

Government Development Bank for Puerto Rico

(A Component Unit of the
Commonwealth of Puerto Rico)

Basic Financial Statements and Required
Supplementary Information as of and
for the Year Ended June 30, 2011,
and Independent Auditors' Report

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-17
BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2011:	
Government-wide Financial Statements:	
Statement of Net Assets (Deficiency)	18
Statement of Activities	19
Fund Financial Statements:	
Balance Sheet — Governmental Funds	20
Statement of Revenues, Expenditures, and Changes in Fund Balances — Governmental Funds	21
Balance Sheet — Enterprise Funds	22-23
Statement of Revenues, Expenses, and Changes in Net Assets — Enterprise Funds	24
Statement of Cash Flows — Enterprise Funds	25-28
Notes to Basic Financial Statements	29-77

INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors of
Government Development Bank for Puerto Rico:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Government Development Bank for Puerto Rico (the "Bank"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2011, which collectively comprise the Bank's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Bank'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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Government Development Bank for Puerto Rico, as of June 30, 2011, and the respective changes in financial position and respective cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 2 and 5 to the financial statements, loans to the Commonwealth of Puerto Rico and its agencies and instrumentalities amounted to approximately \$6.0 billion or 38.7% of the Bank's total assets as of June 30, 2011. These loans are expected to be collected from appropriations from, proceeds from bond issuances of, or revenues generated by the Commonwealth of Puerto Rico and/or its agencies and instrumentalities. Since 2000, the Commonwealth's recurring expenditures have exceeded its recurring revenues and its credit ratings have been lowered. In addition, many of the Commonwealth's agencies and instrumentalities have had losses from operations during the past years. The collectibility of these loans may be affected by budgetary constraints, the fiscal situation and the credit ratings of the Commonwealth of Puerto Rico and its agencies and instrumentalities, and their ability to generate sufficient funds from taxes, charges and/or bond issuances. Continuance of and/or significant negative changes in these factors may affect the ability of the Commonwealth and agencies and instrumentalities to repay their outstanding loan balances with the Bank and, accordingly, may have an adverse impact on the Bank's financial condition, liquidity, funding sources, and results of operations.

The management's discussion and analysis on pages 3 to 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of Government Development Bank for Puerto Rico'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.

Deloitte & Touche LLP

December 1, 2011

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GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

This section presents a narrative overview and analysis of the financial performance of Government Development Bank for Puerto Rico (the "Bank" or "GDB") as of and for the year ended June 30, 2011. The information presented here should be read in conjunction with the basic financial statements, including the notes thereto.

1. FINANCIAL HIGHLIGHTS

- Total assets government wide at June 30, 2011 amounted to \$15,510 million for an increase of \$1,461 million or 10.4% from the \$14,049 million at June 30, 2010. Liabilities increased by 12.4% or \$1,421 million to \$12,926 million from \$11,505 million.
- Net assets government wide grew to \$2,584 million from \$2,544 million at June 30, 2010. The increase in net assets of \$40 million in fiscal year 2011 is composed of \$74 million from business-type activities offset by an excess of expenses and transfers over revenues of \$34 million from governmental activities. Net assets to total assets decreased to 16.7% at June 30, 2011 from 18.1% at June 30, 2010.
- The operating income of the GDB Operating Fund increased from \$67.5 million in 2010 to \$107.1 million or \$39.6 million in fiscal year 2011. This increase represented an improvement of 58.6% from the previous year.
- The Bank issued approximately \$3,503 million of Senior Notes consisting of \$1,448.7 million of Senior Notes 2010 Series A; \$151.3 million of Senior Notes 2010 Series B; \$1,086 million of Senior Notes 2010 Series C; \$96.4 million of Senior Notes 2010 Series D; \$70 million of Senior Notes 2011 Series A, and \$650 million of Senior Notes 2011 Series B. The Bank used the proceeds of these issuances mainly to repay previously issued notes with higher interest rates, increase the investment portfolio, and make loans to and purchase obligations of the Commonwealth of Puerto Rico (Commonwealth), its public corporations and municipalities.
- Interest income on loans in the GDB Operating Fund amounted to \$405.8 million in 2011, an increase of \$79.3 million over the prior year. The Bank collected approximately \$24.9 million in principal and \$139.1 million in interest on loans to the public sector from the general fund of the Commonwealth.
- Included within salaries and fringe benefits expense is approximately \$2.6 million related to an employees' voluntary termination plan provided under Act No. 70 of July 2, 2010.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO (A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is required supplementary information to the basic financial statements and is intended to serve as introduction to the basic financial statements of the Bank. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

Government-Wide Financial Statements — The government-wide financial statements are designed to provide readers with a broad overview of the Bank's finances, in a manner similar to a private-sector business. The statement of net assets provides information on the Bank's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Bank is improving or deteriorating. The statement of activities presents information on how the Bank's net assets changed during the reporting period. Changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

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 Bank's funds are divided in two categories: governmental funds and enterprise funds.

- *Governmental Funds* — Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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 financial decisions related to the Bank's governmental activities. Both the governmental fund balance sheet and the governmental statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

- *Enterprise Funds* — Enterprise funds provide the same type of information as the business-type activities in the government-wide financial statements, only in more detail. The enterprise fund financial statements of the Bank provide separate information on the business-type activities of the Bank's blended component units.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Notes to the Basic Financial Statements — The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements and the fund financial statements.

3. GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total assets and total liabilities of the Bank at June 30, 2011 amounted to \$15,510 million and \$12,926 million, respectively, for net assets of \$2,584 million or 16.7% of total assets. Within assets, excluding the loans portfolio, cash and due from banks, and deposits placed with banks show the most significant growth of \$332 million and \$696 million, respectively, over fiscal year 2010 balances of \$15 million and \$45 million, respectively. Investments and investment contracts decreased by \$870 million or 14% when compared to prior year. The proportion of investments to total assets decreased to 34.5% in 2011 from 44.3% in 2010. In addition, federal funds sold decreased by approximately \$242 million or 73.2% when compared to the previous year.

Loan portfolio of \$8,396 million at June 30, 2011 shows an increase of 20.5% when compared to the prior year ending balance of \$6,966 million. Loans as a percentage of total assets grew 4.5% from 49.6% in fiscal year 2010 to 54.1% in fiscal year 2011.

The Bank's Operating Fund issued several note series during fiscal year 2011 for a net increase of \$2,125 million in this line item. The Bank has primarily used the proceeds from these notes to increase its investment portfolio, to make loans to the Commonwealth, its public corporations and municipalities, and to repay certain higher interest rate debt. On the other hand, the Bank decreased its funding from securities sold under agreements to repurchase by 8.3% over the 2010 balance.

Out of the \$2,584 million in net assets, \$2,151 million or 83.2% is unrestricted, \$301 million or 11.7% is restricted for use in housing programs, and the remaining \$132 million or 5.1% is invested in capital assets and restricted for the mortgage loan insurance program. Governmental and business-type activities are discussed separately in the following subsections.

Governmental Activities — Total assets of governmental activities amounted to \$164.2 million at June 30, 2011, before \$127.7 million in net balances due to business-type activities. Total liabilities amounted to \$72.1 million, for a net deficit of \$35.6 million. Net deficit has been broken down into the amounts restricted for affordable housing programs of \$50.7 million, and the unrestricted deficit of \$86.4 million, which means that the restriction on the use of available assets will not allow the Bank to satisfy its existing liabilities from those assets, and therefore that it will depend on future appropriations for the repayment of part of its obligations.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Condensed financial information on assets, liabilities, and net assets of governmental activities as of June 30, 2011 and 2010 is shown below (amounts in thousands):

	June 30,		Change	
	2011	2010	Amount	Percent
Assets:				
Restricted:				
Cash and due from banks, and deposits placed with banks	\$ 72,295	\$ 7,527	\$ 64,768	860.5%
Investments and investment contracts	70,165	93,892	(23,727)	(25.3)%
Other assets	<u>21,723</u>	<u>29,494</u>	<u>(7,771)</u>	(26.3)%
Total assets before internal balances	164,183	130,913	33,270	25.4%
Internal balances	<u>(127,675)</u>	<u>(80,287)</u>	<u>(47,388)</u>	59.0%
Total assets	<u>36,508</u>	<u>50,626</u>	<u>(14,118)</u>	(27.9)%
Liabilities:				
Accounts payable and accrued liabilities	67,303	47,394	19,909	42.0%
Notes payable — due in more than one year	<u>4,811</u>	<u>4,811</u>	<u>-</u>	0.0%
Total liabilities	<u>72,114</u>	<u>52,205</u>	<u>19,909</u>	38.1%
Net deficit:				
Invested in capital assets	42	-	42	100.0%
Restricted for affordable housing programs	50,720	52,933	(2,213)	(4.2)%
Unrestricted deficit	<u>(86,368)</u>	<u>(54,512)</u>	<u>(31,856)</u>	58.4%
Total net deficit	<u>\$ (35,606)</u>	<u>\$ (1,579)</u>	<u>\$ (34,027)</u>	2,155.0%

Investments and investment contracts amounted to \$70.2 million and, together with cash and due from banks, and deposits placed with banks of \$72.3 million, account for the majority of the assets held by governmental activities. These assets are held to provide funds for the execution of the various affordable and other housing programs managed by the Puerto Rico Housing Finance Authority (the "Housing Finance Authority"). Other assets are composed principally of due from the HUD, Home, and ARRA federal programs. Accrued liabilities mainly consist of unpaid expenditures related to the ARRA and My New Home Program funds and of subsidies payable on various housing programs.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Condensed financial information on expenses, program and general revenues, and changes in net assets of governmental activities for the years ended June 30, 2011 and 2010 is shown below (in thousands):

	<u>Year Ended June 30, 2011</u>		
	General Government	Housing Assistance Programs	Total
Expenses	<u>\$ 6,155</u>	<u>\$ 311,951</u>	<u>\$ 318,106</u>
Program revenues:			
Charges for services — financing and investment		4,690	4,690
Operating grants and contributions	<u>-</u>	<u>279,609</u>	<u>279,609</u>
Net expenses	<u>\$ (6,155)</u>	<u>\$ (27,652)</u>	(33,807)
Transfers — net			<u>(220)</u>
Change in net assets			(34,027)
Net deficiency — beginning of year			<u>(1,579)</u>
Net deficiency — end of year			<u>\$ (35,606)</u>

	<u>Year Ended June 30, 2010</u>		
	General Government	Housing Assistance Programs	Total
Expenses	<u>\$ 4,777</u>	<u>\$ 250,787</u>	<u>\$ 255,564</u>
Program revenues:			
Charges for services — financing and investment		4,743	4,743
Operating grants and contributions	<u>-</u>	<u>225,268</u>	<u>225,268</u>
Net expenses	<u>\$ (4,777)</u>	<u>\$ (20,776)</u>	(25,553)
Transfers — net			<u>(4,902)</u>
Change in net assets			(30,455)
Net assets — beginning of year			<u>28,876</u>
Net deficiency — end of year			<u>\$ (1,579)</u>

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

4. GOVERNMENTAL FUND RESULTS

Operating grants and contributions increased by \$54 million when compared to the prior year. Operating grants and contributions increased from \$225 million in 2010 to \$279 million in 2011 mainly because this year the Housing Finance Authority earned \$96 million in ARRA funds as compared to \$87 million in 2010. In addition, the Housing Finance Authority received \$36.8 million from the Local Economic Stimulus Program to fund its Closing Costs Assistance Program as compares to \$10 million in 2010. In addition, during fiscal year 2011, the Housing Finance Authority earned \$16.4 million related to the Home program, which is administered by the Housing Finance Authority effective July 1, 2010.

Following is an analysis of the financial position and results of operations of the Bank's major governmental funds:

HUD Programs — This fund accounts for the U.S. Housing Act Section 8 programs administered by the Housing Finance Authority under the authorization of the U.S. Department of Housing and Urban Development. Presently, the Housing Finance Authority operates three programs whereby low-income families receive directly or indirectly subsidies to pay for their rent. The housing vouchers program enables families to obtain rental housing in a neighborhood of their choice. The other programs are project-based subsidies whereby housing developers are given incentives to keep their properties available for certain markets. The expenditures of the HUD programs increased \$2 million from \$125 million in 2010 to \$127 million in 2011. The expenditures in the housing vouchers program increased \$1 million when compared to the previous year because additional vouchers were awarded.

ARRA Funds — This fund accounts for two federal programs established by ARRA. ARRA established a federal funding opportunity through two separate programs, the Section 1602, "Cash Assistance in Lieu of Tax Credits" program called the Tax Credit Exchange Program (TCEP) and Tax Credit Assistance Program (TCAP). Both programs make stimulus package funding available to multi-family rental projects that meet the requirements of the Low Income Housing Tax Credits program (LIHTC). TCEP allows state housing tax credit allocating agencies to exchange a portion of the housing tax credits for cash grants. The cash grants can then be used by the allocating agencies to make "subawards" to finance the construction or acquisition and rehabilitation of qualified low-income buildings. TCAP provides grant funding for capital investment in LIHTC projects through a formula-based allocation to each state. The purpose of the TCAP funding is to assist in filling the funding gap resulting from the decline in equity pricing. The revenues and expenditures of ARRA funds amounted to \$95.7 million in 2011 as compared to \$86.6 million in 2010.

Closing Costs Assistance Program — This fund accounts for the subsidy to eligible individuals or families for the purchase of an eligible principal residence. The subsidy consists of the reimbursement of origination and closing costs up to 5% of the selling price, which cannot exceed \$300,000, of the eligible principal residence. The Housing Finance Authority finances this program with transfers from its operating and administrative fund and from appropriations from the Commonwealth. During the year ended June 30, 2011, the program received \$36.8 million in appropriations from the Commonwealth. During the year ended June 30, 2011, subsidy expenditures amounted to \$35.9 million.

My New Home Program — This program provides closing costs assistance to eligible families for the purchase of a principal residence through reimbursements of origination and closing costs. During the year ended June 30, 2011, total subsidy expenditures amounted to \$31 million.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

At June 30, 2011, the Housing Finance Authority had various governmental funds in a deficit position. The Housing Finance Authority expects to cover these deficits through contributions from the Commonwealth. Refer to Note 22 to the basic financial statements for additional information on these funds.

5. BUSINESS-TYPE ACTIVITIES

Condensed financial information on assets, liabilities, and net assets as of June 30, 2011 and 2010, is presented below (amounts in thousands):

	June 30,		Change	
	2011	2010	Amount	Percent
Assets:				
Cash and due from banks	\$ 343,214	\$ 13,851	\$ 329,363	2,377.9%
Federal funds sold	88,850	331,000	(242,150)	(73.2)%
Deposits placed with banks	672,362	38,853	633,509	1,630.5%
Investments and investment contracts	5,278,429	6,124,707	(846,278)	(13.8)%
Loans receivable — net	8,395,959	6,966,384	1,429,575	20.5%
Interest and other receivables	235,085	178,245	56,840	31.9%
Real estate available for sale	128,568	207,792	(79,224)	(38.1)%
Other assets	132,151	41,072	91,079	221.8%
Due from other funds	127,675	80,287	47,388	59.0%
Capital assets	71,008	15,750	55,258	350.8%
Total assets	15,473,301	13,997,941	1,475,360	10.5%
Liabilities:				
Deposits:				
Demand	3,782,555	3,253,713	528,842	16.3%
Certificates of deposit	1,771,133	2,895,485	(1,124,352)	(38.8)%
Securities sold under agreements to repurchase	970,819	1,058,835	(88,016)	(8.3)%
Accrued interest payable	30,466	28,325	2,141	7.6%
Accounts payable, accrued liabilities, and other liabilities	109,255	98,038	11,217	11.4%
Certificates of indebtedness	4,300	11,800	(7,500)	(63.6)%
Bonds, notes, and mortgage-backed certificates payable:				
Due in one year	159,697	226,219	(66,522)	(29.4)%
Due in more than one year	6,025,328	3,879,986	2,145,342	55.3%
Total liabilities	12,853,553	11,452,401	1,401,152	12.2%
Net assets:				
Invested in capital assets	71,008	15,750	55,258	350.8%
Restricted for:				
Mortgage loan insurance	61,119	61,899	(780)	(1.3)%
Affordable housing programs	247,643	230,895	16,748	7.3%
Other housing programs	2,567	4,183	(1,616)	(38.6)%
Unrestricted	2,237,411	2,232,813	4,598	0.2%
Total net assets	\$ 2,619,748	\$ 2,545,540	\$ 74,208	2.9%

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Federal Funds Sold and Deposits Placed with Banks — The Bank decreased its federal funds sold by \$242 million, from \$331 million at June 30, 2010 to \$89 million at June 30, 2011. The Bank reduced the federal funds in favor of higher rate short term deposits placed with banks. Deposits placed with banks increased by \$633.5 million, from \$38.9 million to \$672.4 million. The increase is mostly attributed to a deposit of \$400 million with a financial institution for the refunding of a portion the GDB Senior Notes Series 2009 C and D on July 1, 2011.

Investments and Investment Contracts — Investments and investment contracts held in business-type activities amounted to \$5,278.4 million at June 30, 2011. This amount represents a decrease of \$846.3 million or 13.8% when compared to the prior year balance of \$6,124.7 million. The investment portfolio has consisted primarily of U.S. Treasury Notes, Treasury Bills and U.S. sponsored agency notes and mortgage-backed securities with very high credit ratings, reflecting the Bank's prudent and conservative investment policies. The majority of the Bank's investment portfolio is invested in AAA to A- rated securities. The investment portfolio comprised 34% of the total assets of the Bank's business-type activities at June 30, 2011, down by 10% as compared to 44% at the close of fiscal year 2010. Within the investment securities portfolio, \$1,503 million at June 30, 2011 and \$1,539 million at June 30, 2010, were restricted or pledged as collateral or payment source for specific borrowings.

Loans Receivable — Net loans receivable increased by \$1,429.6 million, from the \$6,966.4 million balance at June 30, 2010 to \$8,396 million at June 30, 2011. The increase primarily arises from the Bank's basic role of providing financial support to the Commonwealth's public works, particularly in times of economic hardship, such as the prevailing circumstances in the Island and world-wide. To support the governmental efforts of improving and stimulating the Island's economy, the Bank finances the development and construction of infrastructure, housing projects, and hotels.

Loans to municipalities had a net increase of \$325.3 million over the prior year balance. Some of these loans were possible with the improvement of the municipalities' debt margin capacity as a result of increases in the property and municipal sales taxes.

Private sector loans outstanding at June 30, 2011 and 2010 amounted to \$605 million and \$530 million, respectively, net of an allowance for loan losses and deferred origination fees of \$132.1 million and \$20 million at June 30, 2011, and \$85 million and \$9.5 million at June 30, 2010, respectively. Private sector loans mainly include loan facilities for the housing and tourism sectors through some component units of the Bank. Refer to Note 5 for further information on loans receivable and allowance for loan losses.

Real Estate Available for Sale — Real estate available for sale includes several properties received in fiscal year 2009 in lieu of payment of a loan whose principal balance and accrued interest receivable amounted to \$144.2 million at December 30, 2008. The current appraised value of these properties amounts to \$78 million. Additional properties are being negotiated with the parties involved to satisfy the deficiency.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

In the meantime, the Bank has recorded a receivable for this difference as permitted by the agreement with the transferor. The Office of Management and Budget of the Commonwealth ("OMB") will disburse approximately \$7.5 million before December 31, 2011 to cover a portion of this difference. In addition, the OMB has committed to include in the Commonwealth general fund budget an amount of approximately \$3.8 million plus interest at the rate of 7% for the next fifteen years to assist the agencies involved in the transaction in repaying the accounts receivable of the Bank. The proposed appropriation will be subject to the approval of the Legislature of the Commonwealth of Puerto Rico.

Capital Assets — Capital assets, net of accumulated depreciation and amortization, amounted to \$71 million at June 30, 2011, an increase of \$55 million from the prior year. Additions to capital assets during the year ended June 30, 2011 aggregated to \$1.3 million principally in the software line item. Depreciation and amortization of \$2.5 million was charged to operations during fiscal year 2011. In addition, property from real estate available for sale of approximately \$56.4 was transferred to capital assets as of June 30, 2011. Refer to Note 8 to the basic financial statements for additional information on capital assets.

Deposits — Deposits mainly consist of interest-bearing demand deposit accounts, special government deposit accounts, and time deposits from the Commonwealth, its agencies, instrumentalities, and municipalities.

Demand deposits and certificates of deposit had a combined decrease of \$595 million, from \$6,149 million at June 30, 2010 to \$5,554 million at June 30, 2011. Deposits constitute approximately 43% and 54% of total liabilities at June 30, 2011 and 2010, respectively. Maturing deposits have been offset by the issuance of medium term notes and other borrowed funds.

Securities Sold under Agreement to Repurchase — Securities sold under agreements to repurchase decreased by \$88 million or 8.3% from \$1,058.8 million to \$970.8 million at June 30, 2011.

Other Borrowed Funds — The Bank issued several note series during fiscal year 2011, which explains the net growth of \$2,078.8 million or 51% over prior year balance of \$4,106.2 million. Most of the notes issued during fiscal year 2011 consist of term notes maturing on various dates from August 1, 2011 to August 1, 2025. Most of such notes have early redemption options. Interest rates on such notes range from 2% to 5.75%. Certain notes, upon compliance with certain requirements of the U.S. Internal Revenue Code, will receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment of these notes. The Bank used the proceeds from these obligations for general operational purposes that include, among others, the substitution of higher cost debt, the increase of its investment portfolio and the funding of loans. Responding to market conditions, the Bank has increased its issuance of medium term notes and significantly reduced its commercial paper borrowings, which has lengthened the average maturity of its liabilities. Refer to Note 12 to the basic financial statements for additional information on borrowed funds.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Condensed financial information on expenses, program revenues, and changes in net assets for business-type activities for the years ended June 30, 2011 and 2010 is presented below (in thousands):

Activity	Year Ended June 30, 2011			
	Expenses	Program revenues		Net revenues (expenses)
		Charges for services		
		Fees, commissions, and others	Financing and investment	
GDB Operating Fund	\$ 409,653	\$ 14,084	\$ 486,860	\$ 91,291
Housing Finance Authority	93,504	13,321	89,326	9,143
Tourism Development Fund	50,125	5,191	28,042	(16,892)
Public Finance Corporation	4		1	(3)
Capital Fund	37	35	1	(1)
Development Fund	10,947	-	(1,434)	(12,381)
Other nonmajor	110	2,381	5	2,276
Total	\$ 564,380	\$ 35,012	\$ 602,801	73,433
Special item —Contribution from Puerto Rico Infrastructure Financing Authority				555
Transfers from governmental activities				220
Change in net assets				74,208
Net assets — beginning of year				2,545,540
Net assets — end of year				\$ 2,619,748

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Activity	Year Ended June 30, 2010				
	Expenses	Program revenues			Net revenues (expenses)
		Charges for services		Operating grants and contributions	
		Fees, commissions, and other	Financing and investment		
GDB Operating Fund	\$ 342,854	\$ 23,518	\$ 382,737	\$ -	\$ 63,401
Housing Finance Authority	96,153	11,114	104,413	34,000	53,374
Tourism Development Fund	28,410	1,968	9,717	15,000	(1,725)
Public Finance Corporation	4,681		4,679		(2)
Capital Fund	68	1	5,807		5,740
Development Fund	3,555	3	622		(2,930)
Other nonmajor	140	-	3	-	(137)
Total	\$ 475,861	\$ 36,604	\$ 507,978	\$ 49,000	117,721
Special item — Contribution from Puerto Rico Infrastructure Financing Authority					1,110
Transfers from governmental activities					4,902
Change in net assets					123,733
Net assets — beginning of year					2,421,807
Net assets — end of year					\$ 2,545,540

Activities presented in the statement of activities coincide with the major enterprise funds of the Bank. GDB Operating Fund generated financing and investment revenues of \$486.9 million from its loan and investment portfolios, and \$14.1 million in other charges for services, including its fiscal agency function. These revenues covered \$409.7 million in expenses for a change in net assets from GDB Operating Fund of \$91.7 million, surpassing the change in net assets of any other activity.

The Housing Finance Authority's activities were the second largest contributor to the change in net assets with a \$9.4 million increase. Operating losses of other major component units for fiscal year 2011 were as follows: Tourism Development Fund with \$16.9 million and Development Fund with \$12.4 million.

Enterprise Funds — Following is a brief discussion of the most significant changes in the Bank's enterprise funds, not previously discussed. Our main focus will be on GDB Operating Fund, since separate basic financial statements are issued for each of the Bank's other major enterprise funds, which are blended component units.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

GDB Operating Fund — Total assets of the GDB Operating Fund amounted to \$14,547 million at June 30, 2011, compared to \$13,209 million at June 30, 2010. This represents an increase of \$1,338 million, which was sustained by the net increase in liabilities of \$1,247 million and the change in net assets of \$92 million. As already discussed, the GDB Operating Fund issued debt widening its assets base and obtaining more liquidity to assist governmental entities in times of economic distress. Investments decreased by \$829 million and loans to the public sector increased by \$1,355 million. Accrued interest receivable increased from \$128 million at June 30, 2010 to \$234 million at June 30, 2011, mainly because of increases in interest rates on loans due to a pricing initiative during the first semester of last year and a net increase of \$1.4 billion on loans. During the year, a portion of principal and interest on loans, aggregating to approximately \$164 million was collected from the general fund of the Commonwealth of Puerto Rico. Refer to Note 5 to the basic financial statements for additional information on loan receivables and allowances on loan losses.

Operating income of the GDB Operating Fund experienced an increment from \$67.5 million in fiscal year 2010 to \$107.1 million in fiscal year 2011, or an increase of \$39.6 million, which represents a 59% increase. Change in net assets had a significant increase from \$64.4 million in fiscal year 2010 to \$91.7 million in fiscal year 2011. Following is a discussion of the various components of the change in net assets of the GDB Operating Fund, compared to the prior year:

(a) *Interest Income, Interest Expense, and Change in Fair Value of Investments*

Net investment income, the difference between investment income and interest expense, increased \$26.5 million or 28%, from \$95.7 million in 2010 to \$122.2 million in 2011. Most of the increase results from the loan portfolio, which shows an increase of \$79 million or 24% when compared to the prior year results. This increase is directly related to the increase on loans of \$1,395 million from \$6,803 million in fiscal year 2010 to \$8,198 million in fiscal year 2011. Change in fair value of investments contributed to the increase with a gain of \$33.8 million. That is \$17 million more than the gain of \$16.8 million of fiscal year 2010. Interest income from investments increased \$7.8 million or 19.8% mainly because of concentration of our investment portfolio in U.S. Government and U.S. agencies securities where interest rates increased. Interest expense increased by \$77.6 million, or 27.1%, mainly as a result of a net increase of \$2,125 million in the notes line item offset by decreases of \$776 million in the deposits and \$88 million in the securities sold under agreements to repurchase line items.

(b) *Provision for Losses on Loans*

The experience with the public sector loan portfolio, even in periods of economic distress such as the present, provides continued comfort to management. After an analysis performed, management believes that there is no need for further provisions, instead, there was a credit to the provision for loan losses of \$5.6 million leaving the allowance for loan losses with a balance of \$4 million at June 30, 2011. Management believes that there is no need for an allowance for possible losses on guarantees and letters of credit to public sector entities.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

(c) Noninterest Income

Noninterest income decreased to \$14.1 million in fiscal year 2011 from \$23.5 million in fiscal year 2010, or \$9.4 million. Fiscal agency fees constitute the main component of noninterest income. There was an intense activity of bond issuances of public sector entities during fiscal year 2010 when compared to fiscal year 2011. The fiscal agency fees decreased from \$17.2 million in fiscal year 2010 to \$5.7 million in fiscal year 2011, representing a decrease of 67%.

(d) Noninterest Expenses

Total noninterest expenses showed a decrease of \$17 million from \$51.7 million in fiscal year 2010 to \$34.7 million in fiscal year 2011. Decrease is mainly because of the following three major items in fiscal year 2010: (1) write downs to real estate available for sale of approximately \$11.9 million, (2) voluntary and involuntary terminations costs of \$3.5 million and (3) a \$2.2 million termination fee linked to the adjustable refunding bonds. These 2010 items were presented within salaries and fringe benefits and other expense line items.

Housing Finance Authority — Net assets of the Housing Finance Authority increased by \$9.4 million from \$635.2 million at June 30, 2010 to \$644.6 million at June 30, 2011 as a result of decreases in total assets of \$19.5 million and in liabilities of \$28.9 million. The decrease in total assets is mainly due to the following:

- Cash decreased from \$31.6 million at June 30, 2010 to \$9.7 million at June 30, 2011 or a \$21.9 million decrease. The decrease was the result of the following factors: reduction of \$12 million on the Home Purchase Stimulus Program due to payment of second mortgages to financial institutions, reduction of \$8 million used for bonds principal payment on Mortgage Trust III, and reduction of \$4 million due to origination of multifamily and single-family loans offset by an increase of \$3 million of My New Home Program.
- Investments and deposits placed with banks decreased from \$1,265 million at June 30, 2010 to \$1,199 million at June 30, 2011 or a \$66 million decrease. This decrease was principally the result of investment redemptions to originate construction and single-family loans.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

- Loans receivable, net, increased to \$246.8 million at June 30, 2011 from \$208.1 million in 2010 or a \$38.7 million increase. This increase was directly related to the origination of construction and single-family loans.
- Assets, excluding cash, deposits placed with banks, loans and investments, increased from \$40 million at June 30, 2010 to \$70 million at June 30, 2011 or a \$30 million increase. There was an increase in balances due from governmental funds of approximately \$41 million and a decrease of approximately \$11 million in accrued interest receivable.
- The decrease in long-term liabilities of approximately \$33 million is mainly due to an early redemption of Single-Family Mortgage Revenue Bonds Portfolios and Homeownership Mortgage Revenue Bonds. Also, current liabilities increased to \$103.6 million at June 30, 2011 from \$99.9 million at June 30, 2010 or an increase of \$3.7 million.
- Change in net assets decreased \$48.9 million, from \$58.3 million in 2010 to \$9.4 million in 2011. Three main items contributed to this: one-time operating contribution received from the Commonwealth during fiscal year 2010 aggregating to \$34 million, declines in operating income of \$10 million and net transfers-in of \$4.7 million.

Tourism Development Fund — Total assets increased to \$611.3 million from \$586.2 million in 2010 or an increase of \$25.1 million. The Tourism Development Fund mostly finances its loan portfolio through credit facilities obtained from the Bank. Notes payable due to the Bank at year-end were \$399.5 million for an increase of \$36.7 million from June 30, 2010. The Tourism Fund originated approximately \$56 million in loans to the private sector during the year ended June 30, 2011. These loans are principally collateralized by real estate property to minimize the credit risk. The analysis of the allowance for loan losses required an incremental adjustment of \$31 million during the year ended June 30, 2011.

At June 30, 2011, outstanding guarantees and letters of credit of the Tourism Development Fund amounted to \$328.5 million. Also, the exposure assessment required an increase of the allowance for possible losses on guarantees and letters of credit of \$2.4 million.

Change in net assets of the Tourism Development Fund decreased by \$87.2 million from the increase of \$70.3 million recorded last year to a loss of \$16.9 million in 2011.

Capital Fund — The Capital Fund had a net loss of \$687 for the year ended on June 30, 2011. After transferring most of its assets to the Tourism Development Fund, the Capital Fund's activities have been significantly reduced.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Public Finance Corporation — The Public Finance Corporation had a net loss of approximately \$2,900 for the year ended on June 30, 2011. Also, when compared to the previous year, it showed an increase in net loss of approximately \$300. The main operation of this component unit is the issuance of special appropriation bonds and during fiscal year 2011 there was no activity related to this area. The only income this component unit received was for a deposit on an interest bearing account held at the Bank. Interest income for fiscal year 2011 was about \$1,000 offset by legal and professional fees of approximately \$4,000.

Development Fund — The Development Fund's net loss of \$12.4 million was mostly attributed to the result of a net investment loss of \$1.4 million, \$9.3 million provision for loan losses related to loans to the private sector and a \$1.5 million provision for possible losses on its guarantees to The Key for Your Business Program managed by the Economic Development Bank for Puerto Rico, a component unit of the Commonwealth. The Development Fund guarantees one third of the loans' principal plus interest and charges, up to \$15 million. At June 30, 2011, the outstanding balance of loans guaranteed by the Development Fund amounted to approximately \$14.2 million.

6. CONTACTING THE BANK'S FINANCIAL MANAGEMENT

This report is designed to provide all interested with a general overview of the Bank's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Government Development Bank for Puerto Rico, P.O. Box 42001, San Juan, Puerto Rico, 00940-2001.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET ASSETS (DEFICIENCY)
AS OF JUNE 30, 2011

ASSETS	Governmental Activities	Business-type Activities	Total
Cash and due from banks	\$ -	\$ 341,790,505	\$ 341,790,505
Federal funds sold		88,850,000	88,850,000
Deposits placed with banks		219,315,862	219,315,862
Investments and investment contracts		3,775,241,121	3,775,241,121
Loans receivable — net		8,360,977,041	8,360,977,041
Accrued interest receivable		231,027,713	231,027,713
Due from (to) other funds	(127,674,517)	127,674,517	
Restricted assets:			
Cash and due from banks	4,193,481	1,423,514	5,616,995
Deposits placed with banks	68,101,498	453,046,031	521,147,529
Due from federal government	21,251,149		21,251,149
Investment and investment contracts	70,164,635	1,503,187,819	1,573,352,454
Loan receivable — net		34,981,843	34,981,843
Interest and other receivables	247,717	4,057,047	4,304,764
Real estate available for sale		1,926,940	1,926,940
Other assets	182,776	5,286,518	5,469,294
Real estate available for sale		126,641,380	126,641,380
Capital assets:			
Land and other nondepreciable assets		59,299,861	59,299,861
Other capital assets	41,711	11,708,153	11,749,864
Other receivables		75,874,423	75,874,423
Other assets	-	50,990,295	50,990,295
TOTAL	<u>36,508,450</u>	<u>15,473,300,583</u>	<u>15,509,809,033</u>
LIABILITIES			
Deposits, principally from the Commonwealth of Puerto Rico and its public entities:			
Demand		3,782,554,519	3,782,554,519
Certificates of deposit:			
Due within one year		1,738,468,217	1,738,468,217
Due in more than one year		32,664,518	32,664,518
Securities sold under agreements to repurchase — due in one year		970,818,550	970,818,550
Accrued interest payable		29,123,864	29,123,864
Accounts payable and accrued liabilities:			
Due within one year		52,108,194	52,108,194
Due in more than one year		6,196,208	6,196,208
Allowance for losses on guarantees and letters of credit:			
Due within one year		4,277,650	4,277,650
Due in more than one year		20,877,548	20,877,548
Certificates of indebtedness — due in one year		4,300,000	4,300,000
Participation agreement payable		26,000,000	26,000,000
Bonds and notes payable:			
Due within one year		91,138,136	91,138,136
Due in more than one year		5,391,934,330	5,391,934,330
Liabilities payable from restricted assets:			
Accrued interest payable	256,830	1,341,647	1,598,477
Accounts payable and accrued liabilities — due in one year	67,046,546	22,124,221	89,170,767
Allowance for losses on mortgage loan insurance		3,672,007	3,672,007
Bonds and mortgage-backed certificates payable:			
Due within one year		68,559,063	68,559,063
Due in more than one year	4,811,237	607,393,726	612,204,963
Total liabilities	<u>72,114,613</u>	<u>12,853,552,398</u>	<u>12,925,667,011</u>
NET ASSETS:			
Invested in capital assets	41,711	71,008,014	71,049,725
Restricted for:			
Mortgage loan insurance		61,118,599	61,118,599
Affordable housing programs	50,719,908	247,643,522	298,363,430
Other housing programs		2,566,860	2,566,860
Unrestricted net assets (deficit)	(86,367,782)	2,237,411,190	2,151,043,408
TOTAL NET ASSETS (DEFICIENCY)	<u>\$ (35,606,163)</u>	<u>\$ 2,619,748,185</u>	<u>\$ 2,584,142,022</u>

See notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	Program Revenues			Net Revenues (Expenses) and Changes in Net Assets		
	Charges for Services - Fees, Commissions, and Others	Services - Financing and Investment	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS:						
Governmental activities:						
General government and other	\$ 6,155,654	\$ -	\$ -	\$ (6,155,654)	\$ -	\$ (6,155,654)
Housing assistance programs	311,950,727	4,690,670	279,608,816	(27,651,241)		(27,651,241)
Total governmental activities	318,106,381	4,690,670	279,608,816	(33,806,895)		(33,806,895)
Business-type activities:						
GDB Operating Fund	409,653,046	486,860,182			91,290,712	91,290,712
Housing Finance Authority	93,503,773	89,325,711			9,143,496	9,143,496
Tourism Development Fund	50,124,842	28,041,675			(16,892,069)	(16,892,069)
Public Finance Corporation	3,990	1,057			(2,933)	(2,933)
Capital Fund	36,828	1,025			(687)	(687)
Development Fund	10,947,552	(1,433,952)			(12,381,504)	(12,381,504)
Other nonmajor	110,134	4,897			2,276,114	2,276,114
Total business-type activities	564,380,165	602,800,595			73,433,129	73,433,129
Total	\$ 882,486,546	\$ 607,491,265	\$ 279,608,816	(33,806,895)	73,433,129	\$ 39,626,234
SPECIAL ITEM—Contribution from Puerto Rico Infrastructure Financing Authority TRANSFERS IN (OUT) —Net						
Total special item and transfers				(219,990)	554,707	554,707
CHANGE IN NET ASSETS				(219,990)	219,990	-
NET ASSETS — Beginning of year				(34,026,885)	774,697	554,707
NET ASSETS (DEFICIENCY) — End of year				(1,579,278)	74,207,826	40,180,941
				\$ (35,606,163)	\$ 2,545,540,359	\$ 2,545,961,081
					\$ 2,619,748,185	\$ 2,584,142,022

See notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET — GOVERNMENTAL FUNDS AS OF JUNE 30, 2011

	HUD Programs	ARRA Funds	Closing Costs Assistance Program	My New Home Program	Other Nonmajor Governmental Funds	Eliminations	Total Governmental Funds
ASSETS:							
Due from other funds	\$ -	\$ -	\$ -	\$ -	\$ 326,918	\$ (303,809)	\$ 23,109
Restricted:							
Cash and due from banks	1,910,472				2,283,009		4,193,481
Deposits placed with banks			10,657,011	32,028,000	25,416,487		68,101,498
Due from federal government	1,295,759	11,205,824			8,749,566		21,251,149
Investments and investment contracts	241,573	276	827,797	3,084,709	70,164,635		70,164,635
Due from other funds	3,180		6,625	63,254	16,979,591		21,133,946
Interest and other receivables					174,658		247,717
TOTAL	\$ 3,450,984	\$11,206,100	\$11,491,433	\$35,175,963	\$124,094,864	\$ (303,809)	\$185,115,535
LIABILITIES:							
Due to other funds	\$ 1,149,277	\$ -	\$ -	\$ 40,119,127	\$ 107,866,977	\$ (303,809)	\$ 148,831,572
Restricted — accounts payable and accrued liabilities	2,301,707	11,206,100	5,726,850	25,855,146	21,956,743		67,046,546
Deferred revenue					4,576,161		4,576,161
Total liabilities	3,450,984	11,206,100	5,726,850	65,974,273	134,399,881	(303,809)	220,454,279
FUND BALANCES (DEFICIT):							
Restricted for affordable housing programs			5,764,583	(30,798,310)	79,240,402		85,004,985
Unassigned				(30,798,310)	(89,545,419)		(120,343,729)
Total fund balances (deficit)			5,764,583	(30,798,310)	(10,305,017)		(35,338,744)
TOTAL	\$ 3,450,984	\$11,206,100	\$11,491,433	\$35,175,963	\$124,094,864	\$ (303,809)	\$185,115,535
Amounts reported for governmental activities in the statement of net assets are different because:							
Total fund deficit							\$ (35,338,744)
Deferred debt issue costs that are recorded as expenditures in governmental funds, but are capitalized in the government-wide financial statements							182,776
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds							41,711
Bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds							(4,811,237)
Accrued interest payable not due and payable in the current period							(256,830)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds							4,576,161
Net deficiency of governmental activities							\$ (35,606,163)

See notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	HUD Programs	ARRA Funds	Closing Costs Assistance Program	My New Home Program	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:						
Commonwealth appropriations for repayment of bonds and housing assistance programs	\$ -	\$ -	\$ 36,774,000	\$ -	\$ 1,492,536	\$ 38,266,536
Intergovernmental — federal government	127,100,197	95,739,443	103,257	774	11,807,876	234,647,516
Interest on investments	9				4,610,704	4,714,744
Net decrease in fair value of investments	24,148		22,701	189,175	(24,074)	(24,074)
Other	127,124,354	95,739,443	36,899,958	189,949	1,882,579	2,118,603
Total revenues	<u>127,124,354</u>	<u>95,739,443</u>	<u>36,899,958</u>	<u>189,949</u>	<u>19,769,621</u>	<u>279,723,325</u>
EXPENDITURES:						
Current:						
General government and other	4,980,335				1,175,319	6,155,654
Housing assistance programs	122,144,019	95,739,443	35,931,032	30,988,259	24,612,350	309,415,103
Capital outlays					41,711	41,711
Debt service —						
Interest					2,526,493	2,526,493
Total expenditures	<u>127,124,354</u>	<u>95,739,443</u>	<u>35,931,032</u>	<u>30,988,259</u>	<u>28,355,873</u>	<u>318,138,961</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>968,926</u>	<u>(30,798,310)</u>	<u>(8,586,252)</u>	<u>(38,415,636)</u>
OTHER FINANCING SOURCES (USES):						
Transfers-in					40,342,947	40,342,947
Transfers-out					(40,562,937)	(40,562,937)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(219,990)</u>	<u>(219,990)</u>
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>-</u>	<u>968,926</u>	<u>(30,798,310)</u>	<u>(8,806,242)</u>	<u>(38,635,626)</u>
FUND BALANCES (DEFICIT) — Beginning of year			<u>4,795,657</u>		<u>(1,498,775)</u>	<u>3,296,882</u>
FUND BALANCES (DEFICIT) — End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,764,583</u>	<u>\$ (30,798,310)</u>	<u>\$ (10,305,017)</u>	<u>\$ (35,338,744)</u>

Amounts reported for governmental activities in the statement of net assets are different because:
Net change in fund balances - total governmental funds

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 exceeded depreciation in the current period.

Revenues in the statement of activities that do provide current financial resources and not reported as revenues in the governmental funds.

Governmental funds report the effect of issuance costs when debt is first issued, whereas these costs are deferred and amortized in the statement of activities. This amount is the amortization for the year.

Change in net assets of governmental activities.

See notes to basic financial statements.

(38,635,626)

41,711

4,576,161

(9,131)

\$ (34,026,885)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET — ENTERPRISE FUNDS
AS OF JUNE 30, 2011

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total Enterprise Funds
ASSETS									
CURRENT ASSETS:									
Cash and due from banks	\$ 341,723,688	\$ 2,523,129	\$ 21,885,011	\$ 1,039,120	\$ -	\$ 11,182,785	\$ 2,475,728	\$ (39,038,956)	\$ 341,790,505
Federal funds sold	88,850,000								88,850,000
Deposits placed with banks	156,016,947	57,382,535	38,272,670					(32,356,290)	219,315,862
Investments and investment contracts	800,067,569		3,708,800		242,961				804,019,330
Loans receivable, net	986,320,212	5,200,000	8,400,000			8,055,316		(8,400,000)	999,575,528
Accrued interest receivable	233,855,096	1,496,402	1,338,123	87	19	54,432		(5,716,652)	231,027,713
Other current receivables	13,733,864	498,551	1,404,102						15,636,517
Other current assets	368,638	4,940							373,578
Due from governmental funds	105,612,612	43,218,960							148,831,572
Restricted:									
Cash and due from banks		7,207,386							7,207,386
Deposits placed with banks	400,000,000	422,109,808						(5,783,872)	824,325,936
Investments and investment contracts	564,326,372	1,077,788						(369,063,777)	1,173,041,383
Loans receivable, net		528,000							528,000
Accrued interest receivable		2,329,085						(179,513)	2,149,572
Other current receivables		1,907,475							1,907,475
Total current assets	3,690,874,998	545,484,059	75,008,706	1,039,207	242,980	19,292,533	2,475,934	(460,539,060)	3,873,879,357
NONCURRENT ASSETS:									
Restricted:									
Investments and investment contracts	435,792,149	700,143,202						(198,151,692)	937,783,659
Loans receivable, net		34,453,843							34,453,843
Real estate available for sale		1,926,940							1,926,940
Other assets		5,286,518							5,286,518
Investments and investment contracts	2,913,550,162	18,286,389	198,869,775			3,642,563		(163,127,098)	2,971,221,791
Loans receivable, net	7,211,520,610	206,621,055	337,083,379					(393,823,531)	7,361,401,513
Real estate available for sale	125,679,219	962,161							126,641,380
Capital assets:									
Land and other nondepreciable assets	59,299,861								59,299,861
Other capital assets	8,605,180	3,102,973							11,708,153
Other receivables	60,237,906								60,237,906
Other assets	41,446,933	8,880,000	289,784						50,616,717
Total noncurrent assets	10,856,132,020	979,663,081	536,242,938	-	-	3,642,563	-	(755,102,321)	11,620,578,281
TOTAL ASSETS	\$ 14,547,007,018	\$ 1,525,147,140	\$ 611,251,644	\$ 1,039,207	\$ 242,980	\$ 22,935,096	\$ 2,475,934	\$ (1,215,641,381)	\$ 15,494,457,638

See notes to basic financial statements.

(Continued)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Total
OPERATING REVENUES:								
Investment income:								
Interest income on federal funds sold	\$ 1,355,702	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,355,702
Interest income on deposits placed with banks	351,276	24,334,076	560,040	1,057	17,092	4,897		25,268,438
Interest and dividend income on investments and investment contracts	45,566,123	43,134,124	1,682,506		320,976			90,704,754
Net increase (decrease) in fair value of investments	33,805,166	7,131,672	14,018,345		(1,772,020)			53,183,163
Total investment income (loss)	81,078,267	74,599,872	16,260,891	1,057	(1,433,952)	4,897		170,512,057
Interest income on loans receivable:								
Public sector	405,528,470	14,725,839	11,780,784					405,528,470
Private sector	253,445	14,725,839	11,780,784					26,760,068
Total investment income on loans receivable	405,781,915	14,725,839	11,780,784					432,288,538
Total investment income (loss) and interest income on loans receivable	486,860,182	89,323,711	28,041,675	1,057	(1,433,952)	4,897		602,800,595
Noninterest income:								
Fiscal agency fees	5,690,900	170,628						5,861,528
Commissions and other service fees	7,860,072	7,919,704	5,142,247					20,922,023
Mortgage loan insurance premiums		3,774,823						3,774,823
Other income	532,604	1,456,403	48,851		35,116		2,381,351	4,454,325
Total noninterest income	14,083,576	13,321,558	5,191,098		35,116		2,381,351	35,012,699
Total operating revenues	500,943,758	102,647,269	33,232,773	1,057	36,141	(1,433,952)	2,386,248	637,813,294
OPERATING EXPENSES:								
Provision (credit) for loan losses	(5,550,286)	7,546,703	31,052,104			9,319,708		42,368,229
Interest expense:								
Deposits	94,023,109							94,023,109
Securities sold under agreements to repurchase	15,602,648							15,602,648
Commercial paper	18,000							18,000
Certificates of indebtedness	20,181						20,181	20,181
Bonds, notes and mortgage-backed certificates	255,033,613	56,486,645	14,838,833					326,359,091
Total interest expense	364,697,551	56,486,645	14,838,833					436,023,029
Noninterest expenses:								
Salaries and fringe benefits	23,270,179	12,290,185	120,177				73,093	35,753,634
Depreciation and amortization	1,406,622	1,126,536						2,533,158
Occupancy and equipment costs	3,724,235	2,214,383						5,938,618
Legal and professional fees	3,292,270	3,456,492	1,569,703	3,990	36,015	63,790	21,850	8,444,110
Office and administrative	326,621	965,664	121,027		813			1,414,125
Subsidy and trustee fees	53,435	367,072						420,507
Provision (credit) for losses on guarantees and letters of credit	(1,000,000)	185,036	2,370,598			1,496,066		2,866,664
Loss on sale of real estate available for sale		8,456,722				67,988		183,036
Other	3,585,903	29,062,090	52,400				15,191	12,178,204
Total noninterest expenses	34,659,265	4,233,905	4,233,905	3,990	36,828	1,627,844	110,134	69,734,056
Total operating expenses	393,806,530	50,124,842	50,124,842	3,990	36,828	10,847,552	110,134	548,125,314
OPERATING INCOME (LOSS)	107,137,228	9,551,831	(16,892,069)	(2,933)	(687)	(12,381,504)	2,276,114	89,687,980
NONOPERATING EXPENSES —								
Contributions to Cooperative Development Investment Trust Fund and others	(15,846,516)	(408,335)						(16,254,851)
SPECIAL ITEM — Contribution from Puerto Rico Infrastructure Financing Authority	554,707	961,032					178,000	554,707
TRANSFERS-IN								
TRANSFERS-OUT								
CHANGE IN NET ASSETS	91,667,419	9,363,486	(16,892,069)	(2,933)	(687)	(12,381,504)	2,454,114	74,207,826
NET ASSETS — Beginning of year	1,704,275,135	635,235,826	171,018,956	992,180	232,253	33,812,037	(26,028)	2,545,540,359
NET ASSETS — End of year	\$1,795,942,554	\$644,599,312	\$154,126,887	\$ 989,247	\$ 231,566	\$ 21,430,533	\$ 2,428,086	\$2,619,748,185

See notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES:									
Cash received from interest on housing program loans	\$ -	\$ 10,766,006	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,766,006
Cash paid for housing program loans originated		(50,468,200)							(50,468,200)
Principal collected on housing program loans		25,569,912	3,855,638						25,569,912
Guarantee fees collected									3,855,638
Payment of guarantees and letters of credit						(2,486,870)			(2,486,870)
Cash received from other operating noninterest revenues	23,627,549	10,040,604	48,853		35,116				33,752,122
Cash payments for other operating noninterest expenses	(30,969,120)	(17,987,321)	(752,056)	(16,380)	(42,672)	(132,149)	(116,327)	1,731,591	(48,284,434)
Cash received from mortgage loans insurance premiums		4,390,197							4,390,197
Due from/to governmental funds	(6,303,598)	(41,083,851)							(47,387,449)
Net cash provided by (used in) operating activities	(13,645,169)	(58,772,653)	3,152,435	(16,380)	(7,556)	(2,619,019)	(116,327)	1,731,591	(70,293,078)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:									
Contributions to others	(15,846,516)	(408,335)							(16,254,851)
Contributions from Puerto Rico Infrastructure Financing Authority:	554,707						178,000		554,707
Transfers in	(178,000)	961,032							1,139,032
Transfers out		(741,042)							(919,042)
Net increase (decrease) in:									
Deposits	498,641,152								498,641,152
Certificates of deposit	(1,286,602,638)								(1,286,602,638)
Certificates of indebtedness	(7,500,000)								(7,500,000)
Proceeds from issuance of securities sold under agreements to repurchase	4,477,337,335								4,477,337,335
Payment of securities sold under agreements to repurchase	(4,565,353,537)								(4,565,353,537)
Proceeds from issuance of bonds and notes	3,502,889,000	87,571,395	35,572,126						3,590,029,001
Repayments of bonds and notes	(1,375,440,000)	(155,825,308)	(7,700,000)					(36,003,520)	(1,530,045,382)
Payment of debt issue costs	(36,583,443)	(64,149)							(36,647,592)
Interest paid	(343,573,857)	(22,728,406)	(4,112,588)					9,646,014	(360,768,837)
Net cash provided by (used in) noncapital financing activities	848,344,203	(91,234,813)	23,759,538				178,000	175,013,416	956,060,344
CASH FLOWS FROM CAPITAL AND RELATED FINANCING - Purchase of capital assets	\$ (708,419)	\$ (628,156)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,336,575)

See notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS — ENTERPRISE FUNDS FOR THE YEAR ENDED JUNE 30, 2011

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total Enterprise Funds
CASH FLOWS FROM INVESTING ACTIVITIES:									
Net decrease (increase) in:									
Federal funds sold	242,150,000								242,150,000
Deposits placed with banks	(548,390,398)	41,945,801	39,169,231					(166,232,884)	(633,508,250)
Purchases of investments	(13,923,370,822)	(136,508,708)	(100,165,833)		(35,116)			8,104,417	(14,151,976,062)
Proceeds from sales and redemptions of investments	14,798,740,108	179,971,465	76,030,838		42,610	2,375,000		(4,122,352)	15,033,037,669
Interest and dividends received on investments	25,410,543	67,045,623	1,390,952	1,057	62	339,798	7,305	(11,636,361)	82,558,979
Interest received on other than housing program loans	281,004,198		1,192,932					1,990,347	284,187,477
Origination of other than housing program loans	(4,598,831,424)	(29,203,000)	(55,199,962)			(15,176,272)		36,003,520	(4,662,407,138)
Fees collected on other than housing program loans		8,229,266	8,780,790					(8,919,926)	8,229,266
Principal collected on other than housing program loans	3,237,462,936	1,333,088							3,237,323,800
Proceeds from sale of real estate available for sale	3,125,000								4,458,088
Disbursements for acquisition and improvements to real estate available for sale	(15,019,416)	(4,102,241)							(19,121,657)
Net cash provided by (used in) investing activities	(497,719,275)	128,711,294	(28,801,052)	1,057	7,556	(12,461,474)	7,305	(144,813,239)	(555,067,828)
NET CHANGE IN CASH AND DUE FROM BANKS	336,271,340	(21,924,328)	(1,889,079)	(15,323)		(15,080,493)	68,978	31,931,768	329,362,863
CASH AND DUE FROM BANKS — Beginning of year	5,452,348	31,654,843	23,774,090	1,054,443		26,263,278	2,406,750	(76,754,596)	13,851,156
CASH AND DUE FROM BANKS — End of year	\$ 341,723,688	\$ 9,730,515	\$ 21,885,011	\$ 1,039,120	\$ -	\$ 11,182,785	\$ 2,475,728	\$ (44,822,828)	\$ 343,214,019
RECONCILIATION TO ENTERPRISE FUNDS BALANCE SHEET:									
Cash — unrestricted	\$ 341,723,688	\$ 2,523,129	\$ 21,885,011	\$ 1,039,120	\$ -	\$ 11,182,785	\$ 2,475,728	\$ (39,038,956)	\$ 341,790,505
Cash — restricted		7,207,386						(5,783,872)	1,423,514
TOTAL CASH AT YEAR END	\$ 341,723,688	\$ 9,730,515	\$ 21,885,011	\$ 1,039,120	\$ -	\$ 11,182,785	\$ 2,475,728	\$ (44,822,828)	\$ 343,214,019

See notes to basic financial statements.

(Continued)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total Enterprise Funds
RECONCILIATION OF OPERATING INCOME (LOSS)									
TO NET CASH PROVIDED BY (USED IN)									
OPERATING ACTIVITIES:									
Operating income (loss)	\$ 107,137,228	\$ 9,551,831	\$(16,892,069)	\$ (2,933)	\$ (687)	\$ (12,381,504)	\$ 2,276,114	\$ -	\$ 89,687,980
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:									
Investment income	(47,273,101)	(67,468,200)	(2,242,546)	(1,057)	(1,025)	(338,068)	(4,897)		(117,328,894)
Interest income on other than housing program loans	(405,781,915)	(3,721,006)	(11,780,784)						(417,562,699)
Capitalized interest on housing program loans									(3,721,006)
Interest expense	364,697,551		14,838,833						379,536,384
Provision (credit) for loan losses	(5,550,286)	7,546,703	31,052,104			9,319,708			42,368,229
Provision for losses on guarantees and letters of credit	(1,000,000)		2,370,598			1,496,066			2,866,664
Provision for losses on mortgage loan insurance		3,325,677							3,325,677
Payment of guarantees									(2,486,870)
Net decrease (increase) in fair value of investments	(33,805,166)	(7,131,672)	(14,018,345)			(2,486,870)			(53,183,163)
Provision for losses on real estate available for sale		4,089,470				1,772,020			4,089,470
Provision for losses on other assets	1,307,596	20,000							1,327,596
Loss on sale of real estate available for sale		185,036							185,036
Depreciation and amortization	1,406,622	1,126,536							2,533,158
Interest expense		56,486,645							56,486,645
Origination of housing program loans		(50,468,200)							(50,468,200)
Collections of housing program loans		25,569,912							25,569,912
Changes in operating assets and liabilities									(245,002)
Interest receivable on housing program loans		(245,002)							(245,002)
Increase in other assets	10,170,718	588,190							10,758,908
Increase (decrease) in other liabilities	1,349,182	2,855,278	(175,356)	(12,390)	(5,844)	(371)	(2,387,544)	1,731,591	
Due from/to governmental funds	(6,303,598)	(41,083,851)							(47,387,449)
NET CASH PROVIDED BY (USED IN)	<u>\$ (13,645,169)</u>	<u>\$(58,772,653)</u>	<u>\$ 3,152,435</u>	<u>\$ (16,380)</u>	<u>\$ (7,556)</u>	<u>\$ (2,619,019)</u>	<u>\$ (116,327)</u>	<u>\$ 1,731,591</u>	<u>\$ (70,293,078)</u>
OPERATING ACTIVITIES									

See notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total Enterprise Funds
Noncash investing and noncapital financing activities:									
Accretion of discount on investment securities	\$ 12,957,342	\$ 12,629,939	\$ 864,625	\$ -	\$ 3,847	\$ -	\$ -	\$ (12,368,600)	\$ 14,087,153
Capitalized interest on loans and other	28,142,139	3,721,006	10,557,068					(8,864,142)	33,556,071
Mortgage loans issued not requiring cash disbursement:		29,060,000							29,060,000
Decrease in fair value of real estate held for sale transferred to other receivables	(37,637,417)								(37,637,417)
Transfer of real estate available for sale to capital assets	56,454,861								56,454,861
Accretion of premium (discount) on:									
Deposits	(12,368,600)							12,368,600	
Bonds payable	2,132,926							21,161,794	(18,526,697)
Increase (decrease) in fair value of investments	33,805,166	(32,957,275)	(8,864,142)			(1,772,020)			40,885,511
Amortization of bond issue cost (included in interest expense)	20,183,224	7,131,672	14,018,345						21,126,597
Amortization of deferred loss		943,373							309,144
Transfer of mortgage loans receivable to other real estate held for sale		309,144							1,628,792
		1,628,792							
									(Concluded)

See notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

1. REPORTING ENTITY

Government Development Bank for Puerto Rico (the "Bank" or "GDB") is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth") created by Act No. 17 of September 23, 1948, as amended. The Bank's principal functions are to act as fiscal agent for the Commonwealth and its public entities and to make loans to public entities and private enterprises, which will further the economic development of Puerto Rico. The charter of the Bank provides for its perpetual existence, and no amendment to the charter, or to any other law of Puerto Rico, shall impair any outstanding obligations or commitments of the Bank. The Bank is exempt from taxation in Puerto Rico. The Bank's charter, as amended, allows the Bank to invest in securities issued by any corporate entity engaged in the economic development of Puerto Rico, as well as to guarantee loans and other obligations incurred by public and private entities.

Pursuant to Act No. 82 of June 16, 2002, which amended the Bank's enabling legislation, the Bank may transfer annually to the general fund of the Commonwealth up to 10% of its net income or \$10 million, whichever is greater. Management of the Bank has defined net income as the increase in unrestricted net assets of business-type activities for a fiscal year. The Bank's board of directors approved such definition. The Bank did not make this transfer for the year ended June 30, 2011.

The Bank has the following blended component units: Puerto Rico Housing Finance Authority (the "Housing Finance Authority"), Puerto Rico Tourism Development Fund (the "Tourism Development Fund"), Puerto Rico Development Fund (the "Development Fund"), Puerto Rico Public Finance Corporation (the "Public Finance Corporation"), Government Development Bank for Puerto Rico Capital Fund (the "Capital Fund"), José M. Berrocal Finance and Economics Institute ("JMB Institute"), and Puerto Rico Higher Education Assistance Corporation (the "Education Assistance Corporation"). The balances and transactions of the component units discussed above have been blended with those of the Bank in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) because, while legally separate, they were created and can be dissolved through resolutions of the Bank's board of directors. The board of directors of each of the blended component units is substantially the same as that of the Bank. Financial statements of each major blended component unit may be obtained from the Bank.

The Housing Finance Authority (formerly known as the Puerto Rico Housing Finance Corporation) was created in 1977 to provide public and private housing developers with interim and permanent financing through mortgage loans for the construction, improvement, operation, and maintenance of rental housing for low and moderate-income families. The Housing Finance Authority also issues bonds and notes, the proceeds of which are deposited in separate trusts and generally invested in mortgaged-backed securities collateralized by mortgage loans on properties located in Puerto Rico purchased by low and moderate-income families. The Housing Finance Authority is authorized by the U.S. Department of Housing and Urban Development (HUD) to administer the U.S. Housing Act Section 8 program in Puerto Rico and to act as an approved mortgagor, both for multifamily rental units and for single-family homes. In addition, it is an authorized issuer of Government National Mortgage Association (GNMA) mortgage-backed securities, and is Puerto Rico's State Credit Agency for the Low-Income Housing Tax Credit Program under Section 42 of the U.S. Internal Revenue Code. Effective July 1, 2010, the Housing Finance Authority was also authorized by HUD to administer the HOME Investment Partnerships Program.

The Housing Finance Authority, in conjunction with the Puerto Rico Department of Housing, is the entity responsible for certifying projects under the New Secure Housing Program (known in Spanish as “Nuevo Hogar Seguro”), with the approval of the Federal Emergency Management Agency (FEMA). This program is directed to plan, coordinate, and develop the construction of new housing as a replacement to those destroyed by Hurricane Georges in 1998, and to attend the housing needs of families living in flood zone areas.

The Tourism Development Fund was created in 1993 to promote the hotel and tourism industry of the Commonwealth, primarily through the issuance of letters of credit and guarantees. The Tourism Development Fund is also authorized to make capital investments and provide direct financing to tourism-related projects.

The Development Fund was created in 1977 to expand the sources of financing available for the development of the private sector of the economy of Puerto Rico and to complement the Bank’s lending program. The Development Fund may also guarantee obligations of private sector enterprises and invest in their equity securities.

The Public Finance Corporation was created in 1984 to provide the agencies and instrumentalities of the Commonwealth with alternate means of satisfying financial needs. The resolution creating the Public Finance Corporation states that if it were to be dissolved or cease to exist without a successor public entity being appointed, any funds or assets not required for the payment of its bonds or any other obligation, will be transferred to the Secretary of the Department of the Treasury of the Commonwealth (the “Department of the Treasury”) for deposit in the Commonwealth’s general fund.

The Capital Fund was created in 1992 to expand the investment options available to the Bank and to administer, separately from the Bank’s general investment operations, an equity investments process through professional equity investment managers. On May 31, 2010, the board of directors of the Capital Fund authorized the transfer of its investments portfolio of approximately \$72 million to the Tourism Development Fund. The transfer was completed on June 30, 2010. The Capital Fund’s activities have been reduced significantly after June 30, 2010.

Other nonmajor funds include the JMB Institute and the Education Assistance Corporation. The JMB Institute was created in 2002 to complement the Bank’s mission of promoting economic development by providing specialized training on the theory and practice of public finances and economics to talented young professionals in order to attract them to join the public service. The Education Assistance Corporation was created in 1981 to administer the Stafford Loan Program in Puerto Rico and guarantee the payment of student loans granted by financial institutions in Puerto Rico under certain terms and restrictions. The operations of this fund were transferred to a guarantee agency designated by the U.S. Department of Education. The Education Assistance Corporation is currently inactive.

To minimize its risk of loss, the Bank purchases insurance coverage for public liability, hazard, automobile, crime, and bonding as well as workmen’s insurance for employees. The selection of the insurer has to be approved by the Public Insurance Office of the Department of the Treasury. Insurance coverage is updated annually to account for changes in operating risk. For the last three years, insurance settlements have not exceeded the amount of coverage.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America (U.S. GAAP), as applicable to governmental entities. The Bank follows

Governmental Accounting Standards Board (GASB) statements under the hierarchy established by Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in the preparation of its financial statements. The Bank has elected to apply all Financial Accounting Standards Board's pronouncements issued after November 30, 1989, in accounting and reporting for its enterprise funds and business type activities to the extent they do not conflict with GASB pronouncements.

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

Government-Wide and Fund Financial Statements:

Government-Wide Financial Statements — The statement of net assets (deficiency) and the statement of activities report information on all activities of the Bank. The effect of interfund balances has been removed from the government-wide statement of net assets, except for the residual amounts due between governmental and business-type activities. Interfund charges for services among functions of the government-wide statement of activities have not been eliminated. The Bank's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through intergovernmental revenues and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services and interest earned on investment securities and loans. Following is a description of the Bank's government-wide financial statements.

The statement of net assets (deficiency) presents the Bank's assets and liabilities, with the difference reported as net assets (deficiency). Net assets are reported in three categories:

- Invested in capital assets, net of any related debt, consists 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 result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets (deficiency) consist of net assets (deficiency) that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on use that are imposed by management, but such constraints may be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include: (1) interest income on loans and investments, changes in the fair value of investments, and fees and charges to customers for services rendered or for privileges provided, and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements — Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of

the Bank that are reported in the accompanying basic financial statements have been classified into governmental and enterprise funds.

Separate financial statements are provided for governmental funds and enterprise funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column. Fund balances at the beginning of the year are restated to reflect changes in major fund definition. In the case of enterprise funds, each individual blended component unit of the Bank with the exception of JMB Institute and Education Assistance Corporation, which have been grouped as other nonmajor funds, has been reported as a separate major fund in the fund financial statements. In the case of the Housing Finance Authority, all of its activities not classified and reported as governmental funds have been reported as an enterprise fund.

Fund balances for each governmental fund are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- **Nonspendable** — amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- **Restricted** — amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- **Committed** — amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority.
- **Assigned** — amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- **Unassigned** — amounts that are available for any purpose.

Measurement Focus, Basis of Accounting, and Financial Statements Presentation:

Government-Wide Financial Statements — The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are 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 revenues as soon as all eligibility requirements imposed by the provider have been met.