 2009
## (In thousands)

| | Business-type activities — Nonmajor enterprise funds | | | | |
|---|---|---|---|---|---|
| | Disability Insurance | Drivers' Insurance | Puerto Rico Water Pollution Control Revolving Fund | Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Receipts from customers and users | $ 14,414 | $ 5,079 | $ - | $ - | $ 19,493 |
| Payments to suppliers | (11,994) | (2,179) | - | - | (14,173) |
| Payments to employees | (8,874) | (4,773) | - | - | (13,647) |
| Payments of insurance benefits | (3,084) | (1,248) | - | - | (4,332) |
| Other payments | - | - | - | (683) | (683) |
| Net cash used in operating activities | (9,538) | (3,121) | - | (683) | (13,342) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | | | |
| Intergovernmental grants and contributions | - | - | 12,756 | 16,767 | 29,523 |
| Transfers from other funds | - | - | 2,551 | 3,327 | 5,878 |
| Net cash provided by noncapital financing activities | - | - | 15,307 | 20,094 | 35,401 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Interest received on deposits and investments | 1,177 | 92 | 4,622 | 1,963 | 7,854 |
| Loans originated | - | (26,006) | (18,284) | (21,474) | (65,764) |
| Principal collected on loans | - | - | 9,619 | 2,323 | 11,942 |
| Proceeds from sales and maturities of investments | 24,795 | - | - | - | 24,795 |
| Purchases of investments | (25,482) | - | - | - | (25,482) |
| Net cash provided by (used in) investing activities | 490 | (25,914) | (4,043) | (17,188) | (46,655) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (9,048) | (29,035) | 11,264 | 2,223 | (24,596) |
| CASH AND CASH EQUIVALENTS — Beginning of year | 62,584 | 36,958 | 67,369 | 8,970 | 175,881 |
| CASH AND CASH EQUIVALENTS — End of year | $ 53,536 | $ 7,923 | $ 78,633 | $ 11,193 | $151,285 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES: | | | | | |
| Operating income (loss) | $ (9,280) | $ (3,086) | $ 4,219 | $ 1,533 | $ (6,614) |
| Adjustments to reconcile operating income (loss) to net cash used in operating activities: | | | | | |
| Interests earned on deposits loans and investments | - | - | (4,659) | (2,104) | (6,763) |
| Changes in operating assets and liabilities: | | | | | |
| Decrease in accounts and loans receivable | 657 | 266 | - | - | 923 |
| Increase (decrease) in accounts payable and accrued liabilities | (245) | 209 | 440 | (112) | 292 |
| Increase in deferred revenues | - | 9 | - | - | 9 |
| Decrease in compensated absences | (457) | (489) | - | - | (946) |
| Decrease in liability for insurance benefits payable | (213) | (30) | - | - | (243) |
| Total adjustments | (258) | (35) | (4,219) | (2,216) | (6,728) |
| NET CASH USED IN OPERATING ACTIVITIES | $ (9,538) | $ (3,121) | $ - | $ (683) | $(13,342) |

See accompanying independent auditors' report.

## FIDUCIARY FUNDS

Fiduciary funds are used to account for held by the Commonwealth in a trustee capacity, or as an agent for individuals, organizations, and other governmental units. Following are the Commonwealth's fiduciary funds:

### Pension Trust Funds

The pension trust funds are used to account for the assets, liabilities, and net assets available for pension benefits held in trust for the public employees of the Commonwealth.

**Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS):** ERS is the administrator of a defined benefit pension plan, which covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and component units not covered by their retirement systems. On September 24, 1999, an amendment to the law that created ERS was enacted with the purpose of establishing a new defined contribution pension plan (System 2000) for persons joining the government on or after January 1, 2000.

**Puerto Rico System of Annuities and Pensions for Teachers (TRS):** TRS provides retirement benefits to all teachers of the Department of Education of the Commonwealth, all pensioned teachers who work in the Teachers' Association of Puerto Rico, and those who practice in private institutions accredited by the Department of Education of Commonwealth. TRS provides retirement, death, and disability benefits.

**Puerto Rico Judiciary Retirement System (JRS):** JRS is administered by the ERS and covers all individuals holding a position as Justice of the Supreme Court, Judge of the former Superior Court, Judge of District Court, or the Municipal Judges of the Commonwealth. The system provides retirement as well as death and disability benefits.

### Agency Fund

Agency fund is used to account for assets held by the Commonwealth as an agent for individuals, private organizations, and other governments. This fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations.

**Special Deposits:** This fund acts in a fiduciary capacity in order to account for moneys received with specified purposes for which the law does not specify its recording in any other fund. It mainly includes deposits under the custody of the courts of justice for alimony payments.

# COMMONWEALTH OF PUERTO RICO

## COMBINING STATEMENT OF FIDUCIARY NET ASSETS — PENSION TRUST FUNDS
## JUNE 30, 2009
## (In thousands)

| | Pension Trust Funds | | | |
|---|---|---|---|---|
| | Employees' Retirement System (ERS) | Teachers' Retirement System (TRS) | Judiciary Retirement System (JRS) | Total |
| ASSETS: | | | | |
| Cash and cash equivalents in commercial banks: | | | | |
| Unrestricted | $ 318,856 | $ 65,885 | $ 5,467 | $ 390,208 |
| Cash and cash equivalents in governmental banks: | | | | |
| Unrestricted | 79,500 | 3,726 | 2,353 | 85,579 |
| Restricted | 1,028,878 | - | - | 1,028,878 |
| Investments: | | | | |
| Debt and equity securities, at fair value | 2,043,311 | 1,685,080 | 67,439 | 3,795,830 |
| Other | 34,922 | 26,139 | - | 61,061 |
| Receivables — net: | | | | |
| Accounts | 289,427 | 23,231 | - | 312,658 |
| Loans and advances | 1,097,444 | 399,380 | 530 | 1,497,354 |
| Accrued interest and dividends | 6,939 | 5,445 | 215 | 12,599 |
| Other | 55,365 | 2,930 | 145 | 58,440 |
| Capital assets — net | 9,171 | 26,167 | - | 35,338 |
| Other assets | 43,254 | 876 | - | 44,130 |
| Total assets | 5,007,067 | 2,238,859 | 76,149 | 7,322,075 |
| LIABILITIES: | | | | |
| Accounts payable and accrued liabilities | 52,189 | 29,094 | 23,381 | 104,664 |
| Securities lending transactions | 103,527 | 46,751 | 1,482 | 151,760 |
| Other liabilities | 47,849 | 5,421 | 720 | 53,990 |
| Bonds payable | 2,961,359 | - | - | 2,961,359 |
| Total liabilities | 3,164,924 | 81,266 | 25,583 | 3,271,773 |
| NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS | $ 1,842,143 | $ 2,157,593 | $ 50,566 | $ 4,050,302 |

See accompanying independent auditors' report.

# COMMONWEALTH OF PUERTO RICO

## COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS — PENSION TRUST FUNDS
## YEAR ENDED JUNE 30, 2009
## (In thousands)

| | Pension Trust Funds | | | |
|---|---|---|---|---|
| | Employees' Retirement System (ERS) | Teachers' Retirement System (TRS) | Judiciary Retirement System (JRS) | Total |
| ADDITIONS: | | | | |
| Contributions: | | | | |
| Sponsor | $ 400,405 | $ 125,165 | $ 9,970 | $ 535,540 |
| Participants | 362,040 | 136,305 | 3,138 | 501,483 |
| Special | 239,400 | 47,693 | 691 | 287,784 |
| Total contributions | 1,001,845 | 309,163 | 13,799 | 1,324,807 |
| Interest income and investment loss: | | | | |
| Interest | 198,734 | 66,927 | 1,313 | 266,974 |
| Dividends | 15,774 | 13,194 | 218 | 29,186 |
| Net change in fair value of investments | (558,552) | (518,862) | (16,740) | (1,094,154) |
| Investment expenses | (7,589) | (4,660) | (170) | (12,419) |
| Net interest income and investment loss | (351,633) | (443,401) | (15,379) | (810,413) |
| Other income | 35,878 | 2,444 | 50 | 38,372 |
| Total additions | 686,090 | (131,794) | (1,530) | 552,766 |
| DEDUCTIONS: | | | | |
| Pension and other benefits | 1,174,629 | 465,161 | 16,229 | 1,656,019 |
| Refunds of contributions | 34,530 | 5,313 | - | 39,843 |
| General and administrative | 241,874 | 25,485 | 986 | 268,345 |
| Total deductions | 1,451,033 | 495,959 | 17,215 | 1,964,207 |
| NET CHANGE IN NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS | (764,943) | (627,753) | (18,745) | (1,411,441) |
| NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS: | | | | |
| Beginning of year | 2,607,086 | 2,785,346 | 69,311 | 5,461,743 |
| End of year | $ 1,842,143 | $ 2,157,593 | $ 50,566 | $ 4,050,302 |

See accompanying independent auditors' report.

# COMMONWEALTH OF PUERTO RICO

## COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES — AGENCY FUNDS
## YEAR ENDED JUNE 30, 2009
## (In thousands)

| | Balance at June 30, 2008 | Additions | Deletions | Balance at June 30, 2009 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS AND U.S. TREASURY | $ 632,476 | $ 30,238 | $ - | $ 662,714 |
| CASH AND CASH EQUIVALENTS IN GOVERNMENTAL BANKS | 677,515 | 457,886 | - | 1,135,401 |
| OTHER INVESTMENTS | 41,402 | - | 35,466 | 5,936 |
| TOTAL ASSETS | $ 1,351,393 | $488,124 | $ 35,466 | $ 1,804,051 |
| **LIABILITIES** | | | | |
| ACCOUNTS PAYABLE AND ACCRUED LIABILITIES | $ 1,351,393 | $452,658 | $ - | $ 1,804,051 |
| TOTAL LIABILITIES | $ 1,351,393 | $452,658 | $ - | $ 1,804,051 |

See accompanying independent auditors' report.

## NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS

These entities are presented because the nature and significance of their relationship with the primary government are such that their exclusion would cause the basic financial statements to be misleading. These are discretely presented in a separate column in the basic financial statements due to nature of the services they provide. The accounting principles followed by each of the component units included herein may vary depending on the type of industries they are involved in (that is, banking, construction, public utilities, and so forth). The detailed information for each of these entities may be obtained directly from the administrative offices of the corresponding entities, as described in note 1 to the basic financial statements included in the financial section of this report.

# COMMONWEALTH OF PUERTO RICO

## NONMAJOR DISCETELY PRESENTED COMPONENT UNITS
## COMBINING STATEMENT OF NET ASSETS (DEFICIT)
## JUNE 30, 2009
## (In thousands)

| ASSETS | Agricultural Services and Development Administration | Automobile Accidents Compensation Administration | Cardiovascular Center Corporation of Puerto Rico and the Caribbean | Company for the Integreal Development of the de Península Cantera | Corporation for the "Caño Martín Peña" ENLACE Project | Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico | Culebra Conservation and Development Authority |
|---|---|---|---|---|---|---|---|
| CURRENT ASSETS: | | | | | | | |
| Cash and cash equivalents in commercial banks | $ 15,808 | $ 5,948 | $ 8,380 | $ 2,563 | $2,108 | $ - | $ 318 |
| Cash and cash equivalents in governmental banks | 11,981 | - | - | - | - | 12,598 | - |
| Investments | - | 119,429 | - | - | - | - | - |
| Receivables — net: | | | | | | | |
| Insurance premium | - | - | - | - | - | - | - |
| Intergovernmental | - | - | - | 3,341 | - | - | - |
| Accounts | 10,033 | 10,213 | 20,346 | - | - | - | - |
| Loans and advances | - | - | - | - | - | 1,161 | - |
| Accrued interest | - | 782 | - | - | - | - | - |
| Other governmental entities | 2,162 | - | - | - | 1,429 | - | - |
| Other | 3,151 | 6,569 | 1,290 | - | - | - | - |
| Due from: | | | | | | | |
| Primary government | 18,869 | - | - | - | - | - | - |
| Component units | - | - | - | - | - | - | - |
| Inventories | 5,138 | - | 2,325 | - | - | - | - |
| Prepaid expenses | 1,318 | - | 295 | 37 | 2 | - | - |
| Total current assets | 68,460 | 142,941 | 32,636 | 5,941 | 3,539 | 13,759 | 318 |
| NONCURRENT ASSETS: | | | | | | | |
| Restricted assets: | | | | | | | |
| Cash and cash equivalents in commercial banks | - | 462 | - | - | - | - | - |
| Cash and cash equivalents in governmental banks | - | - | - | - | - | - | - |
| Investments | - | - | - | - | - | - | - |
| Other restricted assets | - | - | - | - | - | - | - |
| Investments | - | - | - | - | - | - | - |
| Receivables: | | | | | | | |
| Loans, interest, and other | - | - | - | 6,432 | - | - | - |
| Other governmental agencies | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - |
| Due from: | | | | | | | |
| Primary government | - | - | - | - | - | - | - |
| Component units | - | - | - | - | - | - | - |
| Property held for sale or future development | - | - | - | 497 | - | - | - |
| Capital assets, not being depreciated | 3,656 | 901 | 424 | 80 | - | - | 640 |
| Capital assets, depreciable — net | 36,117 | 8,318 | 15,768 | 149 | 190 | - | 371 |
| Deferred expenses and other assets | - | 26 | - | - | - | - | - |
| Total noncurrent assets | 39,773 | 9,707 | 16,192 | 7,158 | 190 | - | 1,011 |
| TOTAL ASSETS | $108,233 | $152,648 | $48,828 | $13,099 | $3,729 | $13,759 | $1,329 |



(Continued)

# COMMONWEALTH OF PUERTO RICO

## NON MAJOR DISCETELY PRESENTED COMPONENT UNITS
## COMBINING STATEMENT OF NET ASSETS (DEFICIT)
## JUNE 30, 2009
## (In thousands)

| ASSETS | Economic Development Bank for Puerto Rico | Employment and Training Enterprises Corporation | Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental, Control Facilities Financing Authority | Farm Insurance Corporation of Puerto Rico | Fine Arts Center Corporation | Governing Board of the 9-1-1- Service |
|---|---|---|---|---|---|---|
| CURRENT ASSETS: | | | | | | |
| Cash and cash equivalents in commercial banks | $ 1,192 | $ - | $ - | $ 10,022 | $ 7,383 | $ - |
| Cash and cash equivalents in governmental banks | 171 | - | 9,059 | - | - | 25,999 |
| Investments | 161,075 | - | - | - | - | - |
| Receivables — net: | | | | | | |
| Insurance premium | - | - | - | - | - | - |
| Intergovernmental | - | - | - | - | - | - |
| Accounts | - | - | - | 2,563 | 133 | 3,448 |
| Loans and advances | 66,015 | - | - | - | - | - |
| Accrued interest | 2,758 | - | - | - | - | - |
| Other governmental entities | - | 1,344 | - | - | - | - |
| Other | - | - | - | - | - | 8 |
| Due from: | | | | | | |
| Primary government | - | - | - | - | - | - |
| Component units | - | - | - | - | - | - |
| Inventories | - | 9 | - | - | - | 28 |
| Prepaid expenses | - | - | - | 191 | 98 | 138 |
| Total current assets | 231,211 | 1,353 | 9,059 | 12,776 | 7,614 | 29,621 |
| NONCURRENT ASSETS: | | | | | | |
| Restricted assets: | | | | | | |
| Cash and cash equivalents in commercial banks | 1,144 | 829 | - | - | 546 | - |
| Cash and cash equivalents in governmental banks | - | 90 | - | - | - | 22,316 |
| Investments | - | - | - | - | - | - |
| Other restricted assets | 6,482 | - | - | - | - | - |
| Investments | 566,884 | - | - | - | - | - |
| Receivables: | | | | | | |
| Loans, interest, and other | 140,849 | - | - | - | - | - |
| Other governmental agencies | - | - | - | 5,896 | - | - |
| Other | - | - | - | - | - | - |
| Due from: | | | | | | |
| Primary government | - | - | - | - | - | - |
| Component units | - | - | - | 2,701 | - | - |
| Property held for sale or future development | - | - | - | - | - | - |
| Capital assets, not being depreciated | - | - | - | - | 3,108 | - |
| Capital assets, depreciable — net | 9,910 | 113 | - | 118 | 13,352 | 2,074 |
| Deferred expenses and other assets | 4,077 | - | - | - | - | - |
| Total noncurrent assets | 729,346 | 1,032 | - | 8,715 | 17,006 | 24,390 |
| TOTAL ASSETS | $ 960,557 | $ 2,385 | $ 9,059 | $ 21,491 | $ 24,620 | $ 54,011 |

(Continued)

# COMMONWEALTH OF PUERTO RICO

## NON MAJOR DISCETELY PRESENTED COMPONENT UNITS
## COMBINING STATEMENT OF NET ASSETS (DEFICIT)
## JUNE 30, 2009
## (In thousands)

| ASSETS | Institute of Puerto Rican Culture | Institutional Trust of the National Guard of Puerto Rico | Land Authority of Puerto Rico | Musical Arts Corporation | National Parks Company of Puerto Rico | Public Corporation for the Supervision and Deposit Insurance of PR Cooperatives | Port of the Americas Authority |
|---|---|---|---|---|---|---|---|
| CURRENT ASSETS: | | | | | | | |
| Cash and cash equivalents in commercial banks | $ 19,943 | $ - | $ 2,272 | $ 2,381 | $ 112 | $ - | $ - |
| Cash and cash equivalents in governmental banks | 4,604 | 11,819 | 30,735 | - | 3,320 | 454 | 7,567 |
| Investments | - | 50,000 | - | - | - | 70,629 | - |
| Receivables — net: | | | | | | | |
| Insurance premium | - | - | - | - | - | - | - |
| Intergovernmental | 403 | 634 | - | - | 531 | - | - |
| Accounts | - | 377 | 6,713 | 124 | - | - | 3 |
| Loans and advances | - | - | - | - | - | - | - |
| Accrued interest | - | 126 | 58 | - | - | 1,223 | - |
| Other governmental entities | - | 22 | 3,112 | 163 | - | - | - |
| Other | - | - | 2,414 | 1 | 812 | 140 | - |
| Due from: | | | | | | | |
| Primary government | - | - | 3,730 | - | - | - | - |
| Component units | - | - | 16,434 | - | - | - | - |
| Inventories | 1,611 | - | - | - | - | - | - |
| Prepaid expenses | - | - | 4,166 | - | 132 | - | - |
| Total current assets | 26,561 | 62,978 | 69,634 | 2,669 | 4,907 | 72,446 | 7,570 |
| NONCURRENT ASSETS: | | | | | | | |
| Restricted assets: | | | | | | | |
| Cash and cash equivalents in commercial banks | - | - | - | - | - | - | - |
| Cash and cash equivalents in governmental banks | - | 3,000 | 457 | - | 26,465 | - | - |
| Investments | - | - | - | - | - | - | - |
| Other restricted assets | - | - | - | - | - | - | - |
| Investments | - | - | 8,377 | - | - | 110,645 | - |
| Receivables: | | | | | | | |
| Loans, interest, and other | - | - | - | - | - | - | - |
| Other governmental agencies | - | - | - | - | - | - | - |
| Other | - | - | 9,246 | - | - | - | - |
| Due from: | | | | | | | |
| Primary government | - | - | - | - | - | - | - |
| Component units | - | - | 5,931 | - | - | - | - |
| Property held for sale or future development | - | - | - | - | - | - | - |
| Capital assets, not being depreciated | 8,084 | 18,258 | 83,815 | 153 | 17,053 | - | 224,036 |
| Capital assets, depreciable — net | 74,314 | 4,300 | 9,970 | 309 | 187,416 | 225 | 6 |
| Deferred expenses and other assets | - | 2,059 | - | - | - | - | - |
| Total noncurrent assets | 82,398 | 27,617 | 117,796 | 462 | 230,934 | 110,870 | 224,042 |
| TOTAL ASSETS | $ 108,959 | $ 90,595 | $ 187,430 | $ 3,131 | $ 235,841 | $ 183,316 | $231,612 |

(Continued)

# COMMONWEALTH OF PUERTO RICO

## NON MAJOR DISCETELY PRESENTED COMPONENT UNITS
## COMBINING STATEMENT OF NET ASSETS (DEFICIT)
## JUNE 30, 2009
## (In thousands)

| ASSETS | Puerto Rico Conservatory of Music Corporation | Puerto Rico Convention Center District Authority | Puerto Rico Council on Higher Education | Puerto Rico Industrial Development Company | Puerto Rico Infrastructure Financing Authority | Puerto Rico Land Administration | Puerto Rico Maritime Transportation Authority | Puerto Rico Medical Services Administration | Puerto Rico Metropolitan Bus Authority |
|---|---|---|---|---|---|---|---|---|---|
| CURRENT ASSETS: | | | | | | | | | |
| Cash and cash equivalents in commercial banks | $ 252 | $ 25,286 | $ - | $ 16,819 | $ - | $ 877 | $ 133 | $ - | $ 1,081 |
| Cash and cash equivalents in governmental banks | - | 1,125 | 2,064 | - | 538 | 79,694 | - | - | 12 |
| Investments | - | - | - | - | - | 13,511 | - | - | - |
| Receivables — net: | | | | | | | | | |
| Insurance premium | - | - | - | - | - | - | - | - | - |
| Intergovernmental | - | - | - | - | - | - | 1,360 | - | - |
| Accounts | - | 12,795 | 85 | 38,877 | 1,613 | 797 | 210 | 21,019 | 1,843 |
| Loans and advances | - | - | - | 1,699 | - | - | - | - | - |
| Accrued interest | - | - | - | 249 | - | 439 | - | - | - |
| Other governmental entities | 220 | - | 63 | - | - | - | - | 42,493 | 1,573 |
| Other | 61 | - | 45 | - | - | 64 | - | 6,080 | - |
| Due from: | | | | | | | | | |
| Primary government | 3,555 | - | - | 44,979 | - | - | - | 26,863 | - |
| Component units | - | - | - | - | - | 1,305 | - | - | - |
| Inventories | - | - | - | - | - | - | 34 | 3,496 | 3,672 |
| Prepaid expenses | 29 | 1,174 | - | 1,655 | 1,810 | 100 | 1,519 | 778 | 2,454 |
| Total current assets | 4,117 | 40,380 | 2,257 | 104,278 | 3,961 | 96,787 | 3,256 | 100,729 | 10,635 |
| NONCURRENT ASSETS: | | | | | | | | | |
| Restricted assets: | | | | | | | | | |
| Cash and cash equivalents in commercial banks | 2,292 | - | - | 52,555 | 1,839,527 | - | - | 1,852 | - |
| Cash and cash equivalents in governmental banks | - | - | 6,813 | - | 52,882 | 400 | - | - | 77 |
| Investments | - | 69,706 | - | - | 44,143 | - | - | - | - |
| Other restricted assets | - | - | - | - | 65,184 | - | - | - | - |
| Investments | - | - | - | 15,986 | - | - | - | - | - |
| Receivables: | | | | | | | | | |
| Loans, interest, and other | - | 1,898 | - | 1,089 | - | - | - | - | - |
| Other governmental agencies | - | - | - | - | - | 1,884 | - | - | - |
| Other | - | - | - | 537 | - | - | - | - | - |
| Due from: | | | | | | | | | |
| Primary government | - | - | - | - | - | - | - | - | - |
| Component units | - | - | - | - | - | - | - | - | - |
| Property held for sale or future development | - | - | - | 14,614 | - | 161,935 | - | - | - |
| Capital assets, not being depreciated | 14,110 | 248,425 | - | 238,052 | 1,286,586 | 29,743 | 12,118 | 28,261 | 2,569 |
| Capital assets, depreciable — net | 47,000 | 422,544 | 358 | 479,222 | 170 | 9,777 | 25,658 | 38,555 | 48,950 |
| Deferred expenses and other assets | - | 15,375 | - | 2,626 | 57,375 | - | - | - | 267 |
| Total noncurrent assets | 63,402 | 757,948 | 7,171 | 804,681 | 3,345,867 | 203,739 | 37,776 | 68,668 | 51,863 |
| TOTAL ASSETS | $ 67,519 | $ 798,328 | $ 9,428 | $ 908,959 | $ 3,349,828 | $ 300,526 | $ 41,032 | $ 169,397 | $ 62,498 |

(Continued)

# COMMONWEALTH OF PUERTO RICO

## NON MAJOR DISCETELY PRESENTED COMPONENT UNITS
## COMBINING STATEMENT OF NET ASSETS (DEFICIT)
## JUNE 30, 2009
## (In thousands)

| ASSETS | Puerto Rico Municipal Finance Agency | Puerto Rico Ports Authority | Puerto Rico Public Broadcasting Corporation | Puerto Rico School of Plastic Arts | Puerto Rico Solid Waste Authority | Puerto Rico Telephone Authority | Puerto Rico Tourism Company |
|---|---|---|---|---|---|---|---|
| CURRENT ASSETS: | | | | | | | |
| Cash and cash equivalents in commercial banks | $ - | $ 2,119 | $ 2,362 | $ 35 | $ - | $ - | $ 56,632 |
| Cash and cash equivalents in governmental banks | 8,678 | 1,579 | - | 426 | 4,000 | 626 | 19,741 |
| Investments | 120,435 | - | - | - | 17,601 | - | 1,160 |
| Receivables — net: | | | | | | | |
| Insurance premium | - | - | - | - | - | - | - |
| Intergovernmental | - | - | - | - | - | - | - |
| Accounts | - | 13,272 | 400 | 335 | 69 | - | 5,335 |
| Loans and advances | - | - | - | - | - | - | 5,912 |
| Accrued interest | - | - | - | - | - | - | - |
| Other governmental entities | - | 19,824 | 870 | 650 | 4,515 | - | - |
| Other | - | - | 22 | - | 743 | - | - |
| Due from: | | | | | | | |
| Primary government | - | 3,500 | - | - | - | - | - |
| Component units | - | 50,190 | - | - | - | - | - |
| Inventories | - | - | - | - | - | - | - |
| Prepaid expenses | 43 | 5,703 | 381 | - | 134 | - | 7 |
| Total current assets | 129,156 | 96,187 | 4,035 | 1,446 | 27,062 | 626 | 88,787 |
| NONCURRENT ASSETS: | | | | | | | |
| Restricted assets: | | | | | | | |
| Cash and cash equivalents in commercial banks | 4,235 | 33,245 | 1,104 | - | - | - | - |
| Cash and cash equivalents in governmental banks | - | 12,723 | - | - | 3,594 | 12,160 | - |
| Investments | 1,272,847 | - | - | 840 | 500 | - | - |
| Other restricted assets | - | - | - | - | - | 5 | - |
| Investments | - | - | - | - | - | - | 47,621 |
| Receivables: | | | | | | | |
| Loans, interest, and other | 32,887 | - | - | - | - | - | - |
| Other governmental agencies | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - |
| Due from: | | | | | | | |
| Primary government | - | - | - | - | - | - | - |
| Component units | - | - | - | - | - | - | - |
| Property held for sale or future development | - | - | - | - | - | - | - |
| Capital assets, not being depreciated | - | 524,231 | 83 | - | 43,342 | - | 14,152 |
| Capital assets, depreciable — net | - | 655,098 | 20,307 | 8,439 | 127,738 | - | 23,861 |
| Deferred expenses and other assets | 17,613 | 3,959 | - | - | 18 | - | 35,420 |
| Total noncurrent assets | 1,327,582 | 1,229,256 | 21,494 | 9,279 | 175,192 | 12,165 | 121,054 |
| TOTAL ASSETS | $ 1,456,738 | $ 1,325,443 | $ 25,529 | $ 10,725 | $ 202,254 | $ 12,791 | $ 209,841 |

(Continued)

# COMMONWEALTH OF PUERTO RICO

## NON MAJOR DISCETELY PRESENTED COMPONENT UNITS
## COMBINING STATEMENT OF NET ASSETS (DEFICIT)
## JUNE 30, 2009
## (In thousands)

| ASSETS | Puerto Rico Trade and Export Company | Right to Employment Administration | Special Communities Perpetual Trust | State Insurance Fund Corporation | Nonmajor Component Unit Totals |
|---|---|---|---|---|---|
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents in commercial banks | $ 7,204 | $ - | $ - | $ 160,422 | 351,652 |
| Cash and cash equivalents in governmental banks | 4,493 | 560 | 641 | 282,420 | 524,904 |
| Investments | - | - | - | 334,104 | 887,944 |
| Receivables — net: | | | | | |
| Insurance premium | - | - | - | 84,631 | 84,631 |
| Intergovernmental | - | - | - | - | 6,269 |
| Accounts | - | - | - | | 150,603 |
| Loans and advances | - | - | - | - | 74,787 |
| Accrued interest | 1,696 | - | - | 9,614 | 16,945 |
| Other governmental entities | 1,041 | 1,600 | 311 | - | 81,392 |
| Other | - | 27 | - | 19,915 | 41,342 |
| Due from: | | | | | |
| Primary government | - | - | - | - | 101,496 |
| Component units | - | - | - | - | 67,929 |
| Inventories | - | - | - | 7,961 | 24,274 |
| Prepaid expenses | 78 | 152 | - | 574 | 22,968 |
| Total current assets | 14,512 | 2,339 | 952 | 899,641 | 2,437,136 |
| NONCURRENT ASSETS: | | | | | |
| Restricted assets: | | | | | |
| Cash and cash equivalents in commercial banks | 15,489 | - | - | - | 1,953,280 |
| Cash and cash equivalents in governmental banks | 1,344 | - | 255,316 | - | 397,637 |
| Investments | - | - | - | - | 1,388,036 |
| Other restricted assets | - | - | 559 | - | 72,230 |
| Investments | 187,000 | - | - | 903,398 | 1,839,911 |
| Receivables: | | | | | |
| Loans, interest, and other | - | - | - | - | 183,155 |
| Other governmental entities | - | - | - | - | 7,780 |
| Other | - | - | - | - | 9,783 |
| Due from: | | | | | - |
| Primary government | - | - | - | - | - |
| Component units | - | - | - | - | 8,632 |
| Real estate held for sale or future development | 547 | - | - | - | 177,593 |
| Capital assets, not being depreciated | 76,206 | - | - | 13,010 | 2,891,096 |
| Capital assets, depreciable — net | 47,330 | 282 | - | 83,317 | 2,401,626 |
| Deferred expenses and other assets | 226 | - | - | - | 139,041 |
| Total noncurrent assets | 328,142 | 282 | 255,875 | 999,725 | 11,469,800 |
| TOTAL ASSETS | $ 342,654 | $ 2,621 | $ 256,827 | $ 1,899,366 | $ 13,906,936 |

(Continued)

## COMMONWEALTH OF PUERTO RICO

### NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
### COMBINING STATEMENT OF NET ASSETS (DEFICIT)
### JUNE 30, 2009
### (In thousands)

| LIABILITIES AND NET ASSETS (DEFICIT) | Agricultural Services and Development Administration | Automobile Accidents Compensation Administration | Cardiovascular Center Corporation of Puerto Rico and the Caribbean | Company for the Integral Development of the Peninsula de Cantera | Corporation for the "Caño Martín Peña" ENLACE Project | Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico |
|---|---|---|---|---|---|---|
| LIABILITIES: | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable and accrued liabilities | $ 34,645 | $ 15,128 | $ 26,784 | $ 1,386 | $ 340 | $ 166 |
| Deposits and escrow liabilities | - | - | - | - | - | - |
| Due to: | | | | | | |
| Primary government | - | - | 47,226 | - | - | - |
| Component units | 19,135 | - | 10,887 | 3,234 | - | - |
| Other governmental entities | 8,736 | - | 1,547 | - | 662 | 308 |
| Securities lending transactions and reverse repurchase agreements | - | - | - | - | - | - |
| Interest payable | - | - | - | - | - | - |
| Deferred revenue | 236 | 39,106 | - | - | - | - |
| Notes payable, current portion | 11,354 | - | - | - | - | - |
| Commonwealth appropriation bonds, current portion | - | - | - | - | - | - |
| Bonds payable, current portion | - | - | - | - | - | - |
| Accrued compensated absences, current portion | 22,680 | - | 2,931 | 153 | - | 122 |
| Liability for automobile accident insurance and workmen compensation claims | - | 166,352 | 375 | - | - | - |
| Current portion of other long-term liabilities | - | - | - | - | - | - |
| Total current liabilities | 96,786 | 220,586 | 89,750 | 4,773 | 1,002 | 596 |
| Noncurrent liabilities: | | | | | | |
| Due to: | | | | | | |
| Primary government | - | - | - | - | - | - |
| Component units | 127,578 | - | - | - | - | - |
| Securities lending transactions and reverse repurchase agreements | - | - | - | - | - | - |
| Interest payable | - | - | - | - | - | - |
| Deferred revenue | - | - | - | - | - | - |
| Notes payable | - | - | - | - | - | - |
| Commonwealth appropriation bonds | - | - | - | - | - | - |
| Bonds payable | - | - | - | - | - | - |
| Accrued compensated absences | - | - | - | - | - | - |
| Other long-term liabilities | - | - | 1,859 | - | - | - |
| Total noncurrent liabilities | 127,578 | - | 1,859 | - | - | - |
| Total liabilities | 224,364 | 220,586 | 91,609 | 4,773 | 1,002 | 596 |
| NET ASSETS (DEFICIT): | | | | | | |
| Invested in capital assets, net of related debt | - | - | 15,735 | 229 | 190 | - |
| Restricted for: | | | | | | |
| Trust — nonexpendable | - | - | - | - | - | - |
| Capital projects | - | - | - | - | - | - |
| Debt service | - | - | - | - | - | - |
| Affordable housing and related loan insurance programs | - | - | - | - | - | - |
| Student loans and other educational purpose | - | - | - | - | - | - |
| Other specified purposes | - | - | - | 497 | - | 12,517 |
| Unrestricted | (116,131) | (67,938) | (58,516) | 7,600 | 2,537 | 646 |
| Total net assets (deficit) | (116,131) | (67,938) | (42,781) | 8,326 | 2,727 | 13,163 |
| TOTAL LIABILITIES AND NET ASSETS (DEFICIT) | $ 108,233 | $ 152,648 | $ 48,828 | $ 13,099 | $ 3,729 | $ 13,759 |

(Continued)

## COMMONWEALTH OF PUERTO RICO

### NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
### COMBINING STATEMENT OF NET ASSETS (DEFICIT)
### JUNE 30, 2009
### (In thousands)

| LIABILITIES AND NET ASSETS (DEFICIT) | Culebra Conservation and Development Authority | Economic Development Bank for Puerto Rico | Employment and Training Enterprises Corporation | Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental, Control Facilities Financing Authority | Farm Insurance Corporation of Puerto Rico | Fine Arts Center Corporation | Governing Board of the 9-1-1- Service |
|---|---|---|---|---|---|---|---|
| LIABILITIES: | | | | | | | |
| Current liabilities: | | | | | | | |
| Accounts payable and accrued liabilities | $ - | $ - | $ 2,315 | $ 91 | $ 337 | $ 236 | $ 1,938 |
| Deposits and escrow liabilities | - | 351,723 | - | - | - | 277 | - |
| Due to: | | | | | | | |
| Primary government | - | - | - | - | - | - | 6,259 |
| Component units | - | 395 | - | - | - | - | - |
| Other governmental entities | - | - | - | - | 416 | - | 331 |
| Securities lending transactions and reverse repurchase agreements | - | 79,685 | - | - | - | - | - |
| Interest payable | - | 1,280 | - | - | - | - | - |
| Deferred revenue | - | - | 788 | - | 3,934 | 546 | - |
| Notes payable, current portion | - | - | - | - | - | - | - |
| Commonwealth appropriation bonds, current portion | - | - | - | - | - | - | - |
| Bonds payable, current portion | - | - | - | - | - | - | - |
| Accrued compensated absences, current portion | 65 | - | 289 | - | 569 | - | 417 |
| Liability for automobile accident insurance and workmen compensation claims | - | - | - | - | - | - | - |
| Current portion of other long-term liabilities | - | 2,732 | - | - | - | 9 | - |
| Total current liabilities | 65 | 435,815 | 3,392 | 91 | 5,256 | 1,068 | 8,945 |
| Noncurrent liabilities: | | | | | | | |
| Due to: | | | | | | | |
| Primary government | - | - | 7,108 | - | - | - | - |
| Component units | - | 10,756 | - | - | 5,931 | - | - |
| Securities lending transactions and reverse repurchase agreements | - | 104,800 | - | - | - | - | - |
| Interest payable | - | - | - | - | - | - | - |
| Deferred revenue | - | - | - | - | - | - | - |
| Notes payable | - | 293,000 | - | - | - | - | - |
| Commonwealth appropriation bonds | - | - | - | - | - | - | - |
| Bonds payable | - | - | - | - | - | - | - |
| Accrued compensated absences | 38 | 2,476 | - | - | - | 642 | 669 |
| Other long-term liabilities | - | 650 | - | - | - | - | - |
| Total noncurrent liabilities | 38 | 411,682 | 7,108 | - | 5,931 | 642 | 669 |
| Total liabilities | 103 | 847,497 | 10,500 | 91 | 11,187 | 1,710 | 9,614 |
| NET ASSETS (DEFICIT): | | | | | | | |
| Invested in capital assets, net of related debt | 1,011 | (1,241) | - | - | 118 | 15,945 | 2,074 |
| Restricted for: | | | | | | | |
| Trust — nonexpendable | - | - | - | - | - | - | - |
| Capital projects | - | - | - | - | - | 546 | 8,518 |
| Debt service | - | - | - | - | - | - | - |
| Affordable housing and related loan insurance programs | - | - | - | - | - | - | - |
| Student loans and other educational purpose | - | - | - | - | - | - | - |
| Other specified purposes | - | 9,227 | - | - | - | - | 10,199 |
| Unrestricted | 215 | 105,074 | (8,115) | 8,968 | 10,186 | 6,419 | 23,606 |
| Total net assets (deficit) | 1,226 | 113,060 | (8,115) | 8,968 | 10,304 | 22,910 | 44,397 |
| TOTAL LIABILITIES AND NET ASSETS (DEFICIT) | $ 1,329 | $ 960,557 | $ 2,385 | $ 9,059 | $ 21,491 | $ 24,620 | $ 54,011 |

(Continued)

## COMMONWEALTH OF PUERTO RICO

### NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
### COMBINING STATEMENT OF NET ASSETS (DEFICIT)
### JUNE 30, 2009
### (In thousands)

| LIABILITIES AND NET ASSETS (DEFICIT) | Institute of Puerto Rican Culture | Institutional Trust of the National Guard of Puerto Rico | Land Authority of Puerto Rico | Musical Arts Corporation | National Parks Company of Puerto Rico | Public Corporation for the Supervision and Deposit Insurance of PR Cooperatives | Port of the Americas Authority |
|---|---|---|---|---|---|---|---|
| LIABILITIES: | | | | | | | |
| Current liabilities: | | | | | | | |
| Accounts payable and accrued liabilities | $ 2,117 | $ 2,171 | $ 35,893 | $ 4,181 | $ 5,385 | $ 40,366 | $ 17,711 |
| Deposits and escrow liabilities | - | - | 9,870 | - | - | - | - |
| Due to: | | | | | | | |
| Primary government | - | - | - | - | 1,929 | - | - |
| Component units | 17,748 | - | 53,719 | - | 10,808 | - | - |
| Other governmental entities | - | 3 | 14,577 | 167 | - | - | - |
| Securities lending transactions and reverse repurchase agreements | - | - | - | - | - | - | - |
| Interest payable | - | - | 3,196 | - | 383 | - | - |
| Deferred revenue | - | - | 948 | 383 | - | - | - |
| Notes payable, current portion | - | - | 2,121 | - | - | - | - |
| Commonwealth appropriation bonds, current portion | - | - | - | - | - | - | - |
| Bonds payable, current portion | - | - | - | - | - | - | - |
| Accrued compensated absences, current portion | 141 | 125 | 495 | 95 | 296 | 1,517 | - |
| Liability for automobile accident insurance and workmen compensation claims | - | - | - | - | - | - | - |
| Current portion of other long-term liabilities | - | - | 8,984 | - | - | - | - |
| Total current liabilities | 20,006 | 2,299 | 129,803 | 4,826 | 18,801 | 41,883 | 17,711 |
| Noncurrent liabilities: | | | | | | | |
| Due to: | | | | | | | |
| Primary government | - | - | - | - | - | - | - |
| Component units | - | - | - | - | - | - | 181,861 |
| Securities lending transactions and reverse repurchase agreements | - | - | - | - | - | - | - |
| Interest payable | - | - | - | - | - | - | - |
| Deferred revenue | - | - | - | - | - | - | - |
| Notes payable | - | - | 700 | - | - | - | - |
| Commonwealth appropriation bonds | - | - | 76,715 | - | - | - | - |
| Bonds payable | - | - | - | - | - | - | - |
| Accrued compensated absences | 3,064 | - | 919 | 38 | 5,640 | - | - |
| Other long-term liabilities | - | - | - | 3,631 | 4,279 | - | - |
| Total noncurrent liabilities | 3,064 | - | 78,334 | 3,669 | 9,919 | - | 181,861 |
| Total liabilities | 23,070 | 2,299 | 208,137 | 8,495 | 28,720 | 41,883 | 199,572 |
| NET ASSETS (DEFICIT): | | | | | | | |
| Invested in capital assets, net of related debt | 64,650 | 22,558 | 93,735 | 462 | 204,469 | 225 | 21,795 |
| Restricted for: | | | | | | | |
| Trust — nonexpendable | - | - | - | - | - | - | - |
| Capital projects | - | - | - | - | 26,468 | - | - |
| Debt service | 11,277 | - | - | - | - | - | - |
| Affordable housing and related loan insurance programs | - | - | - | - | - | - | - |
| Student loans and other educational purpose | - | 500 | - | - | - | - | - |
| Other specified purposes | 9,056 | 2,500 | 457 | 409 | - | 68,047 | 2,863 |
| Unrestricted | 906 | 62,738 | (114,899) | (6,235) | (23,816) | 73,161 | 7,382 |
| Total net assets (deficit) | 85,889 | 88,296 | (20,707) | (5,364) | 207,121 | 141,433 | 32,040 |
| TOTAL LIABILITIES AND NET ASSETS (DEFICIT) | $ 108,959 | $ 90,595 | $ 187,430 | $ 3,131 | $ 235,841 | $ 183,316 | $ 231,612 |

(Continued)

## COMMONWEALTH OF PUERTO RICO

### NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
### COMBINING STATEMENT OF NET ASSETS (DEFICIT)
### JUNE 30, 2009
### (In thousands)

| LIABILITIES AND NET ASSETS (DEFICIT) | Puerto Rico Conservatory of Music Corporation | Puerto Rico Convention Center District Authority | Puerto Rico Council on Higher Education | Puerto Rico Industrial Development Company | Puerto Rico Infrastructure Financing Authority | Puerto Rico Land Administration | Puerto Rico Maritime Transportation Authority |
|---|---|---|---|---|---|---|---|
| LIABILITIES: | | | | | | | |
| Current liabilities: | | | | | | | |
| Accounts payable and accrued liabilities | $ 1,991 | $ 6,663 | $ 510 | $ 59,502 | $ 179,234 | $ 2,961 | $ 13,455 |
| Deposits and escrow liabilities | - | 3,842 | - | - | - | 2,369 | - |
| Due to: | | | | | | | |
| Primary government | - | - | - | - | 107,039 | - | - |
| Component units | 506 | 151,076 | - | 90,380 | 53,519 | - | 50,316 |
| Other governmental entities | - | - | 65 | 1,854 | - | - | - |
| Securities lending transactions and reverse repurchase agreements | - | - | - | - | - | - | - |
| Interest payable | - | 10,969 | - | 4,534 | 57,093 | - | - |
| Deferred revenue | 692 | 3,465 | - | - | 77 | - | 6,825 |
| Notes payable, current portion | - | - | - | 4,675 | - | - | - |
| Commonwealth appropriation bonds, current portion | - | - | - | - | - | - | - |
| Bonds payable, current portion | - | 6,000 | - | 11,087 | 36,375 | - | - |
| Accrued compensated absences, current portion | 131 | - | - | 5,692 | - | - | - |
| Liability for automobile accident insurance and workmen compensation claims | - | - | - | - | - | - | - |
| Current portion of other long-term liabilities | - | - | - | 190 | - | - | - |
| Total current liabilities | 3,320 | 182,015 | 575 | 177,914 | 433,337 | 5,330 | 70,596 |
| Noncurrent liabilities: | | | | | | | |
| Due to: | | | | | | | |
| Primary government | - | - | - | - | - | - | - |
| Component units | 486 | - | - | - | 32,499 | - | - |
| Securities lending transactions and reverse repurchase agreements | - | - | - | - | - | - | - |
| Interest payable | - | - | - | - | - | - | - |
| Deferred revenue | - | 2,913 | - | - | - | - | - |
| Notes payable | - | - | - | 79,328 | - | - | - |
| Commonwealth appropriation bonds | - | - | - | - | 4,956 | - | - |
| Bonds payable | - | 466,909 | - | 254,551 | 2,997,875 | - | - |
| Accrued compensated absences | 930 | - | 306 | - | - | 853 | - |
| Other long-term liabilities | 1,256 | - | - | 11,559 | - | 42,699 | - |
| Total noncurrent liabilities | 2,672 | 469,822 | 306 | 345,438 | 3,035,330 | 43,552 | - |
| Total liabilities | 5,992 | 651,837 | 881 | 523,352 | 3,468,667 | 48,882 | 70,596 |
| NET ASSETS (DEFICIT): | | | | | | | |
| Invested in capital assets, net of related debt | 51,164 | 52,788 | 358 | 366,015 | (1,116,667) | 9,777 | 37,776 |
| Restricted for: | | | | | | | |
| Trust — nonexpendable | - | - | - | - | 300,000 | - | - |
| Capital projects | 9,968 | - | - | - | - | - | - |
| Debt service | - | - | - | 37,120 | 1,107,698 | - | - |
| Affordable housing and related loan insurance programs | - | - | - | - | - | - | - |
| Student loans and other educational purpose | 986 | - | - | - | - | - | - |
| Other specified purposes | - | 52,737 | 6,787 | - | 539 | - | - |
| Unrestricted | (591) | 40,966 | 1,402 | (17,528) | (410,409) | 241,867 | (67,340) |
| Total net assets (deficit) | 61,527 | 146,491 | 8,547 | 385,607 | (118,839) | 251,644 | (29,564) |
| TOTAL LIABILITIES AND NET ASSETS (DEFICIT) | $ 67,519 | $ 798,328 | $ 9,428 | $ 908,959 | $ 3,349,828 | $ 300,526 | $ 41,032 |

(Continued)

## COMMONWEALTH OF PUERTO RICO

### NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
### COMBINING STATEMENT OF NET ASSETS (DEFICIT)
### JUNE 30, 2009
### (In thousands)

| LIABILITIES AND NET ASSETS (DEFICIT) | Puerto Rico Medical Services Administration | Puerto Rico Metropolitan Bus Authority | Puerto Rico Municipal Finance Agency | Puerto Rico Ports Authority | Puerto Rico Public Broadcasting Corporation | Puerto Rico School of Plastic Arts | Puerto Rico Solid Waste Authority |
|---|---|---|---|---|---|---|---|
| LIABILITIES: | | | | | | | |
| Current liabilities: | | | | | | | |
| Accounts payable and accrued liabilities | $ 52,974 | $ 31,237 | $ 595 | $ 91,974 | $ 1,894 | $ 562 | $ 13,531 |
| Deposits and escrow liabilities | - | - | 118,022 | 1,333 | - | - | - |
| Due to: | | | | | | | |
| Primary government | 66,817 | 3,185 | - | 7,970 | - | - | - |
| Component units | 49,106 | 1,453 | - | 38,832 | - | - | 61,103 |
| Other governmental entities | 69,876 | 1,842 | - | 2,670 | 263 | - | 4,707 |
| Securities lending transactions and reverse repurchase agreements | - | - | - | - | - | - | - |
| Interest payable | - | - | 27,334 | 1,862 | - | - | - |
| Deferred revenue | - | 2,219 | - | 160 | - | - | 4 |
| Notes payable, current portion | - | 4,720 | - | 182,493 | - | - | - |
| Commonwealth appropriation bonds, current portion | - | - | - | - | - | - | - |
| Bonds payable, current portion | - | - | 93,270 | 2,965 | - | - | - |
| Accrued compensated absences, current portion | 13,844 | - | - | 6,213 | 980 | 78 | 482 |
| Liability for automobile accident insurance and workmen compensation claims | - | - | - | - | - | - | - |
| Current portion of other long-term liabilities | 151 | - | - | - | 61 | - | - |
| Total current liabilities | 252,768 | 44,656 | 239,221 | 336,472 | 3,198 | 640 | 79,827 |
| Noncurrent liabilities: | | | | | | | |
| Due to: | | | | | | | |
| Primary government | - | - | - | 34,451 | - | - | - |
| Component units | - | - | 8,546 | 94,876 | - | - | 1,207 |
| Securities lending transactions and reverse repurchase agreements | - | - | - | - | - | - | - |
| Interest payable | - | - | - | - | - | - | - |
| Deferred revenue | - | - | - | 2,127 | - | - | - |
| Notes payable | - | 37,410 | - | 422,956 | - | - | - |
| Commonwealth appropriation bonds | - | - | - | - | - | - | 10,689 |
| Bonds payable | - | - | 1,201,780 | 51,690 | - | - | - |
| Accrued compensated absences | - | - | - | - | 1,532 | 634 | 616 |
| Other long-term liabilities | 7,781 | - | - | 1,847 | 108 | - | - |
| Total noncurrent liabilities | 7,781 | 37,410 | 1,210,326 | 607,947 | 1,640 | 634 | 12,512 |
| Total liabilities | 260,549 | 82,066 | 1,449,547 | 944,419 | 4,838 | 1,274 | 92,339 |
| NET ASSETS (DEFICIT): | | | | | | | |
| Invested in capital assets, net of related debt | 66,525 | 51,519 | - | 398,669 | 20,221 | 8,439 | 105,601 |
| Restricted for: | | | | | | | |
| Trust — nonexpendable | - | - | - | - | - | - | - |
| Capital projects | - | - | - | 23,384 | - | - | - |
| Debt service | - | - | - | 19,138 | - | - | - |
| Affordable housing and related loan insurance programs | - | - | - | - | - | - | - |
| Student loans and other educational purpose | - | - | - | - | - | 840 | - |
| Other specified purposes | 3 | - | - | - | 1,104 | - | 157 |
| Unrestricted | (157,680) | (71,087) | 7,191 | (60,167) | (634) | 172 | 4,157 |
| Total net assets (deficit) | (91,152) | (19,568) | 7,191 | 381,024 | 20,691 | 9,451 | 109,915 |
| TOTAL LIABILITIES AND NET ASSETS (DEFICIT) | $ 169,397 | $ 62,498 | $ 1,456,738 | $ 1,325,443 | $ 25,529 | $ 10,725 | $ 202,254 |

(Continued)

# COMMONWEALTH OF PUERTO RICO

## NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
## COMBINING STATEMENT OF NET ASSETS (DEFICIT)
## JUNE 30, 2009
## (In thousands)

| LIABILITIES AND NET ASSETS (DEFICIT) | Puerto Rico Telephone Authority | Puerto Rico Tourism Company | Puerto Rico Trade and Export Company | Right to Employment Administration | Special Communities Perpetual Trust | State Insurance Fund Corporation | Nonmajor Component Units Totals |
|---|---|---|---|---|---|---|---|
| LIABILITIES: | | | | | | | |
| Current liabilities: | | | | | | | |
| Accounts payable and accrued liabilities | $ 9 | $ 35,234 | $ 6,723 | $ 2,610 | $ 41,728 | $ 148,676 | $ 883,253 |
| Deposits and escrow liabilities | - | - | - | - | - | - | 487,436 |
| Due to: | | | | | | | - |
| Primary government | - | 28,299 | 10,216 | - | - | - | 278,940 |
| Component units | - | 5,947 | - | - | 3,981 | 105,800 | 727,945 |
| Other governmental entities | 598 | - | - | - | - | - | 108,622 |
| Securities lending transactions and reverse repurchase agreements | - | - | - | - | - | 113,573 | 193,258 |
| Interest payable | - | - | 1,574 | - | - | 15,586 | 123,811 |
| Deferred revenue | - | - | - | - | - | 29,728 | 89,111 |
| Notes payable, current portion | - | - | 13,570 | - | - | 3,008 | 221,941 |
| Commonwealth appropriation bonds, current portion | - | - | - | - | - | - | - |
| Bonds payable, current portion | - | - | - | - | - | - | 149,697 |
| Accrued compensated absences, current portion | - | 2,365 | - | - | - | 64,516 | 124,196 |
| Liability for automobile accident insurance and workmen compensation claims | - | - | - | - | - | 186,925 | - 353,652 |
| Current portion of other long-term liabilities | - | - | 63 | - | - | 9,607 | 21,797 |
| Total current liabilities | 607 | 71,845 | 32,146 | 2,610 | 45,709 | 677,419 | 3,763,659 |
| Noncurrent liabilities: | | | | | | | |
| Due to: | | | | | | | |
| Primary government | - | - | - | - | - | - | 41,559 |
| Component units | - | - | - | - | 372,114 | 137,200 | 973,054 |
| Securities lending transactions and reverse repurchase agreements | - | - | - | - | - | - | 104,800 |
| Interest payable | - | - | - | - | - | - | - |
| Deferred revenue | - | - | - | - | - | - | 5,040 |
| Notes payable | - | - | 187,000 | - | - | 43,722 | 1,064,116 |
| Commonwealth appropriation bonds | - | 60,664 | - | - | - | - | 153,024 |
| Bonds payable | - | - | - | - | - | - | 4,972,805 |
| Accrued compensated absences | - | 2,193 | - | 2,972 | - | - | 23,522 |
| Other long-term liabilities | 7,026 | 898 | 3,294 | - | - | 684,265 | 771,152 |
| Total noncurrent liabilities | 7,026 | 63,755 | 190,294 | 2,972 | 372,114 | 865,187 | 8,109,072 |
| Total liabilities | 7,633 | 135,600 | 222,440 | 5,582 | 417,823 | 1,542,606 | 11,872,731 |
| NET ASSETS (DEFICIT): | | | | | | | |
| Invested in capital assets, net of related debt | - | 38,013 | 109,966 | 282 | - | 17,468 | 659,869 |
| Restricted for: | | | | | | | |
| Trust — nonexpendable | - | - | - | - | - | - | 300,000 |
| Capital projects | - | - | - | - | - | | 68,884 |
| Debt service | - | - | - | - | - | - | 1,175,233 |
| Affordable housing and related loan insurance programs | - | - | - | - | 214,147 | - | 214,147 |
| Student loans and other educational purpose | - | - | - | - | - | - | 2,326 |
| Other specified purposes | 4,541 | - | 994 | - | - | - | 182,634 |
| Unrestricted | 617 | 36,228 | 9,254 | (3,243) | (375,143) | 339,292 | (568,888) |
| Total net assets (deficit) | 5,158 | 74,241 | 120,214 | (2,961) | (160,996) | 356,760 | 2,034,205 |
| TOTAL LIABILITIES AND NET ASSETS (DEFICIT) | $ 12,791 | $ 209,841 | $ 342,654 | $ 2,621 | $ 256,827 | $ 1,899,366 | $ 13,906,936 |

See accompanying independent auditors' report.

(Concluded)

## COMMONWEALTH OF PUERTO RICO

### NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
### COMBINING STATEMENT OF ACTIVITIES
### YEAR ENDED JUNE 30, 2009
### (In thousands)

| | | Program Revenues | | | | | General Revenues and Transfers | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Earnings on Investments | Capital Grants and Contributions | Net Revenues (Expenses) and Changes in Net Assets | Payments From Primary Government | Payments from (to) Other Component Units | Grants and Contributions Not Restricted to Specific Programs | Taxes | Interest and Investment Earnings | Other | Change in Net Assets (Deficit) | Net Assets (Deficit), Beginning of Year (as Restated) | Net Assets (Deficit), End of Year |
| Agricultural Services and Development Administration | $ 206,803 | $ 108,960 | $ - | $ - | $ - | $ (97,843) | $ 74,577 | $ - | $ - | $ - | $ - | $20,655 | $ (2,611) | $ (113,520) | $ (116,131) |
| Automobile Accidents Compensation Administration | 169,598 | 86,494 | - | - | - | (83,104) | - | - | - | - | - | - | (83,104) | 15,166 | (67,938) |
| Cardiovascular Center Corporation of Puerto Rico and the Caribbean | 91,002 | 81,123 | - | - | - | (9,879) | 318 | - | - | - | 105 | - | (9,456) | (33,325) | (42,781) |
| Company for the Integral Development of the "Peninsula de Cantera" | 4,238 | - | 2,908 | - | - | (1,330) | 100 | - | 671 | - | 57 | - | (502) | 8,828 | 8,326 |
| Corporation for the "Caño Martin Peña" ENLACE Project | 1,066 | - | 1,386 | - | - | 320 | - | - | - | - | 13 | 14 | 347 | 2,380 | 2,727 |
| Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico | 3,716 | 492 | 687 | - | - | (2,537) | 3,240 | - | - | - | 96 | - | 799 | 12,364 | 13,163 |
| Culebra Conservation and Development Authority | 1,012 | 258 | 16 | - | - | (738) | 709 | - | - | - | - | - | (29) | 1,255 | 1,226 |
| Economic Development Bank for Puerto Rico | 81,922 | 68,322 | - | - | - | (13,600) | - | - | - | - | (3,467) | 1,049 | (16,018) | 129,078 | 113,060 |
| Employment and Training Enterprises Corporation | 6,097 | 4,270 | - | - | - | (1,827) | - | - | 100 | - | 17 | 374 | (1,336) | (6,779) | (8,115) |
| Farm Insurance Corporation of Puerto Rico | 4,334 | 3,200 | 1,895 | - | - | 761 | - | - | - | - | 107 | 95 | 963 | 9,341 | 10,304 |
| Fine Arts Center Corporation | 6,095 | 1,547 | 3,387 | - | 133 | (1,028) | - | - | - | - | 216 | 37 | (775) | 23,685 | 22,910 |
| Governing Board of the 911 Service | 21,667 | 24,145 | - | - | - | 2,478 | - | - | - | - | 625 | (23) | 3,080 | 41,317 | 44,397 |
| Institute of Puerto Rican Culture | 26,424 | - | 18,056 | | 4,163 | (4,205) | 2,404 | - | - | - | - | 531 | (1,270) | 87,159 | 85,889 |
| Institutional Trust of the National Guard of Puerto Rico | 15,066 | 5,457 | - | - | - | (9,609) | - | - | 2,003 | - | 1,874 | - | (5,732) | 94,028 | 88,296 |
| Land Authority of Puerto Rico | 25,651 | 18,355 | - | - | - | (7,296) | - | - | 13,216 | - | 2,445 | - | 8,365 | (29,072) | (20,707) |
| Musical Arts Corporation | 9,533 | 696 | 7,298 | - | - | (1,539) | - | - | - | - | - | 183 | (1,356) | (4,008) | (5,364) |
| National Parks Company of Puerto Rico | 49,327 | 11,215 | - | - | - | (38,112) | 21,681 | - | 3,110 | - | 310 | 771 | (12,240) | 219,361 | 207,121 |
| Port of the Americas Authority | 5,358 | - | - | - | - | (5,358) | 7,426 | - | - | - | 84 | 32 | 2,184 | 29,856 | 32,040 |
| Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives | 35,122 | 15,227 | 2,463 | - | - | (17,432) | - | - | - | - | 7,699 | 42 | (9,691) | 151,124 | 141,433 |
| Puerto Rico Conservatory of Music Corporation | 8,811 | 2,567 | 12,584 | - | 26 | 6,366 | - | - | - | - | - | 125 | 6,491 | 55,036 | 61,527 |
| Puerto Rico Convention Center District Authority | 48,023 | 26,315 | - | - | - | (21,708) | 19,195 | - | - | - | - | 7,288 | 4,775 | 141,716 | 146,491 |
| Puerto Rico Council on Higher Education | 32,113 | 389 | 32,006 | - | - | 282 | - | - | - | - | 93 | 53 | 428 | 8,119 | 8,547 |
| Puerto Rico Industrial Development Company | 101,367 | 72,032 | - | - | 12,350 | (16,985) | - | - | - | - | 2,735 | 8,278 | (5,972) | 391,579 | 385,607 |
| Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority | 51 | - | - | - | - | (51) | - | - | - | - | 85 | 206 | 240 | 8,728 | 8,968 |
| Puerto Rico Infrastructure Financing Authority | 741,616 | - | 91,683 | 555,108 | - | (94,825) | 2,385 | (154,222) | - | - | 97 | - | (246,565) | 127,726 | (118,839) |
| Puerto Rico Land Administration | 8,269 | 7,363 | - | - | - | (906) | - | - | - | - | 2,057 | 18 | 1,169 | 250,475 | 251,644 |
| Puerto Rico Maritime Transportation Authority | 33,314 | 4,172 | 22,669 | - | 12,371 | 5,898 | - | - | - | - | 4 | (163) | 5,739 | (35,303) | (29,564) |
| Puerto Rico Medical Services Administration | 223,070 | 150,120 | - | - | - | (72,950) | 40,177 | - | - | - | 134 | (21) | (32,660) | (58,492) | (91,152) |
| Puerto Rico Metropolitan Bus Authority | 90,584 | 24,403 | 33,416 | - | 2,500 | (30,265) | - | - | - | - | 27 | 8,777 | (21,461) | 1,893 | (19,568) |
| Puerto Rico Municipal Finance Agency | 67,719 | - | - | - | - | (67,719) | - | - | - | - | 23,297 | - | (44,422) | 51,613 | 7,191 |
| Puerto Rico Ports Authority | 220,296 | 139,712 | - | - | 31,811 | (48,773) | 4,566 | - | - | - | - | 17,007 | (27,200) | 408,224 | 381,024 |
| Puerto Rico Public Broadcasting Corporation | 28,868 | 1,664 | 23,699 | - | 133 | (3,372) | - | - | - | - | 65 | 237 | (3,070) | 23,761 | 20,691 |
| Puerto Rico School of Plastic Arts | 6,482 | 829 | 5,444 | - | - | (209) | - | - | - | - | 1 | - | (208) | 9,659 | 9,451 |
| Puerto Rico Solid Waste Authority | 16,087 | 2,408 | - | - | - | (13,679) | - | - | 5,148 | - | 400 | - | (8,131) | 118,046 | 109,915 |
| Puerto Rico Telephone Authority | 10,030 | - | - | - | - | (10,030) | - | - | - | - | 433 | 7,337 | (2,260) | 7,418 | 5,158 |
| Puerto Rico Tourism Company | 126,378 | 171,135 | - | - | - | 44,757 | - | (71,321) | - | 16,353 | 6,034 | - | (4,177) | 78,418 | 74,241 |
| Puerto Rico Trade and Export Company | 50,396 | 32,601 | 4,180 | - | - | (13,615) | - | - | - | - | 281 | 2,581 | (10,753) | 130,967 | 120,214 |
| Right to Employment Administration | 21,343 | - | 18,130 | - | - | (3,213) | - | - | - | - | 24 | 1,188 | (2,001) | (960) | (2,961) |
| Special Communities Perpetual Trust | 128,830 | - | 13,369 | - | - | (115,461) | 61,807 | - | - | - | - | - | (53,654) | (107,342) | (160,996) |
| State Insurance Fund Corporation | 794,228 | 602,984 | - | - | - | (191,244) | (34,072) | - | - | - | 54,891 | - | (170,425) | 527,185 | 356,760 |
| Total nonmajor component units | $3,521,906 | $1,668,455 | $295,276 | $555,108 | $63,487 | $(939,580) | $204,513 | $(225,543) | $24,248 | $16,353 | $ 100,839 | $76,671 | $ (742,499) | $ 2,776,704 | $ 2,034,205 |

See accompanying independent auditor's report.

# STATISTICAL SECTION

## STATISTICAL SECTION (UNAUDITED)

This part of the Commonwealth of Puerto Rico's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth's overall financial health.

Contents Pages

Financial Trends 228-232

These schedules contain trend information to help the reader understand how the Commonwealth's financial performance and well being have changed over time.

Revenue Capacity 233-234

This schedule contains information to help the reader assess the Commonwealth's most significant local revenue sources.

Debt Capacity 235–236

These schedules present information to help the reader assess the affordability of the Commonwealth's current levels of outstanding debt and the Commonwealth's ability to issue additional debt in the future.

Demographic and Economic Information 237-239

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Commonwealth's financial activities take place.

Operating Information 240

This schedule contains service data to help the reader understand how the information in the Commonwealth's financial report relates to the services the government provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules are derived from the comprehensive annual financial reports for the relevant year.

# COMMONWEALTH OF PUERTO RICO

## CHANGES IN NET ASSETS (DEFICIT) (UNAUDITED)
## LAST EIGHT FISCAL YEARS
## ACCRUAL BASIS OF ACCOUNTING
## (In thousands)

| | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| Expenses: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| General government | $ 2,460,391 | $ 2,592,834 | $ 2,847,596 | $ 2,844,494 | $ 1,827,816 | $ 1,963,879 | $ 2,324,715 | $ 1,429,265 |
| Public safety | 2,247,480 | 2,161,265 | 1,983,782 | 2,217,294 | 2,580,951 | 1,950,635 | 1,606,272 | 1,883,061 |
| Health | 2,858,750 | 2,471,960 | 1,943,582 | 1,422,813 | 2,364,110 | 2,386,735 | 1,903,811 | 1,990,852 |
| Public housing and welfare | 3,560,871 | 3,194,945 | 3,157,877 | 3,287,559 | 3,443,886 | 2,919,315 | 3,239,366 | 2,803,742 |
| Education | 5,280,249 | 4,571,722 | 4,748,008 | 4,110,669 | 5,000,686 | 3,684,331 | 3,375,815 | 3,477,373 |
| Economic development | 779,449 | 471,640 | 554,271 | 564,447 | 1,006,945 | 896,925 | 451,945 | 632,083 |
| Payment of obligations of component units | 136,415 | - | - | - | - | - | - | - |
| Intergovernmental | 613,033 | 474,023 | 593,264 | 440,390 | - | 591,237 | 466,762 | 467,957 |
| Interest and other | 1,128,918 | 1,086,906 | 863,723 | 882,163 | 845,556 | 778,700 | 671,228 | 646,120 |
| Total governmental activities | 19,065,556 | 17,025,295 | 16,692,103 | 15,769,829 | 17,069,950 | 15,171,757 | 14,039,914 | 13,330,453 |
| Business-type activities: | | | | | | | | |
| Lotteries | 467,788 | 699,005 | 679,274 | 670,425 | 699,407 | 731,344 | 695,888 | 603,768 |
| Unemployment | 723,287 | 269,924 | 192,484 | 207,483 | 197,967 | 142,652 | 343,243 | 331,754 |
| Other | 31,947 | 28,738 | 26,860 | 25,043 | 32,437 | 26,763 | 22,385 | 16,902 |
| Total business-type activities | 1,223,022 | 997,667 | 898,618 | 902,951 | 929,811 | 900,759 | 1,061,516 | 952,424 |
| Total primary government expenses | 20,288,578 | 18,022,962 | 17,590,721 | 16,672,780 | 17,999,761 | 16,072,516 | 15,101,430 | 14,282,877 |
| Program revenue: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| Charges for services | 758,427 | 664,505 | 757,724 | 828,993 | 702,691 | 769,207 | 757,116 | 535,423 |
| Operating grants and contributions | 5,541,715 | 4,311,592 | 4,773,174 | 4,365,711 | 4,096,204 | 1,038,776 | 3,830,639 | 3,400,729 |
| Capital grants and contributions | 110,847 | 137,916 | 257,514 | 100,990 | 121,083 | 2,592,055 | 173,644 | 187,512 |
| Total governmental activities | 6,410,989 | 5,114,013 | 5,788,412 | 5,295,694 | 4,919,978 | 4,400,038 | 4,761,399 | 4,123,664 |
| Business activities: | | | | | | | | |
| Charges for services | 1,206,080 | 1,161,084 | 1,140,539 | 1,149,426 | 1,187,009 | 1,136,705 | 1,132,285 | 1,021,070 |
| Operating grants and contributions | 245,770 | 77,803 | 43,480 | 59,613 | 22,315 | 59,728 | 97,033 | 26,509 |
| Total business-type activities | 1,451,850 | 1,238,887 | 1,184,019 | 1,209,039 | 1,209,324 | 1,196,433 | 1,229,318 | 1,047,579 |
| Net (expense) revenue: | | | | | | | | |
| Governmental activities | (12,654,567) | (11,911,282) | (10,903,691) | (10,474,135) | (12,149,972) | (10,771,719) | (9,278,515) | (9,206,789) |
| Business-type activities | 228,828 | 241,220 | 285,401 | 306,088 | 279,513 | 295,674 | 167,802 | 95,155 |
| Total primary government net expense | $ (12,425,739) | $ (11,670,062) | $ (10,618,290) | $ (10,168,047) | $ (11,870,459) | $ (10,476,045) | $ (9,110,713) | $ (9,111,634) |

(Continued)

# COMMONWEALTH OF PUERTO RICO

## CHANGES IN NET ASSETS (DEFICIT) (UNAUDITED)
## LAST EIGHT FISCAL YEARS
## ACCRUAL BASIS OF ACCOUNTING
## (In thousands)

| | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| General revenue: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| Taxes: | | | | | | | | |
| Income | $ 5,424,476 | $ 5,493,881 | $ 6,488,211 | $ 6,255,391 | $ 5,526,006 | $ 5,191,080 | $ 4,941,128 | $ 4,446,570 |
| Excise | 1,118,283 | 1,318,866 | 1,475,311 | 2,013,998 | 2,101,216 | 1,924,610 | 1,894,729 | 1,713,098 |
| Sales and use tax | 1,089,073 | 910,609 | 583,639 | - | - | - | - | - |
| Other | 103,348 | 11,356 | 4,663 | 15,145 | 7,128 | 19,211 | 3,055 | 104,517 |
| Revenue from global settlement agreement | 90,073 | 82,608 | 69,604 | 66,796 | 106,521 | 70,420 | 101,849 | 37,153 |
| Unrestricted investment earnings | 114,699 | 160,926 | 176,674 | 117,080 | 116,686 | 60,585 | 85,565 | 90,940 |
| Revenue from component units | 386,182 | 74,389 | 311,732 | 68,745 | 474,069 | 175,729 | 111,752 | 228,118 |
| Grants and contributions not restricted to specific programs | 115,176 | 120,006 | 135,916 | 196,721 | 102,691 | 5,706 | 103,423 | 46,117 |
| Payment from agency fund | - | - | - | - | - | - | - | 129,000 |
| Special items | 175,102 | 3,749,348 | - | (2,485) | - | (35,646) | (203,514) | 123,785 |
| Gain on sale of assets | - | - | - | 19,588 | - | - | - | - |
| Transfers | 251,170 | 309,815 | 342,743 | 242,642 | 492,796 | 203,258 | 279,060 | 187,183 |
| Other | 96,696 | 299,631 | 71,187 | 203,525 | 322,185 | 384,719 | 214,381 | 472,642 |
| Total governmental activities | 8,964,278 | 12,531,435 | 9,659,680 | 9,197,146 | 9,249,298 | 7,999,672 | 7,531,428 | 7,579,123 |
| Business-type activities: | | | | | | | | |
| Unrestricted investments earnings | 20,036 | 35,423 | 37,177 | 33,165 | 32,284 | 23,831 | 77,362 | 36,455 |
| Revenue from component units | - | - | - | - | - | - | 1,038 | 3,370 |
| Grants and contributions not restricted to specifi | - | - | - | - | - | - | - | 44,320 |
| Transfers | (251,170) | (309,815) | (342,743) | (242,642) | (492,796) | (203,258) | (279,060) | (187,183) |
| Total business-type activities | (231,134) | (274,392) | (305,566) | (209,477) | (460,512) | (179,427) | (200,660) | (103,038) |
| Total primary government | 8,733,144 | 12,257,043 | 9,354,114 | 8,987,669 | 8,788,786 | 7,820,245 | 7,330,768 | 7,476,085 |
| Change in net assets: | | | | | | | | |
| Governmental activities | (3,690,289) | 620,153 | (1,244,011) | (1,276,989) | (2,900,674) | (2,772,047) | (1,747,087) | (1,627,666) |
| Business-type activities | (2,306) | (33,172) | (20,165) | 96,611 | (180,999) | 116,247 | (32,858) | (7,883) |
| Total primary government | $ (3,692,595) | $ 586,981 | $ (1,264,176) | $ (1,180,378) | $ (3,081,673) | $ (2,655,800) | $ (1,779,945) | $ (1,635,549) |

Information for these schedules was not available for fiscal periods prior to 2002 because was not required prior to adoption of GASB Statement No. 34 (Concluded)

# COMMONWEALTH OF PUERTO RICO

## NET ASSETS (DEFICIT) BY COMPONENT (UNAUDITED)
## LAST EIGHT FISCAL YEARS
## ACCRUAL BASIS OF ACCOUNTING
## (In thousands)

| | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| Governmental activities: | | | | | | | | |
| Invested in capital assets — net of related debt | $ 3,888,495 | $ 3,979,308 | $ 3,635,271 | $ 3,485,882 | $ 3,774,098 | $ 3,133,230 | $ 1,969,864 | $ 1,909,137 |
| Restricted | 979,094 | 713,814 | 331,051 | 280,078 | 296,692 | | 19,749 | 4,616 |
| Unrestricted deficit | (32,053,838) | (22,385,747) | (22,405,216) | (20,975,523) | (19,987,579) | (16,789,576) | (13,942,397) | (12,085,385) |
| Total governmental activities net assets (deficit) | $ (27,186,249) | $ (17,692,625) | $ (18,438,894) | $ (17,209,563) | $ (15,916,789) | $ (13,656,346) | $ (11,952,784) | $ (10,171,632) |
| Business-type activities: | | | | | | | | |
| Invested in capital assets — net of related debt | $ 682 | $ 674 | $ 674 | $ 1,008 | $ 847 | $ 1,672 | $ 1,895 | $ 310 |
| Restricted | 29,209 | 33,803 | 910,479 | 947,507 | 872,215 | 853,194 | 736,947 | 769,804 |
| Unrestricted net assets (deficit) | 810,038 | 689,686 | (153,818) | (171,015) | (202,212) | (3,037) | (3,260) | (1,675) |
| Total business-type activities net assets | $ 839,929 | $ 724,163 | $ 757,335 | $ 777,500 | $ 670,850 | $ 851,829 | $ 735,582 | $ 768,439 |
| Primary government: | | | | | | | | |
| Invested in capital assets — net of related debt | $ 3,889,177 | $ 3,979,982 | $ 3,635,945 | $ 3,486,890 | $ 3,774,945 | $ 3,134,902 | $ 1,971,759 | $ 1,909,447 |
| Restricted | 1,008,303 | 747,617 | 1,241,530 | 1,227,585 | 1,168,907 | 853,194 | 756,696 | 774,420 |
| Unrestricted deficit | (31,243,800) | (21,696,061) | (22,559,034) | (21,146,538) | (20,189,791) | (16,792,613) | (13,945,657) | (12,087,060) |
| Total primary government net assets (deficit) | $ (26,346,320) | $ (16,968,462) | $ (17,681,559) | $ (16,432,063) | $ (15,245,939) | $ (12,804,517) | $ (11,217,202) | $ (9,403,193) |

# COMMONWEALTH OF PUERTO RICO

## CHANGES IN FUND BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS (UNAUDITED)
## ALL GOVERNMENTAL FUND TYPES
## LAST TEN FISCAL YEARS
## (In thousands)

| | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| REVENUES: | | | | | | | | | | |
| Taxes: | | | | | | | | | | |
| Income | $ 5,191,042 | $ 5,493,881 | $ 6,389,973 | $ 6,181,995 | $ 5,564,673 | $ 5,061,761 | $ 4,874,795 | $ 4,843,852 | $ 4,536,840 | $ 4,967,138 |
| Excise | 1,118,283 | 1,306,416 | 1,475,311 | 2,013,998 | 2,101,216 | 1,924,610 | 1,894,729 | 1,713,098 | 1,788,992 | 1,736,539 |
| Sales and use tax | 1,081,918 | 910,609 | 583,639 | - | - | - | - | - | - | - |
| Other | 103,348 | 11,356 | 4,663 | 15,145 | 7,128 | 19,211 | 3,055 | 1,963 | 92,024 | 87,523 |
| Charges for services | 758,427 | 664,505 | 757,724 | 828,993 | 702,691 | 750,978 | 780,905 | 535,423 | 645,806 | 617,020 |
| Intergovernmental | 5,767,738 | 4,569,457 | 5,166,604 | 4,663,422 | 4,319,977 | 3,654,766 | 4,107,706 | 3,634,358 | 3,807,049 | 2,971,528 |
| Interest | 114,699 | 160,926 | 176,674 | 117,080 | 116,686 | 58,914 | 85,565 | 90,940 | 67,020 | 91,525 |
| Other | 540,854 | 455,439 | 434,024 | 334,591 | 869,338 | 629,426 | 436,668 | 839,240 | 270,711 | 383,548 |
| Total revenues all governmental fund types | 14,676,309 | 13,572,589 | 14,988,612 | 14,155,224 | 13,681,709 | 12,099,666 | 12,183,423 | 11,658,874 | 11,208,442 | 10,854,821 |
| EXPENDITURES: | | | | | | | | | | |
| General government | 1,512,909 | 1,769,498 | 2,537,999 | 2,489,093 | 1,675,428 | 1,777,365 | 1,774,156 | 1,279,750 | 739,009 | 853,040 |
| Public safety | 2,071,001 | 2,134,919 | 1,864,256 | 2,108,152 | 2,409,668 | 1,765,199 | 1,424,846 | 1,659,280 | 1,623,362 | 1,310,322 |
| Health | 2,762,476 | 2,345,650 | 1,948,201 | 1,429,888 | 2,344,522 | 2,176,741 | 1,908,717 | 1,983,727 | 954,563 | 972,757 |
| Public housing and welfare | 3,428,546 | 3,098,684 | 3,048,585 | 3,130,373 | 3,320,849 | 2,738,016 | 2,953,189 | 2,726,129 | 2,315,899 | 2,102,410 |
| Education | 5,053,505 | 4,432,880 | 4,400,321 | 4,101,980 | 4,177,664 | 3,474,013 | 3,297,248 | 3,343,002 | 2,308,479 | 2,436,267 |
| Economic development | 688,460 | 415,976 | 533,253 | 516,444 | 706,066 | 868,926 | 428,621 | 637,794 | 170,937 | 337,255 |
| Intergovernmental | 613,033 | 470,395 | 593,247 | 409,727 | - | 528,829 | 465,699 | 466,169 | 222,721 | 373,016 |
| Capital outlays | 352,582 | 429,238 | 512,824 | 502,348 | 665,630 | 581,788 | 1,184,976 | 507,634 | 1,020,344 | 833,597 |
| Payments of obligations of component units | 136,415 | - | - | - | - | - | - | - | - | - |
| Debt service: | | | | | | | | | | |
| Principal | 482,742 | 2,163,704 | 904,604 | 446,281 | 391,554 | 526,572 | 330,346 | 2,062,059 | 466,467 | 416,369 |
| Interest and other | 1,094,142 | 1,037,136 | 814,723 | 822,234 | 733,931 | 737,502 | 1,158,749 | 614,347 | 545,001 | 444,595 |
| Total expenditures all governmental fund types | 18,195,811 | 18,298,080 | 17,158,013 | 15,956,520 | 16,425,312 | 15,174,951 | 14,926,547 | 15,279,891 | 10,366,782 | 10,079,628 |
| OTHER FINANCING SOURCES (USES): | | | | | | | | | | |
| Transfers in | 9,974,368 | 1,305,040 | 1,165,075 | 1,423,240 | 1,745,992 | 1,034,090 | 1,664,278 | 966,935 | 756,229 | 1,026,581 |
| Transfers out | (9,723,198) | (995,225) | (822,332) | (1,180,598) | (1,253,216) | (830,832) | (1,385,218) | (779,752) | (2,864,056) | (2,646,732) |
| Long-term debt issued | 5,965,925 | 1,921,363 | 1,140,356 | 1,518,355 | 1,619,562 | 3,001,116 | 2,241,190 | 3,107,821 | 834,396 | 474,471 |
| Discount on bonds issued | (63,715) | (4,060) | - | (323) | (6,078) | (23,061) | (36,204) | (16,075) | - | - |
| Capital leases | 292 | 43,850 | 2,975 | 4,580 | 847 | 2,300 | 58,897 | - | - | - |
| Refunding bonds issued | 237,875 | 2,086,240 | 379,498 | - | - | 2,372,689 | 1,754,686 | 1,636,838 | 329,370 | 54,645 |
| Sale of capital assets | 158,940 | - | - | - | - | - | - | - | - | - |
| Upfront fee on swap agreements | 35,980 | - | - | - | - | - | - | - | - | - |
| Termination fee on swap agreements | (74,671) | - | - | - | - | - | - | - | - | - |
| Payment for refunding of bonds | (183,000) | - | - | - | - | - | - | - | - | - |
| Bond proceeds— premium | 34,842 | - | - | - | - | - | - | - | - | - |
| Special Item: payment of debt by COFINA | - | 3,749,348 | - | - | - | - | - | - | - | - |
| Special Item: escrow restructuring | 175,102 | - | - | - | - | - | - | - | - | - |
| Payment to refunded bond escrow agent | - | (4,507,828) | - | - | - | (2,316,910) | (1,754,686) | (1,665,811) | (227,369) | (54,645) |
| Other | - | 106,107 | - | 54,135 | - | - | - | 327,785 | - | - |
| Total other financing sources all governmental fund types | 6,538,740 | 3,704,835 | 1,865,572 | 1,819,389 | 2,107,107 | 3,239,392 | 2,542,943 | 3,577,741 | (1,171,430) | (1,145,680) |
| NET CHANGE IN FUND BALANCES (DEFICIT) | $ 3,019,238 | $ (1,020,656) | $ (303,829) | $ 18,093 | $ (636,496) | $ 164,107 | $ (200,181) | $ (43,276) | $ (329,770) | $ (370,487) |

The annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation, collected by the Municipal Revenue Collection Center on the Commonwealth's behalf, is presented as intergovernmental revenue from 2002 henceforth but as property tax in prior years.

In 2002, the Commonwealth adopted GASB No. 34. This statement requires that component units be included as expenditure by function. In prior years, such payments were reported as operating transfers-out to component units.

# COMMONWEALTH OF PUERTO RICO

## FUND BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS (UNAUDITED)
## LAST EIGHT FISCAL YEARS
## MODIFIED-ACCRUAL BASIS OF ACCOUNTING
## (In thousands)

| | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|
| General fund: | | | | | | | | |
| Reserved | $ 1,247,211 | $ 723,634 | $ 993,320 | $ 770,628 | $ 810,314 | $ 1,102,232 | $ 262,758 | $ 366,588 |
| Unreserved deficit | (2,682,838) | (2,494,519) | (1,504,478) | (1,154,383) | (1,321,585) | (1,468,182) | (342,941) | (193,131) |
| Total general fund | $(1,435,627) | $(1,770,885) | $ (511,158) | $ (383,755) | $ (511,271) | $ (365,950) | $ (80,183) | $ 173,457 |
| All other governmental funds: | | | | | | | | |
| Reserved | $ 2,053,409 | $ 11,667 | $ 125,756 | $ 73,346 | $ 45,546 | $ 72,455 | $ 33,047 | $ 72,455 |
| Unreserved reported in: | | | | | | | | |
| Debt service funds | 668,132 | 127,577 | 131,782 | 143,732 | 156,564 | 119,830 | 168,928 | 120,216 |
| Special revenue funds | 249,891 | 200,929 | 137,286 | 358,452 | 256,949 | 449,455 | 506,252 | 378,852 |
| Capital project funds | 424,480 | 520,576 | 223,443 | 219,163 | 437,923 | 744,577 | 228,215 | 356,201 |
| Total all other governmental funds | $ 3,395,912 | $ 860,749 | $ 618,267 | $ 794,693 | $ 896,982 | $ 1,386,317 | $ 936,442 | $ 927,724 |

# COMMONWEALTH OF PUERTO RICO

## GENERAL FUND NET REVENUES FOR THE LAST TEN FISCAL YEARS (UNAUDITED)
## (In thousands)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| Administrative measures | $ - | $ - | $ 244,097 | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Excises on off-shore shipments rum | 245,750 | 286,890 | 314,253 | 309,958 | 328,921 | 341,166 | 346,272 | 377,872 | 356,827 | 404,265 |
| Custom duties | 50,231 | 43,154 | 30,595 | 25,918 | 34,266 | 26,731 | 9,553 | 14,504 | 4,846 | 3,269 |
| From noninternal revenues | 295,981 | 330,044 | 588,945 | 335,876 | 363,187 | 367,897 | 355,825 | 392,376 | 361,673 | 407,534 |
| Miscellaneous | 169,246 | 210,665 | 238,116 | 314,857 | 379,501 | 430,534 | 331,803 | 330,064 | 466,742 | 284,436 |
| Transfer from nonbudgeted funds | - | 89,093 | 80,000 | 123,600 | - | - | - | - | - | - |
| Electronic lottery | 70,209 | 70,211 | 57,897 | 89,443 | 86,115 | 68,011 | 55,212 | 71,815 | 105,298 | 75,213 |
| Traditional lottery | 63,779 | 57,482 | 61,358 | 67,621 | 65,387 | 64,638 | 62,729 | 73,014 | 46,636 | 51,480 |
| Nontax revenues | 303,234 | 427,451 | 437,371 | 595,521 | 531,003 | 563,183 | 449,744 | 474,893 | 618,676 | 411,129 |
| Alcoholic beverages and others | 14,123 | 15,182 | 14,805 | 13,518 | 14,200 | 14,528 | 14,804 | 15,179 | 16,014 | 14,307 |
| Entertainment machines | 10,545 | 11,322 | 12,874 | 13,932 | 14,393 | 15,019 | 16,981 | 16,930 | 19,682 | 19,263 |
| Motor vehicles | 49,133 | 49,834 | 54,896 | 58,426 | 55,638 | 55,669 | 59,525 | 65,501 | 51,994 | 62,853 |
| Licenses | 73,801 | 76,338 | 82,575 | 85,876 | 84,231 | 85,216 | 91,310 | 97,610 | 87,690 | 96,423 |
| Others | 15,194 | 16,686 | 64,626 | 20,539 | 24,334 | 29,927 | 25,681 | 20,235 | 7,224 | 5,159 |
| Hotel rooms | 17,275 | - | - | 9,056 | - | - | - | - | - | - |
| 5% general excise tax | 525,561 | 508,972 | 486,302 | 505,709 | 535,381 | 557,323 | 551,723 | 193,949 | - | - |
| Crude oil and derived products | 24,786 | 1,901 | 38,619 | 12,925 | - | - | - | - | - | - |
| Slot machines | 30,869 | - | 36,953 | 90,018 | 76,966 | 85,513 | 23,167 | 23,128 | 23,492 | 23,764 |
| Cement | 2,531 | 2,707 | 3,426 | 3,279 | 3,432 | 3,228 | 2,919 | 2,627 | 2,054 | 1,555 |
| Insurance premiums | 21,564 | 22,845 | 24,290 | 26,771 | 27,217 | 28,324 | 43,055 | 39,052 | 42,060 | 26,816 |
| Horse races | 26,351 | 18,893 | 22,033 | 28,872 | 28,865 | 31,463 | 30,786 | 29,321 | 26,783 | 25,245 |
| Motor vehicle | 389,995 | 406,252 | 418,024 | 499,252 | 551,181 | 606,662 | 533,957 | 396,667 | 366,341 | 310,920 |
| Petroleum products | 4,689 | 7,046 | 5,095 | 5,860 | 4,934 | 5,143 | 5,146 | 6,028 | 8,401 | 4,335 |
| Cigarettes | 115,157 | 119,135 | 116,055 | 149,487 | 144,733 | 146,527 | 135,267 | 132,399 | 119,124 | 129,429 |
| General taxes — total | 1,173,972 | 1,104,437 | 1,215,423 | 1,351,768 | 1,397,043 | 1,494,110 | 1,351,701 | 843,406 | 595,479 | 527,223 |

(Continued)

# COMMONWEALTH OF PUERTO RICO

## GENERAL FUND NET REVENUES FOR THE LAST TEN FISCAL YEARS (UNAUDITED)
## (In thousands)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| Other beverages | $ 16,884 | $ 13,101 | $ 18,234 | $ 17,884 | $ 17,428 | $ 19,692 | $ 18,745 | $ 18,932 | $ 19,026 | $ 19,248 |
| Beer | 170,065 | 177,448 | 179,737 | 223,309 | 217,568 | 221,902 | 219,379 | 207,813 | 198,879 | 203,386 |
| Distilled spirits | 49,425 | 46,963 | 51,734 | 58,389 | 61,306 | 56,641 | 54,056 | 52,283 | 50,189 | 54,767 |
| Alcoholic beverages — total | 236,374 | 237,512 | 249,705 | 299,582 | 296,302 | 298,235 | 292,180 | 279,028 | 268,094 | 277,401 |
| Excise taxes — total | 1,410,346 | 1,341,949 | 1,465,128 | 1,651,350 | 1,693,345 | 1,792,345 | 1,643,881 | 1,122,434 | 863,573 | 804,624 |
| Sales and use tax | | | | | | | | 582,560 | 911,000 | 797,194 |
| Inheritance and gift taxes | 3,109 | 7,475 | 1,962 | 2,825 | 15,691 | 7,129 | 9,466 | 4,663 | 6,600 | 5,064 |
| Taxes on dividends to 10% | 39,664 | 58,580 | 62,548 | 49,790 | 70,192 | 80,398 | 66,721 | 138,859 | 59,770 | 48,663 |
| Interest subject to 17% | 11,674 | 14,782 | 14,310 | 11,278 | 10,108 | 10,489 | 11,536 | 12,112 | 13,657 | 11,738 |
| Tollgate tax | 111,130 | 49,511 | 59,515 | 45,321 | 31,579 | 22,973 | 27,396 | 25,083 | 21,610 | 19,372 |
| Withholding to nonresidents | 557,276 | 696,835 | 583,256 | 517,141 | 631,100 | 612,005 | 921,260 | 933,728 | 1,087,782 | 1,081,739 |
| Partnerships | 2,339 | 3,026 | 2,670 | 2,101 | 3,005 | 3,245 | 2,787 | 2,960 | 1,942 | 1,839 |
| Corporations | 1,781,862 | 1,696,766 | 1,706,137 | 1,776,985 | 1,831,027 | 1,870,937 | 1,872,458 | 2,002,718 | 1,565,534 | 1,375,596 |
| Individuals | 2,352,066 | 2,259,090 | 2,449,982 | 2,767,678 | 2,720,920 | 2,885,903 | 3,087,748 | 3,071,655 | 2,759,305 | 2,648,261 |
| Income taxes — total | 4,859,120 | 4,786,065 | 4,880,380 | 5,173,119 | 5,313,622 | 5,493,079 | 5,999,372 | 6,774,338 | 6,427,200 | 5,989,466 |
| Property taxes | 1,131 | 287 | - | - | - | 3,949 | 1,106 | 800 | 219 | 1,011 |
| Tax revenues | 6,344,398 | 6,204,639 | 6,428,083 | 6,910,345 | 7,091,198 | 7,374,589 | 7,735,669 | 7,995,182 | 7,378,682 | 6,891,524 |
| From internal revenues | 6,647,632 | 6,632,090 | 6,865,454 | 7,505,866 | 7,622,201 | 7,937,772 | 8,185,413 | 8,470,075 | 7,997,358 | 7,302,653 |
| Total | $6,943,613 | $6,962,134 | $7,454,399 | $7,841,742 | $7,985,388 | $8,305,669 | $8,541,238 | $8,862,451 | $8,359,031 | $7,710,187 |

Note: The net revenue presented above include the actual revenue and the operating transfers-in from other funds presented in the statement of revenues and expenditures — budget and actual — budget basis. (Concluded)
Source: Puerto Rico Treasury Department.

# COMMONWEALTH OF PUERTO RICO

## LEGAL DEBT MARGIN INFORMATION (UNAUDITED)
## LAST TEN FISCAL YEARS
## (In thousands)

| | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Internal revenue average for two years | $7,650,006 | $8,233,717 | $ 8,327,744 | $8,061,593 | $7,779,987 | $7,564,034 | $7,185,660 | $6,748,772 | $6,639,861 | $6,459,512 |
| Legal debt limit — 15% of internal revenue average for two years | 1,147,501 | 1,235,058 | 1,249,162 | 1,209,239 | 1,166,998 | 1,134,605 | 1,077,849 | 1,012,316 | 995,979 | 968,927 |
| Maximum debt service requirement | 785,298 | 785,298 | 719,927 | 680,742 | 630,685 | 598,547 | 599,611 | 521,035 | 588,359 | 561,918 |
| Additional legal debt service requirement margin | 362,203 | 449,760 | 529,235 | 528,497 | 536,313 | 536,058 | 478,238 | 491,281 | 407,620 | 407,009 |
| Total maximum debt service requirement as a percentage of internal revenue average for two years | 10.27 % | 9.60 % | 8.64 % | 8.44 % | 8.11 % | 7.91 % | 8.34 % | 7.72 % | 8.86 % | 8.70 % |

| | |
|---|---|
| Legal debt margin calculation for fiscal year 2009: | |
| Internal revenue for the year ended June 30, 2008 | $ 7,997,358 |
| Internal revenue for the year ended June 30, 2009 | 7,302,653 |
| Total internal revenue for the years ended June 30, 2008 and 2009 | 15,300,011 |
| Internal revenue average for the two years | 7,650,006 |
| Legal debt limit — 15% of internal revenue average for the two years | 1,147,501 |
| Maximum debt service requirement | 785,298 |
| Additional legal debt service requirement as a percentage of internal revenue average for two years | $ 362,203 |

Sources: Government Development Bank for Puerto Rico, General obligation debt service may not exceed 15% of the average of the internal revenues for the last two fiscal years.

## COMMONWEALTH OF PUERTO RICO

**RATIO OF ANNUAL DEBT SERVICE FOR GENERAL**
**BONDED DEBT TO TOTAL GENERAL EXPENDITURES (UNAUDITED)**
**LAST TEN FISCAL YEARS**
**(In thousands)**

| | Total Debt Service | Total Governmental Expenditures | Ratio |
|---|---|---|---|
| Fiscal year: | | | |
| 2009 | $ 413,967 | $ 19,195,811 | 2.2 % |
| 2008 | 671,917 | 18,298,080 | 3.7 |
| 2007 | 606,800 | 17,158,013 | 3.5 |
| 2006 | 565,137 | 15,849,707 | 3.6 |
| 2005 | 491,394 | 16,425,312 | 3.0 |
| 2004 | 459,336 | 15,174,951 | 3.0 |
| 2003 | 362,136 | 14,926,547 | 2.4 |
| 2002 | 608,674 | 15,279,891 | 4.0 |
| 2001 | 538,436 | 10,366,782 | 5.2 |
| 2000 | 507,336 | 10,079,628 | 5.0 |

# COMMONWEALTH OF PUERTO RICO

## DEMOGRAPHIC AND ECONOMIC STATISTICS (UNAUDITED)
## LAST TEN FISCAL YEARS

| | Population * | Per Capita Income | | Median Age | Life Expectancy (Years) (1) | School Enrollment (r) | Labor Force (in thousands) | Unemployment Rate (%) | Gross Product (Current Prices $ )** | | Real Gross Product (2000 Prices $)** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fiscal year: | | | | | | | | | | | | |
| 2009 | 3,967 | 14,905 | (p) | 34.4 | 77.2 | 649,692 | 1,349 | 13.4 | 62,759 | (p) | 41,640 | (p) |
| 2008 | 3,954 | 14,080 | (r) | 34.4 | 77.2 | 685,348 | 1,368 | 11.0 | 60,787 | (r) | 43,222 | (r) |
| 2007 | 3,941 | 13,244 | (r) | 34.4 | 77.2 | 710,861 | 1,409 | 10.4 | 58,563 | (r) | 44,475 | (r) |
| 2006 | 3,928 | 12,970 | | 34.4 | 77.2 | 731,644 | 1,422 | 11.7 | 56,732 | | 45,009 | |
| 2005 | 3,912 | 12,507 | | 34.4 | 77.2 | 714,306 | 1,385 | 10.6 | 53,752 | | 44,785 | |
| 2004 | 3,895 | 11,724 | | 33.8 | 77.2 | 764,861 | 1,360 | 11.4 | 50,709 | | 43,950 | |
| 2003 | 3,879 | 11,429 | | 33.3 | 77.5 | 746,500 | 1,352 | 12.1 | 47,479 | | 42,795 | |
| 2002 | 3,859 | 10,921 | | 32.9 | 77.1 | 808,408 | 1,309 | 12.1 | 45,071 | | 41,915 | |
| 2001 | 3,840 | 10,732 | | 32.6 | 76.9 | 746,124 | 1,278 | 10.5 | 44,047 | | 42,040 | |
| 2000 | 3,816 | 10,204 | | 32.2 | 76.1 | 745,513 | 1,292 | 11.0 | 41,419 | | 41,419 | |

Source: Puerto Rico Planning Board, Department of Education, Department of Labor and Human Resources, and General Council of Education of the Commonwealth of Puerto Rico. The enrollment in private schools is an estimate.

* Population as of July 1 (in thousands).

** Amounts expressed in millions.

(1) Based on most recent study of 2004.

(p) Preliminary figures.

(r) Revised figures.

# COMMONWEALTH OF PUERTO RICO

## AVERAGE EMPLOYMENT BY SECTOR (UNAUDITED)
## LAST TEN FISCAL YEARS
## (In thousands)

| Sector | 2009 (p) | 2008 | 2007 | 2006 | 2005 | 2004 | | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture | $ 19 | $ 15 | $ 16 | $ 22 | $ 26 | $ 25 | | $ 24 | $ 23 | $ 21 | $ 24 |
| Manufacturing | 112 | 129 | 135 | 136 | 138 | 136 | | 134 | 137 | 157 | 158 |
| Mining | 1 | 1 | 1 | a/ | 1 | a/ | | a/ | a/ | a/ | a/ |
| Construction | 68 | 82 | 94 | 88 | 87 | 88 | | 82 | 84 | 84 | 84 |
| Trade | 244 | 257 | 260 | 271 | 261 | 253 | | 252 | 236 | 239 | 237 |
| Finance, insurance, and real estate | 43 | 43 | 45 | 46 | 43 | 41 | | 42 | 42 | 39 | 42 |
| Transportation, communications, and public utilities | 57 | 54 | 53 | 58 | 59 | 55 | (r) | 57 | 62 | 56 | 55 |
| Services | 353 | 359 | 364 | 355 | 349 | 340 | | 328 | 311 | 298 | 304 |
| Government (1) | 271 | 279 | 296 | 280 | 274 | 268 | | 269 | 257 | 248 | 247 |
| Total (2) | $ 1,168 | $ 1,218 | $ 1,263 | $ 1,256 | $ 1,238 | $ 1,206 | | $ 1,188 | $ 1,152 | $ 1,144 | $ 1,150 |

(p) Preliminary figures.
a/ Less than 1,000.
(r) Figures revised in accordance with the Census of Population and Housing of 2000.
(1) Includes the Commonwealth, its municipalities, and federal government, and excludes public corporations.
Sources: Puerto Rico Department of Labor and Human Resources, Household Survey, and Puerto Rico Planning Board.
(2) Totals may not add due to rounding.

# COMMONWEALTH OF PUERTO RICO

## TOURISM INDICATORS (UNAUDITED)
## LAST TEN FISCAL YEARS

| | 2009 (p) | 2008 (r) | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| All hotels and hostelry registration | 1,935,733 | 1,196,890 | 2,044,097 | 2,160,455 (r) | 2,097,606 | 2,008,730 | 1,964,963 | 1,821,274 | 1,836,377 | 1,674,092 |
| Occupancy rates | 63.4 % | 67.6 % | 68.7 % | 67.9 % | 67.7 % | 68.9 % | 64.9 % | 67.8 % | 66.7 % | 70.7 % |
| Number of rooms | 13,656 | 13,437 | 13,585 | 13,607 (r) | 13,336 (r) | 12,766 (r) | 12,850 (r) | 11,759 (r) | 11,438 (r) | 11,062 (r) |
| Visitors' expenditures* | $ 3,473 | $ 3,535 | $ 3,414 | $ 3,369 | $ 3,239 | $ 3,024 | $ 2,677 | $ 2,486 | $ 2,728 | $ 2,388 |

* Amounts expressed in millions of dollars.
(p) Preliminary figures.
(r) Revised figures.

Sources: Puerto Rico Tourism Company and Puerto Rico Planning Board.

# COMMONWEALTH OF PUERTO RICO

## OPERATING INDICATORS BY FUNCTION (UNAUDITED)
## LAST TEN FISCAL YEARS

| Function | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Fire protection: | | | | | | | | | | |
| Number of stations | 95 | 95 | 94 | 94 | 94 | 98 | 93 | 93 | 92 | 96 |
| Fire personnel and officers | 2,225 | 2,232 | 2,232 | 2,233 | 2,233 | 1,851 | 1,894 | 1,867 | 1,852 | 1,818 |
| Calls answered | 9,698 | 10,146 | 10,441 | 10,435 | 11,514 | 10,716 | 12,340 | 13,256 | 14,271 | 31,681 |
| Building inspections conducted | 83,626 | 71,006 | 73,478 | 73,360 | 71,610 | 56,093 | 53,750 | 41,415 | 31,693 | 44,396 |
| Police protection: | | | | | | | | | | |
| Number of stations | 193 | 233 | 238 | 238 | 234 | 231 | 228 | 235 | 239 | 238 |
| Police personnel and officers | 18,834 | 19,422 | 19,069 | 20,552 | 20,806 | 21,185 | 21,079 | 20,468 | 20,800 | 20,822 |
| Calls answered | 7,451 | 7,258 | 7,101 | 7,146 | 7,178 | 6,907 | 5,538 | 4,673 | 4,957 | 5,059 |
| Water system: | | | | | | | | | | |
| Customers | 1,265,798 | 1,257,336 | 1,290,497 | 1,285,732 | 1,251,699 | 1,256,981 | 1,238,461 | 1,209,834 | 1,195,038 | 1,179,109 |
| Personnel | 5,617 | 5,839 | 5,830 | 5,544 | 5,459 | 5,442 | 5,580 | 5,633 | 5,525 | 5,666 |
| Water consumption (millions of cubic meters) | 331 | 327 | 350 | 365 | 356 | 359 | 350 | 349 | 348 | 350 |
| Electric distribution system: | | | | | | | | | | |
| Customers | 1,458,636 | 1,449,221 | 1,452,529 | 1,450,227 | 1,438,699 | 1,419,602 | 1,401,301 | 1,383,888 | 1,365,668 | 1,344,907 |
| Personnel | 9,332 | 9,429 | 9,444 | 9,541 | 9,712 | 9,635 | 9,646 | 9,652 | 9,582 | 9,442 |
| Electricity consumption (millions of kilowatt) | 18,516 | 19,602 | 20,672 | 20,620 | 20,507 | 20,260 | 19,887 | 19,130 | 18,723 | 18,144 |
| Electricity production (millions of kilowatt) | 22,651 | 23,935 | 25,082 | 24,870 | 24,500 | 24,100 | 23,717 | 22,514 | 22,132 | 21,461 |
| Education: | | | | | | | | | | |
| Enrollment in public schools (1): | | | | | | | | | | |
| Kindergarten to sixth grade | 262,234 | 276,291 | 293,781(r) | 306,073 | 323,270 | 321,653 | 326,606 | 334,929 | 341,467 | 341,470 |
| Seventh to ninth grade | 122,506 | 128,641 | 133,171 | 135,166 | 137,717 | 142,305 | 146,896 | 146,837 | 145,858 | 145,908 |
| Tenth to twelfth grade | 103,255 | 108,028 | 117,205(r) | 122,251 | 118,491 | 116,829 | 118,519 | 117,072 | 119,162 | 118,498 |
| Teachers actively teaching (in public school) | 45,268 | 45,064 | 45,124 | 46,064 | 46,858 | 47,286 | 46,772 | 46,591 | 45,968 | 44,611 |
| Enrollment in private schools: | | | | | | | | | | |
| Kindergarten to sixth grade | 97,004 | 105,724(r) | 103,442(r) | 107,358(r) | 83,548(r) | 117,622(r) | 98,719(r) | 135,655(r) | 90,577(r) | 90,577(r) |
| Seventh to ninth grade | 33,510 | 35,437(r) | 33,294(r) | 32,850(r) | 27,612(r) | 37,226(r) | 31,245(r) | 41,273(r) | 27,366(r) | 27,366(r) |
| Tenth to twelfth grade | 31,183 | 31,227(r) | 29,968(r) | 27,946(r) | 23,668(r) | 29,226(r) | 24,515(r) | 32,642(r) | 21,694(r) | 21,694(r) |
| Enrollment in universities and colleges: | | | | | | | | | | |
| Public | 69,475 | 68,132 | 66,990 | 68,813 | 71,044 | 74,056 | 74,801 | 73,974 | 73,846 | 73,846 |
| Private | 166,143 | 157,306 | 158,412 | 140,734 | 136,650 | 132,735 | 125,041 | 117,578 | 100,704 | 100,704 |

Source: Various agencies and component units of the Commonwealth of Puerto Rico. The enrollment in private schools is an estimate.
(1) The enrollment in public schools for 2007–2008 don't include the special education by grade.
(r) Revised figures