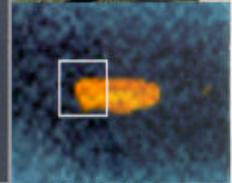




# Commonwealth of Puerto Rico

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## Comprehensive Annual Financial Report



Fiscal Year Ended June 30, 1999



Approved by the State Electoral Commission of Puerto Rico.



# Commonwealth of Puerto Rico

## Comprehensive Annual Financial Report

### About our Cover:

The Commonwealth of Puerto Rico has continued its commitment to provide effective and efficient services to the people of Puerto Rico.

As Puerto Rico enters the new millennium, the Island has embarked on a series of projects that will bring major improvements in urban renewal, mass transportation and economic development.

The Golden Triangle is one of the most ambitious urban renewal projects ever seen on the Island. Encompassing the areas of Old San Juan, Condado and Isla Grande/Santurce, this project will include the new Puerto Rico Convention Center at the Americas World Trade District. San Juan's waterfront will undergo a major transformation, providing residents and tourists alike with residential, tourist and commercial facilities, as well as a variety of recreational venues.

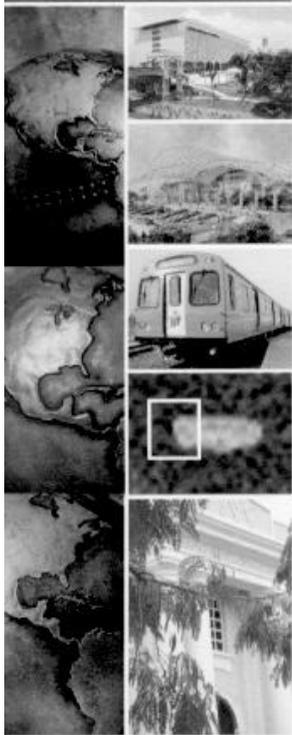
The Urban Train being developed by the Puerto Rico Highway Authority is scheduled to start operations in 2001. This project is the beginning of the Island's first comprehensive mass transportation system and will contribute greatly to reducing metropolitan vehicular congestion.

The Technological Corridor, designated in the area between Aguadilla and Mayagüez, provides investors and high technology manufacturers with the infrastructure and transportation facilities to meet that economic sector's needs.

Puerto Rico's government has also worked hard to improve the Island's quality of life. A major example of this is the administration's commitment to the Puerto Rico Art Museum, scheduled for completion in the year 2000. The Museum is a fine example of what can happen when both sectors, public and private, join efforts for the benefit of all Puerto Ricans.



Fiscal Year Ended June 30, 1999



# **COMMONWEALTH OF PUERTO RICO**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT FISCAL YEAR ENDED JUNE 30, 1999**

**Prepared by the Puerto Rico Department of the Treasury**

**Xenia Vélez Silva, Esq., CPA  
Secretary of the Treasury**

**Humberto Cuevas Figueroa  
Assistant Secretary of Central Accounting**

**Joana Torres Russe  
Deputy Assistant Secretary of Central Accounting**

**JANUARY 14, 2000**

# **COMMONWEALTH OF PUERTO RICO TREASURY DEPARTMENT**

## **MISSION OF THE ORGANIZATION**

Establish and carry out the fiscal policies of the Commonwealth of Puerto Rico by enacting a fair and equitable tax system; broaden and balance the taxpayers base; achieve an effective collection of the tax levied and maintain an adequate oversight of the public disbursements, thus promoting: the social and economic development of Puerto Rico, and the trust of the people on its government.

## **ORGANIZATIONAL VALUES**

Our organizational values are focused in our commitment to honesty, integrity, loyalty, justice, sensibility, efficiency, responsibility, accessibility, innovation, professional management, quality and excellence in our functions and services.

## **PURSUIT OF EXCELLENCE**

The products and services of the Department of Treasury shall be considered by our clients as the best. In order to achieve this, we will continuously improve them. Our leaders and fellow workers will be highly admired and respected. Together with other governmental entities and component units of our economy, we will position Puerto Rico as a symbol of excellence.

# COMMONWEALTH OF PUERTO RICO

## COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 1999

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# **INTRODUCTORY SECTION**



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WINNER: TOTAL EXCELLENCE - GOVERNOR'S AWARD FOR QUALITY IN THE PUBLIC SECTOR 1995-1996

Xenia Vélez Silva  
Secretary

January 14, 2000

To 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 of the Commonwealth of Puerto Rico for the fiscal year ended June 30, 1999. The Puerto Rico Treasury Department has prepared the report. The responsibility for both the accuracy of presented data and the completeness and fairness of presentation, including all of the disclosures, rests on the Commonwealth's management. To the best of our knowledge and belief, the enclosed 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 various funds, account groups and component units of the Commonwealth. We have included all the necessary disclosures to enable the reader to gain a thorough understanding of the Commonwealth's activities.

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial and Statistical. 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, the Commonwealth's organization chart, and a reproduction of the Certificate of Achievement for Excellence in Financial Reporting that the Commonwealth received for its fiscal year 1998 report. The Financial section includes the general purpose financial statements, the combining and individual fund and account group financial statements and schedules, as well as the independent auditors' report on the general-purpose financial statements. The Statistical section, which is not audited, includes selected financial and demographic information, generally presented on a multi-year basis.

The financial reporting entity includes all funds and account groups of the Commonwealth of Puerto Rico, which is the primary government, as well as of all its 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

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are such that exclusion would cause the Commonwealth's general purpose 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 are reported in separate columns in the combined financial statements to emphasize that they are not part of the primary government and to differentiate their financial position, results of operations and cash flows 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 general purpose financial statements included in the financial section of this Comprehensive Annual Financial Report 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
- Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities
- Puerto Rico Judiciary Retirement System
- Puerto Rico Annuities and Pensions System for Teachers

#### Discretely Presented Component Units

- Puerto Rico Highway and Transportation Authority
- University of Puerto Rico
- University of Puerto Rico Retirement System
- Government Development Bank for Puerto Rico and Subsidiaries
- Puerto Rico Electric Power Authority
- Puerto Rico Aqueduct and Sewer Authority
- Puerto Rico Council on Higher Education
- Puerto Rico Telephone Authority
- Puerto Rico Government Investment Trust Fund
- Puerto Rico Housing Bank and Finance Agency



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- State Insurance Fund Corporation
- Economic Development Bank for Puerto Rico
- Puerto Rico Industrial Development Company
- Puerto Rico Ports Authority
- Puerto Rico Municipal Financial Agency
- Puerto Rico Infrastructure Finance Authority
- Sugar Corporation of Puerto Rico
- Puerto Rico School of Plastic Arts
- Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority
- Caribbean Basin Projects Financing Authority
- Automobile Accident Compensation Administration
- Puerto Rico Metropolitan Bus Authority
- Puerto Rico Public Broadcasting Corporation
- Puerto Rico Solid Waste Authority
- Tourism Company of Puerto Rico
- Employment and Training Enterprises Corporation and Subsidiary
- Industries for the Blind, Mentally Retarded and Other Disabled Persons of Puerto Rico
- Institutional Trust of the National Guard of Puerto Rico
- Musical Arts Corporation and Subsidiaries
- Puerto Rico Conservatory of Music Corporation
- Corporation of Stocks and Deposits Insurance for the Savings and Loans Cooperatives
- Puerto Rico Land Administration
- Puerto Rico Health Insurance Administration
- Land Authority of Puerto Rico
- Fine Arts Center Corporation
- Right to Employment Administration
- Farm Insurance Corporation of Puerto Rico
- Puerto Rico Medical Services Administration
- Puerto Rico and Caribbean Cardiovascular Center Corporation
- Commercial and Farm Credit and Development Corporation for Puerto Rico
- Recreational Development Company of Puerto Rico



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- Farm Credit Guarantee Fund and Guarantee Loan Fund for Eligible Businesses of Puerto Rico
- Agricultural Services and Development Administration
- Trust for the Conservation, Operation, and Maintenance of the Puerto Rico National Parks
- Medical University Service Inc.

### **Local Economic Condition and Outlook**

The Government of Puerto Rico has established policies and programs directed at developing the manufacturing and services sectors of the economy, including the tourism industry, and expanding and modernizing the Island's infrastructure. Selective tax exemption, development loans, and other financial and tax incentives have stimulated domestic and foreign investment. Infrastructure expansion and modernization have been to a large extent financed by bonds and notes issued by the Commonwealth, its public corporations and municipalities. Economic progress has been aided by significant increases in the levels of education and occupational skills of the Island's population.

The dominant sectors of the Puerto Rico economy are manufacturing and services. The manufacturing sector has undergone a fundamental change over the years as a result of increased emphasis on higher-wage and high technology industries, such as pharmaceuticals, electronics, computers, microprocessors, professional and scientific instruments, and certain high technology machinery and equipment. The services sector, including finance, insurance, real estate, wholesale and retail trade, and hotel and related services, also plays a major role in the economy. It ranks second only to manufacturing in contribution to the gross domestic product and leads all sectors in providing employment. In recent years, the services sector has experienced significant growth.

The economy of Puerto Rico is fully integrated with that of the United States mainland. During fiscal 1999, approximately 87% of Puerto Rico's exports went to the United States mainland, which was also the source of approximately 60% of Puerto Rico's imports.

The local economy was bruised in the first half of the fiscal year 1999 by Hurricane Georges, which affected all sectors in the economy. Rapid response by the government, the citizenry and the private sector, as well as grants and other federal aid received, helped to counter any ill-effects of the hurricane on the economic growth of the Island.



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In fact, the aftermath of the situation was a growth rate higher than that for previous years. The preliminary estimate of real economic growth for the fiscal year 1999 reached 4.2%. This growth rate is the highest for any year of this decade and outpaces the 3.1% average growth since fiscal year 1993. The gross product at current prices for the fiscal year 1999 was \$38.1 billion, which represents an increase of 9.4% over the \$34.8 billion for fiscal year 1998.

All components of real Gross Product reflected increases in fiscal year 1999. Investment in construction, machinery and equipment showed an extraordinary expansion over previous years. This significant increase in investment creates a solid base for economic growth in years to come.

Average employment increased from 999,000 in fiscal 1993 to 1,147,000 in fiscal 1999. Average unemployment, in turn, decreased from 16.8% in fiscal 1993 to 12.5% in fiscal 1999, the lowest rate since 1974. According to the Labor Department's Household Employment Survey, during fiscal 1999, total employment increased 10,000 over fiscal 1998.

#### **Sections 30A and 936 of the United States Internal Revenue Code**

For many years, United States companies operating in Puerto Rico enjoyed a special tax credit that was available under Section 936 of the United States Internal Revenue Code. Originally, the credit provided an effective 100% federal income tax exemption for most operating income, as well as qualifying investment income, from Puerto Rico sources. Amendments to Section 936 made in 1993 (the "1993 Amendments") instituted two alternative methods for calculating the tax credit and limited the amount of the credit that a qualifying company can claim. These limitations are based on a percentage of qualifying income (the "percentage of income limitation") and on qualifying expenditures for wages, other wage related benefits and other qualifying costs and expenses (the "economic activity limitation", also known as the "wage credit limitation").

As a result of amendments incorporated in the Small Business Job Protection Act of 1996, enacted by the United States Congress and signed into law by President Clinton on August 20, 1996 (the "1996 Amendments"), the tax credit is now being phased out over a ten-year period for existing 936 credit claimants and is no longer available for corporations that established operations in Puerto Rico after October 13, 1995 (including existing Section 936 Corporations, if they establish new product lines in Puerto Rico). The 1996 Amendments also moved the credit based on economic activity to Section 30A of the Code and phased it out over 10 years. In



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addition, the 1996 Amendments eliminated the credit previously available for income derived from certain qualified investments in Puerto Rico. The Commonwealth of Puerto Rico does not believe there will be short-term or medium-term material adverse effects on Puerto Rico's economy as a result of the enactment of the 1996 Amendments. The Commonwealth of Puerto Rico further believes that the phase-out period allows sufficient time to implement additional incentive programs to safeguard Puerto Rico's competitive position.

### **Major Initiatives**

#### *Reductions in Tax Rates and Other Tax Administration Initiatives*

In 1993, the Government of Puerto Rico adopted the goal of reducing taxes as a public policy priority. The Tax Reform of 1994 was designed and implemented from this point of view. It was a major overhaul of the tax system, which included a creation of the Tax Code and returned \$400 million to taxpayers. Individuals received benefits of approximately \$284 million, a reduction of 20% in their tax liabilities.

Measures and policies implemented by the Treasury Department have proved successful in raising fiscal revenues over the last six years. Fiscal buoyancy has certainly been helped by favorable economic conditions, as well as by the effects of sound economic policies adopted by our Government. The joint effect of all these factors is a quantum leap in the net fiscal revenues, from \$4,025 million in fiscal year 1993 to \$6,507 million in fiscal year 1999, an increase of \$2,482 million, or 62% in just six years. Also, the Treasury Department had been effective in reducing individual tax evasion, from 26% in taxable year 1992 to 16% in 1997.

The excellent performance of tax revenues has allowed Government to reduce the tax burden of the people, particularly of those in the middle income brackets, who historically had to bear the heavier burden in our tax system.

It was also from this perspective that Governor Rosselló approved in 1999 another tax reduction to individuals. The 1999 Tax Reduction will reduce income tax liabilities of individuals by 11.4%, and grant \$282 million in tax benefits. The working middle class will have an average benefit of 15% per taxpayer, and will receive 89% of the total tax benefits to be granted by the 1999 Tax Reduction.



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The Tax Reduction will be implemented in two phases, beginning on January 1, 2000. The second phase will begin on January 1, 2001.

The Puerto Rico Treasury Department has designed and implemented certain administrative programs, such as the Administrative Reform, that have transformed the organizational structure of the Department. This has entailed changing the management and reporting concept from bureaus that manage particular laws to bureaus that manage similar functional activities, as well as reorganizing the Island in five regions, and transferring the management of local collectors' offices to such regions.

The Puerto Rico Treasury Department is in the final stages of installing the Puerto Rico Integrated Tax Administration System (PRITAS). This is a new computerized system, which integrates the administration of Puerto Rico's tax base. It will improve taxpayer compliance and will increase productivity and efficiency, resulting in increased tax collections. Conversion to the new system has been completed for corporate income taxes, employer withholding taxes, excise taxes and internal revenue licenses.

#### *Improvements to Payroll and Accounting Systems*

The Puerto Rico Treasury Department has implemented two additional new systems:

##### Human Resources and Payroll System

This is a client server system that integrates and mechanizes the human resources and payroll functions. This system, which is year 2000 compliant, improves the processes and decentralizes the functions of data entry and validation of information at the agencies.

##### Puerto Rico Integrated Financial Accounting System (PRIFAS)

PRIFAS is the new client-server integrated financial accounting system. As of July 1, 1999, Phase II of PRIFAS was completed. This phase includes the Asset Management module and upgrading the application to a new version (7.0).

PRIFAS' implementation and remote connection to all the agencies of the primary government of Puerto Rico will be completed by the year 2000. In addition to the implementation of PRIFAS, the Puerto Rico Treasury Department is reengineering its existing processes and



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upgrading its technical infrastructure to support the new systems. PRIFAS is year 2000 compliant.

#### *Public Sector Debt*

Historically, the Commonwealth has maintained a fiscal policy which provides for a prudent relationship between the growth of public sector debt and the growth of the economic base required to service that debt. The Commonwealth of Puerto Rico has also sought opportunities to realize debt service savings by refunding outstanding debt with obligations bearing lower interest rates. During fiscal years 1996, 1997 and 1998, however, public sector debt increased 26.6% while gross product increased 14.7%. During fiscal 1999, on the other hand, public sector debt increased 1.6% while gross product increased 9.4%. One of the reasons why the growth in public sector debt during fiscal 1999 was much lower than in prior fiscal years is that during fiscal 1999, \$756 million principal amount of bonds of the Telephone Authority were defeased in connection with the sale to a private company of a controlling interest in Puerto Rico Telephone Company. Without such defeasance, public sector debt would have grown 5.2% during fiscal 1999. The trend of higher levels of growth of public sector debt relative to the growth in Gross Product is expected to continue during the next fiscal years as the level of public sector capital investment remains high.

As of June 30, 1999, outstanding short-term debt, relative to total debt, was 7.8%.

#### *Health Reform Program*

One of the goals of the Governor is to change Puerto Rico's public health care system from one in which the government provides free health services to low income individuals through public health facilities owned and administered by the government, to one in which all medical services are provided by the private sector and the government provides comprehensive health insurance coverage for qualifying (generally low income) Puerto Rico residents. Under this new system, the Government selects, through a bidding system, one private health insurance company in each of several designated regions of the Island and pays such insurance company the insurance premium for each eligible beneficiary within such region.

This new health insurance system is now available in 77 municipalities out of a total of 78 on the Island. It is expected that the remaining municipality will be added by the end of fiscal year 2000. The total cost of this program will depend on the number of municipalities included in the



SECRETARY OF THE TREASURY

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program, the number of participants receiving coverage, and the date coverage commences. As of January, over 1.726 million persons were eligible for the program, of which 1.661 million persons were participating, receiving coverage at an estimated annual cost to the General Fund of Puerto Rico for fiscal 1999 of approximately \$720 million. In conjunction with this program, the operation of certain public health facilities has been transferred to private entities.

The Government's current privatization plan for health facilities provides for the transfer of ownership of all health facilities to private entities.

### *Prospects for the Future*

#### New Economic Model

The Governor has developed and is implementing a new economic development program, based on the premise that the private sector should provide the primary impetus for economic development and growth. This program, referred to as the New Economic Model, promotes changing the role of the government from one of provider of most basic services, to that of facilitator for private sector initiatives, and encourages private sector investment by reducing government-imposed regulatory constraints. The New Economic Model contemplates the development of initiatives that will foster private investment and private management of sectors that are served more efficiently and effectively by private enterprise. One of the initiatives already implemented is the adoption of a new tax code intended to expand the tax base, reduce the personal and corporate marginal tax rates and simplify the tax system, as mentioned before.

Also, this Model seeks to identify and promote those areas in which Puerto Rico can compete more effectively in the global markets. In this regard, tourism has been targeted as a priority because of its potential for job creation and increased contribution to the gross product, stemming from Puerto Rico's natural competitive advantage.

As part of the initiatives directed at promoting the tourism sector, in 1993 a new Tourism Incentives Act was enacted to provide special tax incentives for the development of new hotel projects. Also, in November 1993, the Tourism Development Fund was created for the purpose of promoting capital investments in and providing financing to entities that contribute to the development of the tourism industry. As a result of these initiatives, several new hotels have been constructed or are in the process of being constructed, increasing the number of total rooms on the Island from 8,415 at the end of fiscal 1992 to 11,095 by the end of fiscal 1999.



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Similar tax incentives have been enacted in other areas targeted by the New Economic Model as areas of opportunity for the promotion of local and foreign investment in Puerto Rico, such as agriculture, solid waste management and venture capital.

The New Economic Model is designed to help reduce the size of the government's direct contribution to Gross Domestic Product. As part of this goal, the Government has transferred certain governmental operations and sold a number of its assets to private parties:

- The Electric Power Authority entered into power purchase agreements with private power producers under which two cogenerating plants (with total capacity of approximately 874 megawatts) using fuel other than oil will be constructed, operated and owned by these producers.
- The Government has transferred to local sugar cane growers the sugar processing facilities formerly operated by the Sugar Corporation.
- Sale of the Puerto Rico Telephone Company.
- Sale of the majority of Public Health Facilities.

#### Investment in Infrastructure

Another initiative to promote economic development consists of improving and expanding Puerto Rico's infrastructure to facilitate private sector development and growth, such as the construction of a modern light rail system for the San Juan metropolitan area that will connect five densely populated sectors of the metropolitan area. This project is a \$1.6 billion venture and has been recognized by the Federal Transit Administration as one of the most cost effective mass transit projects in the United States. Another example of initiatives to improve and expand Puerto Rico's infrastructure is the construction of a major water pipeline at a cost of \$377 million, the North Coast Superaqueduct, that will supply water to fifteen municipalities along the north coast of the Island. These municipalities are: Arecibo, Barceloneta, Manatí, Vega Baja, Vega Alta, Dorado, Toa Alta, Toa Baja, Bayamón, Cataño, Guaynabo, San Juan, Carolina, Trujillo Alto and Caguas. These two projects will have significant social and economic impacts, including the creation of nearly 69,408 direct, indirect and induced jobs.



SECRETARY OF THE TREASURY

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## **Financial Information**

The management of the Commonwealth is responsible for establishing and maintaining an internal control structure that ensures that the 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 generally accepted accounting principles. The internal control structure is 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 an adequate internal control structure is 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 Single Audit Act of 1984, as amended. As a result, these 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.

## **Budgetary Controls**

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



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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 and the debt service funds are included in the annual appropriated budget. Budgetary control resides at the departmental 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 performance-based program budgeting and zero-based budgeting, includes an estimate of revenues 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 Planning Board.

The Legislature may amend the budget submitted by the Governor, but may not increase any 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 any new 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 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, the annual budget for the preceding fiscal year as originally 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 to pay its operating and other expenses until a new budget is approved.

### **General Government Functions**

General governmental activities are accounted for in three governmental fund types. These funds are general, debt service and capital projects.

As a result of the initiatives implemented by the Government, such as the approval of the Tax Reform, the Administrative Reform of the Puerto Rico Treasury Department, the aggressive identification of old debts and tax evaders, and the expansion of the taxpayer base, income tax revenues increased to \$4,391 billion in fiscal 1999, from \$3,973 in fiscal 1998, or 10.5%.



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Other increases in revenues are attributable to intergovernmental revenues, mainly composed of federal financial assistance programs. These revenues increased to \$2.939 billion in fiscal 1999 from \$2.930 in fiscal 1998, showing an increase in the level of federal spending in Puerto Rico.

**Enterprise Operations**

Comparative data for the Enterprise Funds for the past two fiscal years (expressed in thousands) follows:

	June 30, 1999	June 30, 1998	Increase (Decrease)
Operating Revenues	\$ 910,290	\$ 931,433	(\$21,143)
Operating Expenditures	<u>1,185,622</u>	<u>1,247,683</u>	<u>(62,061)</u>
	<u>(\$275,332)</u>	<u>(\$316,250)</u>	<u>\$40,918</u>

The Enterprise Funds realized a net loss of approximately \$275 million in 1999. The net loss for the fiscal year ended June 30, 1998 was \$316 million. The overall decrease in operating losses of \$41 million can be attributed to a decrease in the operating expenses of the Health Facilities and Services Administration of Puerto Rico of \$44 million. In addition, the operating revenues of the Additional Lottery System decreased by \$3 million in fiscal year 1999.

**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, other governmental units or other funds. These include the expendable trust, pension trust and agency funds. 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 Trust funds include the 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, Unemployment Trust Fund and the Health Facilities and Services Administration of Puerto Rico Trust Fund.



SECRETARY OF THE TREASURY

To the Honorable Governor of Puerto Rico, Members  
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Agency Funds include 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 Insurance Commissioner for escheated property and for insurance companies under bankruptcy.

### **Financial Advisor and Fiscal Agent**

The principal functions of the Government Development Bank for Puerto Rico (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.

GDB was the first governmental entity in Puerto Rico to obtain a Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report. It has received the award for the years ended June 30, 1994 through 1998. The GDB and Subsidiaries is presented as a discrete component unit.

### **Debt Administration**

As of June 30, 1999, the Commonwealth had a number of debt issues outstanding. These issues included approximately \$5.1 billion in general obligation bonds and approximately \$1.7 billion in revenue bonds. The Commonwealth has maintained an *A* credit rating from Standard and Poor's Corporation and a *Baa1* from Moody's Investor Service on general obligation bond issues, and we expect that these classifications will be maintained or improved in future years.

The Constitution of the Commonwealth limits the amount of debt service that can be incurred with respect to issued or guaranteed debt to 15% of internal revenues, as therein defined. As of June 30, 1999, the Commonwealth is in compliance with the debt limitation requirement. See the Computation of the Legal Debt Margin, Page No. 3 in the Statistical Section.

Revenue bonds include outstanding bonds issued by one blended component unit, the Public Buildings Authority (PBA), which had \$1.8 billion of revenue bonds outstanding at June 30, 1999.



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### **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 presented component unit, the State Insurance Fund Corporation, provides workers' compensation to both public and private employees.

### **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 GDB, a discretely presented component unit. In addition, the Puerto Rico Government Investment Trust Fund (Trust Fund) was created by the Commonwealth pursuant to Act No. 176 of August 11, 1995, and began operations on December 4, 1995.

The Trust Fund is a no-load diversified collective investment trust that was created for the purpose of providing eligible investors (mainly component units and the municipalities of Puerto Rico) 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 US Government securities, stocks, corporate bonds, repurchase agreements, Commonwealth securities, trading securities, and short-term investments. These are primary government investments that are restricted and unrestricted. The Statement of Investment Guidelines for the Government of Puerto Rico was approved by the GDB on February 22, 1996.

### **Other Information**

#### Independent Audit

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



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general purpose financial statements in accordance with generally accepted auditing standards for the fiscal years 1996-97 through 1999-2000. The independent auditors' report on the general purpose financial statements is included in the financial section of this report.

### Improvements in Financial Reporting

The Commonwealth has significantly improved its financial reporting practices and policies during the past six years. The general purpose financial statements, which used to take thirteen months to be released with several qualifications, are now prepared within six months after the close of the fiscal year. For fiscal years 1995-1996, 1996-1997 and 1997-1998, the general purpose financial statements were issued on or before December 31 with an unqualified opinion in the Independent Auditors' Report.

### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the Commonwealth of Puerto Rico for its Comprehensive Annual Financial Report (CAFR) for the fiscal years ended on June 30, 1996, 1997 and 1998. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for the preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conforms to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

### **Acknowledgments**

The preparation of this report could not have been accomplished without the efficient and dedicated efforts of Humberto Cuevas Figueroa and Joana Torres Russe from our accounting staff, as well as the rest of the personnel of the central government accounting area.



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Additionally, the executive and finance directors of the component units and agencies provided support and information on a timely basis for the completion of the general purpose financial statements and the sections of this report; their efforts are most appreciated. Due credit should also be given to the Honorable Pedro Rosselló for his unwavering support and commitment to better and improved fiscal and administrative policies, to the President and staff of the Government Development Bank for Puerto Rico, and to the Director and staff of the Office of Management and Budget of Puerto Rico. We would like to give special thanks to our independent auditors, Deloitte & Touche LLP, especially to Gilberto Del Valle, Pat Hardiman, Luis Rivera, Carlos Vázquez and Ivelisse Céspedes, for their excellent advice and steadfast commitment.

**Remember, Hacienda is at your service.**

Respectfully submitted,



Xenia Vélez Silva  
Secretary of Treasury



SECRETARY OF THE TREASURY

## FINANCIAL ANALYSIS

Tax revenues of the General Fund increased 10% while operating expenditures increased only 5%. Therefore the General Fund completed the year with a \$185 million unreserved fund balance. Unrestricted cash and investments of the General Fund increased 10% to \$550 million, 7% of total expenditures.

### GENERAL FUND

The General Fund completed the fiscal year in approximate balance with a \$60 million excess of revenues over expenditures. Income taxes grew 11% to \$4,414 million. Excise taxes grew 9% to \$1,701 million. Federal intergovernmental revenues increased 17%, largely as a result of assistance provided because of Hurricane Georges. This combined with only a 2% growth in total General Fund expenditures provided \$2082 million before other financing sources and uses.

	(IN MILLIONS)			
	1998	1999	<u>CHANGE</u>	
Tax Revenues				
Income	\$3,989	\$4,414	\$425	11%
Excise	1,558	1,701	143	9%
Other	<u>73</u>	<u>79</u>	<u>6</u>	<u>8%</u>
Total Taxes:	<u>\$5,620</u>	<u>\$6,194</u>	<u>\$574</u>	<u>10%</u>
Charges for Services	\$198	\$ 217	\$ 19	10%
Intergovernmental	2,785	3,272	487	17%
Other	<u>233</u>	<u>219</u>	<u>(14)</u>	<u>(6%)</u>
Total Revenues	<u>\$8,836</u>	<u>\$9,902</u>	<u>\$1,066</u>	<u>12%</u>
Expenditures				
Operating	\$7,273	\$7,648	\$ 375	5%
Capital	269	27	(242)	
Debt Service	<u>127</u>	<u>145</u>	<u>18</u>	
Total Expenditures	<u>\$7,669</u>	<u>\$7,820</u>	<u>\$ 151</u>	<u>2%</u>

The General Fund also benefited from the residual equity transfer of \$ 110 million from the transfer of responsibility of the Office for the Liquidation of the Accounts of the Puerto Rico Urban Renewal and Housing Corporation (previously discretely reported) to the Department of Housing.

Subsequent to the end of fiscal year 1999 the responsibility for the Health Facilities and Services Administration (reported as an Enterprise Fund) was transferred to the Department of Health. The General Fund will therefore assume a \$160 million cumulative deficit.

### DEBT SERVICE FUNDS

Debt Service Fund payments dropped 24% from \$ 853 million in fiscal year 1998 to \$ 649 million in fiscal year 1999 reflecting the cash flow effects of prior year debt restructuring. The pace of such restructuring, slowed to \$118 million in fiscal year 1999 from \$547 million in fiscal year 1998.

## CAPITAL PROJECTS FUNDS

The pace of capital outlays and financing slowed in fiscal year 1999. Outlays were \$614 million compared to \$724 million in fiscal year 1998 largely due to a \$71 million decrease in spending by the Public Building Authority. Spending by the Office for the Improvement of Public Schools increased to \$102 million in fiscal year 1999 compared to \$89 million in fiscal year 1998.

The Capital Projects Funds balance of unexpended bond proceeds was \$743 million at June 30, 1999 compared to \$974 million the prior year.

	CAPITAL OUTLAYS			DEBT PROCEEDS		
	1998	1999	CHANGE	1998	1999	CHANGE
Commonwealth	\$ 430	\$ 379	\$ (51)	\$ 505	\$ 480	\$ (25)
Public Building Authority	205	134	(71)	0	0	0
Public Schools	<u>89</u>	<u>102</u>	<u>13</u>	<u>459</u>	<u>0</u>	<u>(459)</u>
	<u>\$ 724</u>	<u>\$ 615</u>	<u>\$(109)</u>	<u>\$ 964</u>	<u>\$ 480</u>	<u>\$(484)</u>

## ENTERPRISE FUNDS

In fiscal year 1999, Enterprise Funds were comprised of the two lottery funds and the Health Facilities and Services Administration. Revenues and expenditures of the lotteries remained unchanged in fiscal year 1999.

The Commonwealth adopted Health Care Reform in 1993, which changed the functions of the Health Facilities and Services Administration from health care providers to regulators and evaluators of health services provided by the private sector. The transition has occurred through fiscal year 1999. Subsequent to fiscal year end the responsibilities were transferred to the Department of Health. Activity and accounts previously reported in an Enterprise Fund were transferred to other governmental funds.

## TRUST AND AGENCY FUND

Trust and Agency Funds are substantially comprised of the Unemployment Trust Fund and the three Pension Trust Funds.

Unemployment Trust Fund revenue declined to \$288 million in fiscal year 1999 from \$370 million in 1998. The fund balance at June 30, 1999 was \$744 million.

	(in millions)	
	1998	1999
Unemployment taxes	\$ 248	\$ 247
Other revenues	122	42
Expenditures	387	365

The Pension Trust Funds net assets available for pension benefits grew to \$4,245 million at June 30, 1999 compared to \$3,878 million the prior year. The funded ratios of the plans, however, remained relatively constant because employer contribution rates are statutorily set at rates less than would be actuarially required.

	FUNDED RATIOS	
	1998	1999
Employees	22%	22%
Teachers	66%	68%
Judiciary	70%	63%

## LONG-TERM DEBT

Commonwealth long-term debt increased \$576 million in fiscal year 1999 primarily because debt issuances exceeded redemptions by \$208 million and the net pension obligations increased \$309 million.

LONG-TERM DEBT	(in millions)		CHANGE
	1998	1999	
Debt payable to component units	\$ 1,293	\$ 1,222	\$ (71)
Bonds payables	6,601	6,808	208
Notes payables	21	45	24
Accrued Compensated Absences	746	811	65
Other long term liabilities	604	646	42
Net pension obligation	<u>2,048</u>	<u>2,356</u>	<u>308</u>
Total Liabilities	<u>\$11,313</u>	<u>\$11,889</u>	<u>\$ 576</u>

## PUBLIC UNIVERSITY FUNDS

Revenues and expenditures in the Public University Fund remained relatively constant in fiscal year 1999.

	(in millions)	
	1998	1999
Commonwealth transfer	\$ 596	\$ 610
Other revenues	<u>294</u>	<u>311</u>
	890	921
Expenditures and transfer	<u>(876)</u>	<u>(938)</u>
Change in Fund Balance		
Unrestricted and Restricted	<u>\$ 14</u>	<u>\$ (17)</u>

## COMPONENT UNITS

The Commonwealth relies extensively on its 50 component units to carry out its responsibilities. Their activities are varied and complex. Assets rose from \$28,542 million at June 30, 1998 to \$32,930 million at end of fiscal year 1999 compared to liabilities of \$20,366 million and \$23,682 million respectively. Net income rose to \$95 million from \$6 million in fiscal year 1998. This combined with the net results from governmental operations and other equity transactions increased combined retained earnings to \$2,397 million. More than \$1,430 million was expended on the acquisition of capital assets.

In addition, in fiscal year 1999, the Commonwealth completed the sale of the Puerto Rico Telephone Authority for \$2 billion. The proceeds were transferred for infrastructure investments.

# GENERAL INFORMATION ABOUT PUERTO RICO

## Geography and Population

Puerto Rico, the fourth largest of the Caribbean islands, is located approximately 1,600 miles southeast of New York City. It is approximately 100 miles long and 35 miles wide.

According to the United States Census Bureau, the population of Puerto Rico was approximately 3,522,037 as of April 1, 1990, compared to 3,196,520 in 1980. According to estimates of the Census Office in the Planning Board and the United States Census Bureau, the population of Puerto Rico increased to 3,889,507 as of July 1, 1999. As of July 1, 1998, the population of San Juan, the island's capital and largest city, was 439,427.

## History and Relationship with the United States

Columbus discovered Puerto Rico in 1493, and shortly thereafter the Island was conquered and settled by the Spaniards. It remained a Spanish possession for four centuries.

Puerto Rico came under United States sovereignty pursuant to the Treaty of Paris, signed on December 10, 1898, which ended the Spanish-American War. Puerto Ricans became citizens of the United States in 1917, with the approval of the Jones Act by the United States Congress. In 1950, after a long evolution toward greater self-government, Congress enacted Public Law 600 which provided that the existing political, economic and fiscal relationship between Puerto Rico and the United States would remain the same, but Puerto Rico would be authorized to draft and approve its own constitution, guaranteeing a republican form of government. The Constitution was drafted by a popularly elected constitutional convention, approved in a special referendum by the people of Puerto Rico, amended and ratified by the United States Congress, and subsequently approved by the President of the United States. Puerto Rico's constitutional status is that of a territory of the United States, and pursuant to the territorial clause of the Federal Constitution, the ultimate source of power over Puerto Rico is the United States Congress. The relationship between the United States and Puerto Rico is referred to herein as *Commonwealth* status.

Puerto Rico exercises virtually the same control over its internal affairs, as do the fifty states; however, it differs from the states in its relationship with the federal government. The people of Puerto Rico are citizens of the United States but do not vote in national elections. They are represented in Congress by a Resident Commissioner who has a voice in the House of Representatives and limited voting power. Most federal taxes, except Social Security and other similar taxes, are not levied in Puerto Rico. No federal income tax is collected from Puerto Rico residents on income earned in Puerto Rico, except for certain federal employees who are subject to taxes on their salaries. Income earned by Puerto Rico residents from sources outside of Puerto Rico, however, is subject to federal

income tax. Federal excise taxes on shipments of alcoholic beverages from Puerto Rico (which are \$11.30 per gallon through October 1, 1998 and \$10.50 per gallon thereafter) and other taxes on shipments of tobacco products from Puerto Rico to the mainland are returned to the Puerto Rico Treasury Department.

The official languages of Puerto Rico are Spanish and English. Although the culture of Puerto Rico is primarily Hispanic, a considerable intermingling of Hispanic and United States cultures have occurred.

### Governmental Structure

The Constitution of the Commonwealth of Puerto Rico provides for the separation of powers of the executive, legislative and judicial branches of government. The Governor is elected every four years. The Legislature consists of a Senate and a House of Representatives, the members of which are elected for four-year terms. The highest court within the local jurisdiction is the Supreme Court of Puerto Rico. Decisions of the Supreme Court of Puerto Rico may be appealed to the Supreme Court of the United States under the same terms and conditions as decisions from state courts. Puerto Rico constitutes a District in the Federal Judiciary System and has its own United States District Court. Decisions of this court may be appealed to the United States Court of Appeals for the First Circuit and from there to the Supreme Court of the United States.

# COMMONWEALTH OF PUERTO RICO

## PRINCIPAL OFFICIALS

**Pedro J. Rosselló**  
*Governor*

### *Members of the Cabinet*

**Angel Morey**  
Chief of Staff

**Angel Morey**  
Secretary of State

**Angel Rotger Sabat**  
Secretary of Justice

**Xenia Vélez Silva**  
Secretary of the Treasury

**Víctor Fajardo**  
Secretary of Education

**Aura González**  
Secretary of Labor and Human  
Resources

**Carmen Feliciano de Melecio**  
Secretary of Health

**Miguel A. Muñoz Muñoz**  
Secretary of Agriculture

**Sergio González**  
Secretary of Transportation and  
Public Works

**Xavier Romeu**  
Secretary of Economic  
Development and Commerce

**Angie Varela**  
Secretary of Family Affairs

**Carlos González Sánchez**  
Secretary of Housing

**Daniel Pagán Rosa**  
Secretary of Natural and  
Environmental Resources

**José A. Alicea**  
Secretary of Consumer Affairs

**Eric R. Labrador Rosa**  
Secretary of Sports and Recreation

**Zoé Laboy Alvarado**  
Secretary of Correction  
and Rehabilitation

**Pedro Toledo**  
Commissioner of Protection  
and Public Safety

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### *LEGISLATIVE OFFICERS*

**Charlie Rodríguez**  
President, Senate

**Edison Mislá Aldarondo**  
Speaker, House of Representatives

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### *FISCAL OFFICERS*

**Jorge E. Aponte Hernández**  
Director, Office of Management and  
Budget

**Lourdes M. Rovira**  
President, Government Development  
Bank for Puerto Rico

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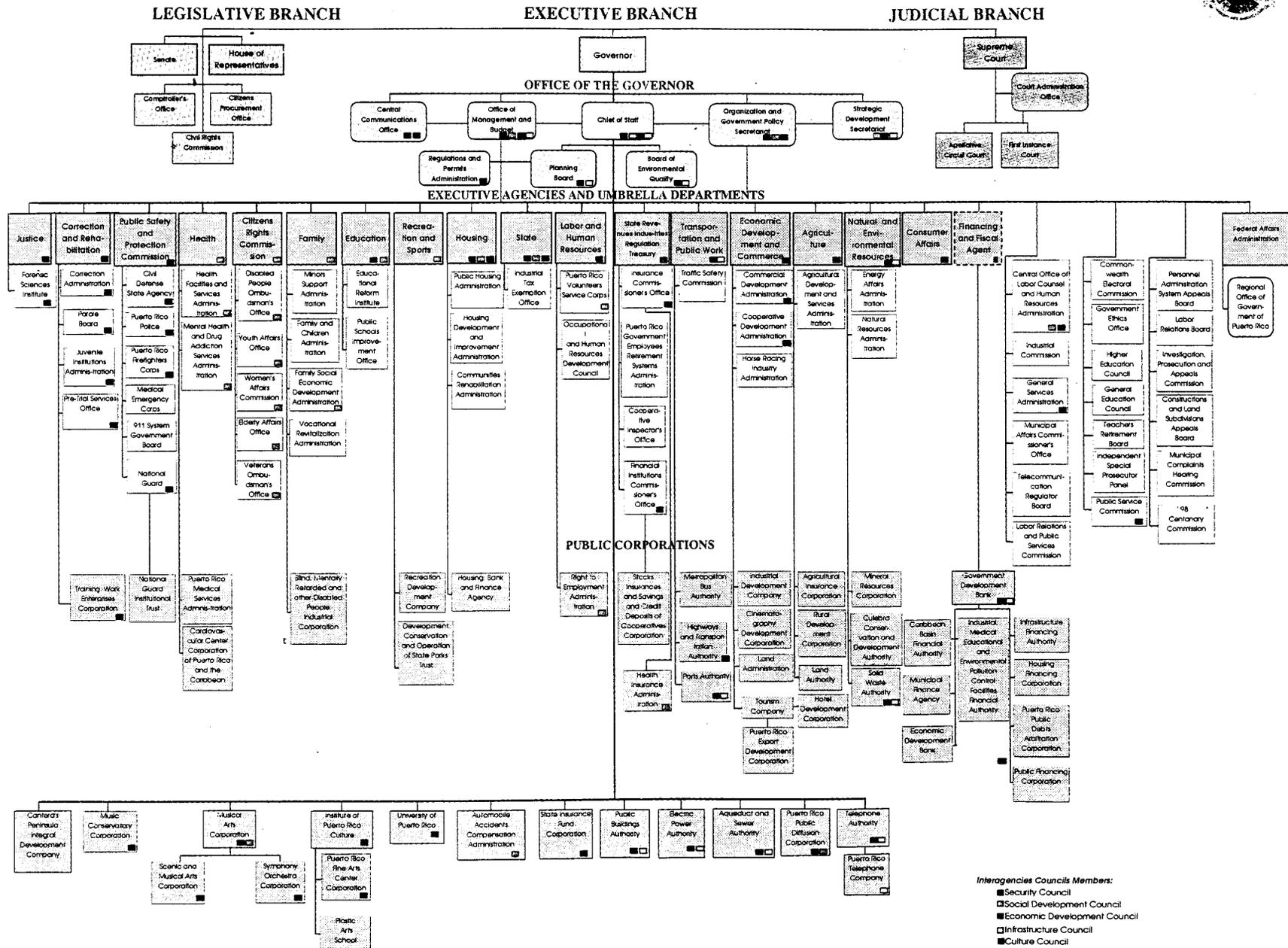
### *OTHERS*

**José R. Caraballo Mercado**  
President, Planning Board

**Alcides Ortiz**  
Director, Federal Affairs Office

# GOVERNMENT OF PUERTO RICO ORGANIZATION

## OPERATION CHART



**Interagency Councils Members:**

- Security Council
- Social Development Council
- Economic Development Council
- Infrastructure Council
- Culture Council

\* The last operation day of the Commission, by law will be at February 28, 2001.

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Commonwealth of Puerto Rico

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 1998

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Cary Brueck*  
President

*Jeffrey L. Esser*  
Executive Director

## **FINANCIAL SECTION**



## INDEPENDENT AUDITORS' REPORT

The Honorable Governor of the  
Commonwealth of Puerto Rico  
San Juan, Puerto Rico

We have audited the accompanying general purpose financial statements of the Commonwealth of Puerto Rico (the Commonwealth) as of June 30, 1999, and for the year then ended, listed in the table of contents. These general purpose financial statements are the responsibility of the management of the Commonwealth. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Pension Trust funds, the Public University funds, and the following activities and component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the General fund, Pension Trust funds, Public University funds and the following activities and component units, is based solely on the reports of the other auditors:

- Office for the Administration of the Assets of the Puerto Rico Urban Renewal and Housing Corporation, which represents 6 % of total net-assets available of the general fund.
- Health Facilities and Services Administration of Puerto Rico, an enterprise fund, which represents 52% and 21%, respectively, of total assets and operating revenues of the enterprise funds.
- The Additional Lottery System, an enterprise fund, which represents 40% and 28%, respectively, of total assets and operating revenues of the enterprise funds.
- Entities identified in Note 2, that are presented as component units-other, which represent 55% and 46%, respectively, of the total assets and operating revenues of the component units-other column.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes 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 the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth of Puerto Rico as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund types, similar trust funds and discretely presented component units-other for the year then ended in conformity with generally accepted accounting principles.

The year 2000 supplementary information is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issued and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that the Commonwealth is or will become year 2000 compliant, that the Commonwealth's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Commonwealth does business are or will become year 2000 compliant.

As discussed in Note 19 to the general purpose financial statements, certain changes were made to the accounts and classifications of funds effective July 1, 1998. Accordingly, beginning fund balances/retained earnings of the funds and component units – other and the beginning balances of the account groups have been restated

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements of the Commonwealth. These financial statements and schedules are also the responsibility of the management of the Commonwealth. Such additional information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based on our audit and the reports of other auditors referred to in the first paragraph, are fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

The introductory and statistical sections of this report listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Commonwealth. Such additional information has not been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, accordingly, we express no opinion on it.

*Deloitte & Touche LLP*

January 14, 2000

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affixed to original.

COMMONWEALTH OF PUERTO RICO

COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS  
 JUNE 30, 1999 (Expressed in Thousands)

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals	Component Units		Totals
	General	Debt Service	Capital Projects	Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Debt	Primary Government (Memorandum Only)	Public University	Other	Reporting Entity (Memorandum Only)
<b>ASSETS AND OTHER DEBITS</b>											
<b>Assets:</b>											
Cash and cash equivalents	\$ 143,818	\$ 40,102	\$ 257,760	\$ 59,787	\$ 975,200	\$	\$	\$ 1,476,667	\$ 92,291	\$ 439,362	\$ 2,008,320
Cash and cash equivalents in governmental banks	406,620	300,063	447,547	16,862	418,156			1,589,248	73	237,382	1,826,703
Investments		2,371	186,623		3,558,420			3,747,414	570,359	5,425,469	9,743,242
Receivables, net:											
Taxes	80,426				73,864			154,290			154,290
Intergovernmental	176,500				176,500			353,000		97,155	273,655
Accounts	64,776	114,072	671	48,454	64,520			292,493	1,310	1,054,480	1,348,283
Loans and advances	123,684	13,625	36		563,584			700,929	91,650	423,565	1,216,144
Accrued interest	4,472	5,143	12		11,066			20,693	3,557	184,793	209,043
Other	9,054		10,778	12,015	13,448			45,295	7,972	79,276	132,543
Due from:											
Other funds	26,615	28,647	39,511	4,674	6,313			105,760			105,760
Primary government									17	10,580	10,597
Component units	11,645							11,645	2,700	2,474	16,819
Other governmental entities	157,933							157,933		2,562	160,495
Advances to:											
Primary government										975,243	975,243
Component units										1,492,825	1,492,825
Other governmental entities	42,604							42,604		729,892	772,496
Inventories				8,880				8,880	5,686	266,739	281,305
Restricted assets:											
Cash and cash equivalents	600,000			346	3,155			603,501	15,518	580,659	1,199,678
Other restricted assets			58,002	232,873	39,977			330,852	175,774	5,048,523	5,555,149
Housing units and land lots held for sale	87,186							87,186		127,046	214,232
Fixed assets, net				243,193	23,308	2,153,934		2,420,435	775,506	10,524,817	13,720,758
Other assets	8,797	5,840	13,654	5	34,134			62,430	67	310,073	372,570
<b>Other Debits:</b>											
Amount available in debt service funds										433,556	433,556
Amount to be provided for retirement of bonds and notes payable								6,853,175	6,853,175	4,126,854	10,980,029
Amount to be provided for payment of accrued compensated absences, and other long-term liabilities								5,035,778	5,035,778	357,159	5,392,937
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<b>\$ 1,944,130</b>	<b>\$ 509,863</b>	<b>\$ 1,014,594</b>	<b>\$ 627,089</b>	<b>\$ 5,785,145</b>	<b>\$ 2,153,934</b>	<b>\$ 11,888,953</b>	<b>\$ 23,923,708</b>	<b>\$ 1,742,480</b>	<b>\$ 32,930,484</b>	<b>\$ 58,596,672</b>

See notes to general purpose financial statements.

(Continued)

**COMMONWEALTH OF PUERTO RICO**

**COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS  
JUNE 30, 1999 (Expressed in Thousands)**

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals Primary Government (Memorandum Only)	Component Units		Totals Reporting Entity (Memorandum Only)
	General	Debt Service	Capital Projects	Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Debt		Public University	Other	
<b>LIABILITIES, EQUITY (DEFICIT) AND OTHER CREDITS</b>											
<b>Liabilities:</b>											
Accounts payable and accrued liabilities	\$ 460,573	\$ 4,236	\$ 156,269	\$ 215,970	\$ 186,169	\$	\$	\$ 1,023,217	\$ 108,261	\$ 2,699,788	\$ 3,831,266
Tax refunds payable	157,587							157,587			157,587
Deposits									3,296	4,412,410	4,415,706
Due to:											
Other funds	45,824		28,647	24,780	6,509			105,760			105,760
Primary government										48,451	48,451
Component units				42,949				42,949		8,442	51,391
Other governmental entities										2,732	2,732
Advances from:											
Component units	71,119		77,231	1,010,030				1,158,380	36,152	1,398,990	2,593,522
Securities lending transactions and reverse repurchases										759,019	759,019
Interest payable	12,075	179,048		33,178				224,301	1,516	301,644	527,461
Deferred revenues	149			10,360				10,509		181,843	192,352
Lottery prizes payable				250,006				250,006			250,006
Debt payable to component units								1,222,283			1,222,283
Notes payable	600,000							44,813	2,700	1,427,906	2,075,419
Bonds payable		285,825			25,435			6,808,362	300,757	11,838,363	19,258,742
Accrued compensated absences	48,466			12,637	4,595			876,871	86,015	348,134	1,311,020
Deferred compensation payable									25,341	71,043	96,384
Other liabilities	51,347	7,692	9,760	3,827	558,735			631,361	7	167,456	798,824
Other long-term liabilities				172,054				817,937		15,294	833,231
Net pension obligation								2,356,439			2,364,860
<b>Total liabilities</b>	<b>1,447,140</b>	<b>476,801</b>	<b>271,907</b>	<b>1,775,791</b>	<b>781,443</b>		<b>11,888,953</b>	<b>16,642,035</b>	<b>572,466</b>	<b>23,681,515</b>	<b>40,896,016</b>
<b>Equity (Deficit) and Other Credits:</b>											
Investment in general fixed assets						2,153,934		2,153,934	438,245	258,293	2,850,472
Contributed capital				5,969				5,969		6,593,721	6,599,690
Retained earnings (deficit)				(1,154,671)				(1,154,671)		437,297	(717,374)
<b>Fund balances:</b>											
Reserved for:											
Encumbrances	160,623		87,413		2,357			250,393	28,193	1,427	280,013
Debt service									31,416	67,508	98,924
Unemployment benefits					741,844			741,844			741,844
Employees' pension benefits					4,245,168			4,245,168	650,295		4,895,463
Advances and other specified purposes	63,750		655,274		5,007			724,031	12,653	1,364,681	2,101,365
Net assets in liquidation	87,186							87,186			87,186
Unreserved	185,431	33,062			9,326			227,819	9,212	526,042	763,073
<b>Total equity (deficit) and other credits</b>	<b>496,990</b>	<b>33,062</b>	<b>742,687</b>	<b>(1,148,702)</b>	<b>5,003,702</b>	<b>2,153,934</b>		<b>7,281,673</b>	<b>1,170,014</b>	<b>9,248,969</b>	<b>17,700,656</b>
<b>TOTAL LIABILITIES, EQUITY (DEFICIT) AND OTHER CREDITS</b>	<b>\$ 1,944,130</b>	<b>\$ 509,863</b>	<b>\$ 1,014,594</b>	<b>\$ 627,089</b>	<b>\$ 5,785,145</b>	<b>\$ 2,153,934</b>	<b>\$ 11,888,953</b>	<b>\$ 23,923,708</b>	<b>\$ 1,742,480</b>	<b>\$ 32,930,484</b>	<b>\$ 58,596,672</b>

See notes to general purpose financial statements.

(Concluded)

**COMMONWEALTH OF PUERTO RICO**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS  
YEAR ENDED JUNE 30, 1999 (Expressed in Thousands)**

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)
	General	Debt Service	Capital Projects	Expendable Trust	
<b>REVENUES:</b>					
Taxes:					
Income	\$ 4,413,860	\$	\$	\$	\$ 4,413,860
Excise	1,700,565	13,879			1,714,444
Unemployment				247,339	247,339
Other	78,926				78,926
Charges for services	217,347	238,689	1,418	2,857	460,311
Intergovernmental	3,271,698	125,778	20,171	31,666	3,449,313
Interest	60,462	6,820	30,598	43,704	141,584
Other	159,321		2,907		162,228
<b>Total revenues</b>	<b>9,902,179</b>	<b>385,166</b>	<b>55,094</b>	<b>325,566</b>	<b>10,668,005</b>
<b>EXPENDITURES:</b>					
Current:					
General government	526,629			560	527,189
Public safety	1,103,606			14,475	1,118,081
Health	625,475			2,707	628,182
Public housing and welfare	2,485,092			348,765	2,833,857
Education	2,272,903			1,108	2,274,011
Economic development	314,897			239	315,136
Intergovernmental	318,664				318,664
Capital outlay	27,386		614,630		642,016
Net decrease in the fair market value of investments				401	401
Debt service:					
Principal	73,888	277,834		362	352,084
Interest and other	71,631	370,983		902	443,516
<b>Total expenditures</b>	<b>7,820,171</b>	<b>648,817</b>	<b>614,630</b>	<b>369,519</b>	<b>9,453,137</b>
Excess (deficiency) of revenues over (under) expenditures	2,082,008	(263,651)	(559,536)	(43,953)	1,214,868
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from long-term debt issues			479,610		479,610
Proceeds from refunding bonds		117,529			117,529
Transfers-in from component units	84,139				84,139
Operating transfers-in from other funds	384,193	411,598	112,737	826	909,354
Operating transfers-out to other funds	(718,916)	(123,213)	(68,037)	(37,539)	(947,705)
Transfers-out to component units	(1,771,812)		(159,352)		(1,931,164)
Payment to refunded bond escrow agent		(117,529)			(117,529)
<b>Total other financing sources (uses)</b>	<b>(2,022,396)</b>	<b>288,385</b>	<b>364,958</b>	<b>(36,713)</b>	<b>(1,405,766)</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	59,612	24,734	(194,578)	(80,666)	(190,898)
FUND BALANCES AT BEGINNING OF YEAR (as restated)	327,366	8,328	974,337	839,200	2,149,231
RESIDUAL EQUITY TRANSFER	110,012		(37,072)		72,940
FUND BALANCES (DEFICIT) AT END OF YEAR	\$ 496,990	\$ 33,062	\$ 742,687	\$ 758,534	\$ 2,031,273

See notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO**

**COMBINED STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL -  
BUDGET BASIS - BUDGETED GENERAL AND DEBT SERVICE FUNDS  
YEAR ENDED JUNE 30, 1999 (Expressed in Thousands)**

	Budgeted General Fund			Budgeted Debt Service Fund		
	Budget	Actual	Variance	Budget	Actual	Variance
<b>REVENUES:</b>						
Income taxes	\$ 4,369,000	\$ 4,388,941	\$ 19,941	\$	\$	\$
Intergovernmental taxes	3,000	2,050	(950)			
Excise taxes	1,707,000	1,685,030	(21,970)		13,879	13,879
Other taxes	72,000	72,659	659			
Charges for services	129,000	130,209	1,209			
Intergovernmental	60,000	61,355	1,355	94,927	111,162	16,235
Interest	250	1,686	1,436		6,599	6,599
Other	363,221	197,997	(165,224)			
Total revenues	<u>6,703,471</u>	<u>6,539,927</u>	<u>(163,544)</u>	<u>94,927</u>	<u>131,640</u>	<u>36,713</u>
<b>EXPENDITURES:</b>						
Current:						
General government	447,463	406,107	41,356			
Public safety	1,246,937	1,242,710	4,227			
Health	219,694	210,949	8,745			
Public housing and welfare	293,768	279,496	14,272			
Education	1,538,932	1,500,471	38,461			
Economic development	177,323	174,492	2,831			
Intergovernmental	226,195	226,143	52			
Debt service:						
Principal	251,015	251,015		213,730	213,739	(9)
Interest and other	128,575	128,575		201,439	255,231	(53,792)
Total expenditures	<u>4,529,902</u>	<u>4,419,958</u>	<u>109,944</u>	<u>415,169</u>	<u>468,970</u>	<u>(53,801)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,173,569</u>	<u>2,119,969</u>	<u>(53,600)</u>	<u>(320,242)</u>	<u>(337,330)</u>	<u>(17,088)</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Proceeds of refunding bonds					117,529	117,529
Operating transfers-in from other funds	115,000	112,218	(2,782)	320,242	359,604	39,362
Transfers-in from component units	36,773	36,773				
Operating transfers-out to other funds	(539,502)	(539,502)				
Transfers-out to component units	(1,643,557)	(1,643,557)			(13,891)	(13,891)
Payment to refunded bond escrow agent					(117,529)	(117,529)
Total other financing sources (uses)	<u>(2,031,286)</u>	<u>(2,034,068)</u>	<u>(2,782)</u>	<u>320,242</u>	<u>345,713</u>	<u>25,471</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	<u>\$ 142,283</u>	<u>\$ 85,901</u>	<u>\$ (56,382)</u>	<u>\$</u>	<u>\$ 8,383</u>	<u>\$ 8,383</u>

See notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS (DEFICIT)/FUND BALANCES - PROPRIETARY FUND TYPE AND SIMILAR DISCRETELY PRESENTED COMPONENT UNITS  
YEAR ENDED JUNE 30, 1999 (Expressed in Thousands)**

	<u>Proprietary Fund Type</u>	<u>Other Discretely Presented Component Units</u>
	Enterprise	
OPERATING REVENUES:		
Charges for services	\$ 910,290	\$ 4,719,458
Financing income		169,977
Investment earnings		386,579
Other		<u>35,192</u>
Total operating revenues	<u>910,290</u>	<u>5,311,206</u>
OPERATING EXPENSES:		
Cost of services	1,164,163	4,577,140
Interest		405,764
Depreciation and amortization	21,459	744,172
Other		<u>5,497</u>
Total operating expenses	<u>1,185,622</u>	<u>5,732,573</u>
OPERATING LOSS	<u>(275,332)</u>	<u>(421,367)</u>
NON-OPERATING REVENUES (EXPENSES):		
Intergovernmental		10,888
Interest income	894	216,634
Interest expense	(53,079)	(392,223)
Other, net	<u>33,430</u>	<u>(102,853)</u>
Total non-operating revenues (expenses)	<u>(18,755)</u>	<u>(267,554)</u>
LOSS BEFORE OPERATING TRANSFERS	<u>(294,087)</u>	<u>(688,921)</u>
TRANSFERS:		
Operating transfers from other funds	184,983	
Operating transfers to other funds	(146,632)	
Transfers from component units - other		600
From primary government		<u>782,959</u>
Total transfers, net	<u>38,351</u>	<u>783,559</u>
NET (LOSS) INCOME	(255,736)	94,638
EXCESS OF EXPENDITURES OVER REVENUES FROM GOVERNMENTAL OPERATIONS		(181,885)
NET WITHDRAWALS		0
DEPRECIATION ON FIXED ASSETS ACQUIRED THROUGH CAPITAL CONTRIBUTIONS	<u>1,250</u>	<u>68,429</u>
DECREASE IN RETAINED EARNINGS/ FUND BALANCES	(254,486)	(18,818)
RETAINED EARNINGS (DEFICIT)/ FUND BALANCES AT BEGINNING OF YEAR (as restated)	(931,740)	2,725,728
RESIDUAL EQUITY TRANSFER	36,000	(309,576)
TRANSFERS TO CONTRIBUTED CAPITAL	<u>(4,445)</u>	<u>(379)</u>
RETAINED EARNINGS (DEFICIT)/ FUND BALANCES AT END OF YEAR	<u>\$ (1,154,671)</u>	<u>\$ 2,396,955</u>

See notes to general purpose financial statements.

# COMMONWEALTH OF PUERTO RICO

## COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE AND SIMILAR DISCRETELY PRESENTED COMPONENT UNITS YEAR ENDED JUNE 30, 1999 (Expressed in Thousands)

	<u>Proprietary Fund Type</u>	Other Discretely Presented Component Units
	Enterprise	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	\$ (275,332)	\$ (421,367)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	21,459	744,172
Provision for uncollectible accounts	45,311	108,073
Amortization of debt discount		3,547
Net gain on disposition of fixed assets		(9,478)
Net loss on sale of investments and fixed assets		5,248
Contribution in lieu of taxes		(247,575)
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating loss		(91,539)
Other	254	(48,275)
Change in assets and liabilities:		
Increase in:		
Receivables	(1,541)	(136,916)
Inventories		(19,450)
Other assets		(18,922)
Accounts payable and accrued liabilities	28,568	176,242
Deposits		9,082
Interest payable		700
Deferred revenues		5,496
Lottery prizes payable	27,629	
Accrued compensated absences	70	
Other liabilities	95,798	56,629
Decrease in:		
Receivables	115,718	114,231
Inventories	9,132	24,358
Other assets	117	442
Accounts payable and accrued liabilities		(106,370)
Deposits		(1)
Due to other funds	(1,026)	
Interest payable		(2,435)
Deferred revenues	(3,857)	(1,777)
Accrued compensated absences		(3,209)
Other liabilities		(462)
Total adjustments	<u>337,632</u>	<u>561,811</u>
Net cash provided by operating activities, (carried forward)	<u>\$ 62,300</u>	<u>\$ 140,444</u>

See notes to general purpose financial statements.

(Continued)

**COMMONWEALTH OF PUERTO RICO**

**COMBINED STATEMENT OF CASH FLOWS -  
 PROPRIETARY FUND TYPE AND SIMILAR DISCRETELY PRESENTED COMPONENT UNITS  
 YEAR ENDED JUNE 30, 1999 (Expressed in Thousands)**

	Proprietary Fund Type	Other Discretely Presented Component Units
	Enterprise	
Net cash provided by operating activities, (brought forward)	\$ 62,300	\$ 140,444
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Proceeds from notes and loans		3,236,243
Principal paid on notes and loans		(3,194,864)
Interest paid on notes and loans		(330,730)
Operating grants received	105	888,191
Operating transfers-in from other funds	81,013	
Operating transfers-out to other funds	(150,751)	
Transfers-in from primary government		15,608
Transfers-out to primary government		(116,348)
Transfers from component units		1,203,300
Transfers to component units		(1,200,000)
Capital contributions		340,105
Net increase in securities lending transactions		(47,202)
Net cash provided by (used in) noncapital financing activities	(69,633)	794,303
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(6,060)	(1,430,297)
Proceeds from issuance of bonds and notes		2,246,842
Principal paid on bonds and notes	(431)	(1,413,879)
Interest paid on bonds and notes	(11)	(278,604)
Proceeds from sale of equipment		92,249
Capital contributions	2,000	158,343
Net cash used in capital and related financing activities	(4,502)	(625,346)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investment securities	(25,698)	(20,302,046)
Proceeds from sales and maturities of investment securities		20,083,177
Purchases of units in the Puerto Rico Government Investment Trust fund		(18,442)
Redemptions of units in the Puerto Rico Government Investment Trust fund		820
Interest and dividends on investments	34,037	597,090
Principal collected on loans to:		
Public entities of the Commonwealth of Puerto Rico		1,049,893
Private sector		151,561
Loans originated to:		
Public entities of the Commonwealth of Puerto Rico		(1,582,579)
Private sector		(42,124)
Net cash provided by (used in) investing activities	8,339	(62,650)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(3,496)	246,751
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (as restated)</b>	80,491	790,160
<b>CASH AND CASH EQUIVALENTS FROM GOVERNMENTAL OPERATIONS</b>		220,492
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 76,995	\$ 1,257,403

See notes to general purpose financial statements.

(Continued)

**COMMONWEALTH OF PUERTO RICO**

**COMBINED STATEMENT OF CASH FLOWS -  
 PROPRIETARY FUND TYPE AND SIMILAR DISCRETELY PRESENTED COMPONENT UNITS  
 YEAR ENDED JUNE 30, 1999 (Expressed in Thousands)**

	<u>Proprietary Fund Type</u>	<u>Other Discretely Presented Component Units</u>
	Enterprise	
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE COMBINED BALANCE SHEET:</b>		
Cash and cash equivalents	\$ 59,787	\$ 439,362
Cash and cash equivalents in governmental banks	16,862	237,382
Cash and cash equivalents - restricted assets	<u>346</u>	<u>580,659</u>
	<u>\$ 76,995</u>	<u>\$ 1,257,403</u>

**RECONCILIATION OF BEGINNING CASH AND CASH EQUIVALENTS:**

Cash and cash equivalents as of June 30, 1998, as previously reported	\$ 946,519
Investments considered cash equivalents under Governmental Accounting Standards Board No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting (GASB 9)	104,605
Cash and cash equivalents considered investments under GASB No. 9	(15,482)
Cash and cash equivalents from governmental operations	<u>(245,482)</u>
Cash and cash equivalents as of June 30, 1998, as adjusted	<u>\$ 790,160</u>

**SCHEDULE OF NON-CASH TRANSACTIONS:**

Financing of property acquisition	\$ 3,919	\$ 75,564
Purchase of tax lien receivables with issuance of note payable		\$ 116,778
Proceeds from the sale of health facilities deposited directly in the Puerto Rico Treasury Department	\$ 14,116	
Loans to foreclosed real estate		\$ 25,963
Transfers of retained earnings to contributed capital		\$ 100,000
Acquisition of properties and investments in exchange of payables		\$ 88,144
Payments made by the Puerto Rico Treasury Department on behalf of the Health Facilities and Services Administration of Puerto Rico	\$ 45,302	
Payments made by the Puerto Rico Treasury Department on behalf of the Solid Waste Authority of Puerto Rico		\$ 10,713
Accretion of discount		\$ 92,237
Sale of medical facilities in exchange for cancellation of debts	\$ 36,000	

See notes to general purpose financial statements.

(Concluded)

## COMMONWEALTH OF PUERTO RICO

### COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS AVAILABLE FOR PENSION BENEFITS - PENSION TRUST FUND TYPES AND SIMILAR DISCRETELY PRESENTED COMPONENT UNITS YEAR ENDED JUNE 30, 1999 (Expressed in Thousands)

	Fiduciary Fund Type	Public University Fund
	Pension Trust Funds	University of Puerto Rico Retirement System
ADDITIONS:		
Contributions:		
Employer	\$ 346,910	\$ 53,042
Employees	287,101	21,992
Special	<u>24,647</u>	<u>          </u>
Total contributions	<u>658,658</u>	<u>75,034</u>
Investment income:		
Interest	130,252	19,476
Dividends	9,898	3,520
Net appreciation of investments	<u>353,721</u>	<u>38,581</u>
Total investment income	493,871	61,577
Less investment expense	<u>(9,647)</u>	<u>(2,116)</u>
Net investment income	484,224	59,461
Other income	<u>3,144</u>	<u>          </u>
Total additions	<u>1,146,026</u>	<u>134,495</u>
DEDUCTIONS:		
Benefits	695,869	68,300
Refunds of contributions	33,620	
General and administrative	<u>49,414</u>	<u>1,995</u>
Total deductions	<u>778,903</u>	<u>70,295</u>
NET INCREASE	367,123	64,200
NET ASSETS AVAILABLE FOR PENSION BENEFITS AT BEGINNING OF YEAR	<u>3,878,045</u>	<u>586,095</u>
NET ASSETS AVAILABLE FOR PENSION BENEFITS AT END OF YEAR	<u>\$ 4,245,168</u>	<u>\$ 650,295</u>

See notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO**

**COMBINED STATEMENT OF CHANGES IN FUND BALANCES -  
PUBLIC UNIVERSITY FUNDS - UNIVERSITY OF PUERTO RICO  
YEAR ENDED JUNE 30, 1999 (Expressed in Thousands)**

	Current Funds			Endowment and Similar Funds	Plant Funds			
	Unrestricted	Restricted	Loan Funds		Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant
<b>REVENUES AND OTHER ADDITIONS:</b>								
Unrestricted current fund revenues	\$ 633,272	\$	\$	\$	\$	\$	\$	\$
Commonwealth of Puerto Rico appropriations, grants and contracts		61,163						
Federal grants and contracts		164,724			533			
Private gifts, grants and contracts		9,640		1,234				
Investment income		171	35	2,005	136		1,724	
Interest on loans receivable			100					
Expended for plant facilities								34,102
Retirement of indebtedness								13,878
Other		48,055	78			20		
Total revenues and other additions	<u>633,272</u>	<u>283,753</u>	<u>213</u>	<u>3,239</u>	<u>669</u>	<u>20</u>	<u>1,724</u>	<u>47,980</u>
<b>EXPENDITURES AND OTHER DEDUCTIONS:</b>								
Educational and general expenditures	558,293	295,567						
Auxiliary enterprises expenditures	9,223							
Refunded to grantors		1,458	845			545		
Loan cancellations and assignments			72					
Administrative and collection costs			9					
Expended for plant facilities					4,014			1,502
Retirement of indebtedness							13,878	
Interest on indebtedness							16,554	
Disposal of plant facilities								12,208
Other								173
Total expenditures and other deductions	<u>567,516</u>	<u>297,025</u>	<u>926</u>	<u>17</u>	<u>4,014</u>	<u>17</u>	<u>30,977</u>	<u>13,883</u>
<b>TRANSFERS AMONG FUNDS-ADDITIONS (DEDUCTIONS):</b>								
Mandatory:								
Principal and interest	(31,215)						31,215	
Restricted current fund matching grants	(7,647)	7,397						
Other transfers:								
Other funds		(36,000)						36,000
Unrestricted current funds	(17,234)	15,285		17	1,439	(2)	495	
Total transfers	<u>(56,096)</u>	<u>(13,318)</u>	<u>17</u>	<u>17</u>	<u>1,439</u>	<u>(2)</u>	<u>31,710</u>	<u>36,000</u>
<b>NET INCREASE (DECREASE) FOR THE YEAR</b>	<b>9,660</b>	<b>(26,590)</b>	<b>(713)</b>	<b>3,256</b>	<b>(1,906)</b>	<b>18</b>	<b>2,457</b>	<b>70,097</b>
<b>FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR</b>	<b>8,107</b>	<b>46,366</b>	<b>4,195</b>	<b>16,546</b>	<b>(9,304)</b>	<b>423</b>	<b>28,959</b>	<b>368,148</b>
<b>FUND BALANCES (DEFICIT) AT END OF YEAR</b>	<b>\$ 17,767</b>	<b>\$ 19,776</b>	<b>\$ 3,482</b>	<b>\$ 19,802</b>	<b>\$ (11,210)</b>	<b>\$ 441</b>	<b>\$ 31,416</b>	<b>\$ 438,245</b>

See notes to general purpose financial statements.

# COMMONWEALTH OF PUERTO RICO

## COMBINED STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES - PUBLIC UNIVERSITY FUNDS - UNIVERSITY OF PUERTO RICO YEAR ENDED JUNE 30, 1999 (Expressed in Thousands)

	Unrestricted	Restricted	Total
<b>REVENUES:</b>			
Tuition and fees	\$ 64,222	\$ 5,261	\$ 69,483
Transfers from primary government	544,808	65,580	610,388
Federal grants and contracts		164,724	164,724
Private gifts, grants and contracts		9,640	9,640
Sales and services of educational departments	560	39,204	39,764
Sales and services of auxiliary enterprises	6,844		6,844
Investment income	6,118	171	6,289
Other sources	<u>10,720</u>	<u>3,590</u>	<u>14,310</u>
Total current revenues	<u>633,272</u>	<u>288,170</u>	<u>921,442</u>
<b>EXPENDITURES AND MANDATORY TRANSFERS:</b>			
Educational and general:			
Instruction	245,626	25,072	270,698
Research	19,651	53,271	72,922
Public service	12,789	36,063	48,852
Academic support	66,479	7,357	73,836
Student services	33,577	2,050	35,627
Institutional support	102,660	4,446	107,106
Operation and maintenance of plant	75,809	410	76,219
Scholarships and fellowships	1,698	122,916	124,614
Hospitals		32,483	32,483
Independent operations	4	1,150	1,154
Other		<u>10,349</u>	<u>10,349</u>
Total educational and general expenditures	558,293	295,567	853,860
Mandatory transfers for:			
Principal and interest	31,215		31,215
Restricted current fund matching grants	<u>7,647</u>	<u>(7,397)</u>	<u>250</u>
Total educational, general and mandatory transfers	597,155	288,170	885,325
Auxiliary enterprises - expenditures	<u>9,223</u>		<u>9,223</u>
Total expenditures and mandatory transfers	<u>606,378</u>	<u>288,170</u>	<u>894,548</u>
<b>TRANSFERS AND ADDITIONS (DEDUCTIONS):</b>			
Deficit of restricted receipts under			
transfers to revenues		(4,417)	(4,417)
Refunded to grantors		(1,458)	(1,458)
Nonmandatory transfers	(17,234)	15,285	(1,949)
Other		<u>(36,000)</u>	<u>(36,000)</u>
Total other deductions	<u>(17,234)</u>	<u>(26,590)</u>	<u>(43,824)</u>
<b>NET INCREASE (DECREASE) IN FUND BALANCE</b>	<u>\$ 9,660</u>	<u>\$ (26,590)</u>	<u>\$ (16,930)</u>

See notes to general purpose financial statements.

# COMMONWEALTH OF PUERTO RICO

## NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 1999

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### 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 United States 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 public safety, public health, public housing, welfare, education and economic development.

#### A. The Financial Reporting Entity

The accompanying general purpose financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting. In addition, GAAP requires that the Commonwealth's proprietary activities apply GAAP as it is applied by similar business activities in the private sector. As a result, the financial statements of certain component units follow the specialized reporting practices for financial institutions, insurance companies, public utilities, colleges and universities, telecommunications, investment companies, and hospitals, as prescribed by the GASB and other authoritative sources, including pronouncements of the Financial Accounting Standards Board (FASB).

The accompanying general purpose financial statements include all departments, agencies and governmental entities whose funds are under the custody and control of the Secretary of Treasury, 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 component units discussed below are included as part of the Commonwealth's reporting entity because they are financially accountable to the Commonwealth pursuant to GASB Statement No. 14, *The Financial Reporting Entity*.

#### B. Component Units

GAAP defines component units as those entities which 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 general purpose financial statements to be misleading and 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 can impose its will on each of the component units through appointment of the governing authorities

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 GAAP.

**1. 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)**

The Public Buildings Authority is governed by a seven-member board of which the Secretary of the Department of Transportation and Public Works (“DTPW”) is a permanent member and the other six members are appointed by the Governor with the 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 generally secured by the Commonwealth's guarantee. (See Note 16). On July 6, 1997, the Legislature of Puerto Rico approved Act No. 190 (“Act No. 190”), which regulates the privatization process of the health facilities and empowered the Government Development Bank for Puerto Rico and the Puerto Rico Health Department to lease, sell or transfer health facilities to interested parties.

**Puerto Rico Maritime Shipping Authority (PRMSA)**

The Puerto Rico Maritime Shipping Authority is governed by the President of the Government Development Bank for Puerto Rico. On March 3, 1995, the Commonwealth sold to private investors its maritime transportation business. The remaining operations of PRMSA are for the sole purpose of servicing the long term liability to third parties that resulted from the aforementioned sale. 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).

**Employees’ Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS)**

The Employees’ Retirement System of the Government of Puerto Rico and its Instrumentalities is governed by a Board of Trustees which is composed of the Secretary of the Treasury, who is the President, the president of the Government Development Bank for Puerto Rico, the Insurance Commissioner, the Director of the Puerto Rico Central Office of Personnel Administration, two participating employees and one pensioner, who are appointed by the Governor. The Commonwealth reports ERS as a single-employer pension plan. 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 own retirement system. (See Note 22).

### **Puerto Rico Judiciary Retirement System (JRS)**

The Puerto Rico Judiciary Retirement System is governed by the same Board of Trustees as ERS. JRS is a single-employer defined benefit plan, administered by the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities, 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 of Puerto Rico. (See Note 22).

### **Puerto Rico System of Annuities and Pensions for Teachers (TRS)**

The Puerto Rico System of Annuities and Pensions for Teachers is governed by a five-member board comprised of the Secretary of Education, the Secretary of the Treasury, the President of the Teachers' Association and two members named by the Governor with the advice and consent of the Senate for four years of which one must be a retiree and the other an active member. 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, teachers who work in the Teachers' Association of Puerto Rico, and those who practice in private institutions accredited by the Department of Education. TRS provides retirement, death and disability benefits. (See Note 22).

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

Public Buildings Authority  
PO Box 41029 Minillas Station  
San Juan, PR 00940-1029

Puerto Rico Judiciary Retirement System  
PO Box 42003 Minillas Station  
Santurce, PR 00940

PR Maritime Shipping Authority  
PO Box 362829  
San Juan, PR 00936-2829

Puerto Rico System of Annuities and  
Pensions for Teachers  
PO Box 19879  
San Juan, PR 00919-1879

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

## **2. Discretely Presented Component Units :**

The following component units, consistent with GASB Statement No. 14, are discretely presented in the general purpose financial statements because of the nature of the services they provide and the Commonwealth's ability to impose its will. The public university fund's financial information is presented in a separate column due to its reporting model being different from that followed by the other component units.

## **Public University Funds**

### **University of Puerto Rico (UPR)**

The University of Puerto Rico is governed by a thirteen-member Board of Trustees of which ten members are appointed by the Governor with the consent of the Senate, one full-time student and two member professors. Board members are appointed for a period from four to eight years. The terms for the student and professors are one year.

### **University of Puerto Rico Retirement System (UPRRS)**

The University of Puerto Rico Retirement System is the administrator of a single employer pension plan for the employees of the University of Puerto Rico. It is governed by the Board of Trustees of the University, and is reported as a component unit of the UPR. (See Note 22).

## **Component Units - Other**

### **Government Development Bank for Puerto Rico and Subsidiaries (GDB)**

The Government Development Bank for Puerto Rico and Subsidiaries are governed by a seven-member board appointed by the Governor. The Chief of Staff is the Chairman. GDB acts as the financial advisor and fiscal agent 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 to public corporations.

### **Puerto Rico Electric Power Authority (PREPA)**

The Puerto Rico Electric Power Authority is governed by a nine-member board. Seven members are appointed by the Governor with the consent of the Senate, and the remaining two members by the Puerto Rico Consumer Affairs Department. PREPA is responsible for conserving, developing and utilizing the power resources of Puerto Rico and owns and operates the Commonwealth's electrical power generation and distribution system. PREPA is authorized, among others, to borrow money and issue revenue bonds for any of its corporate purposes and is required, under the terms of a 1947 Indenture and a 1974 Agreement, to determine and collect reasonable rates for its electrical power generation and distribution system in order to produce revenues sufficient to cover all operating and financing obligations.

### **Puerto Rico Highway and Transportation Authority (PRHTA)**

The Puerto Rico Highway and Transportation Authority is governed by the Secretary of the DTPW, who is appointed by the Governor with the consent of the Senate. PRHTA has broad powers to carry out its responsibilities in accordance with the 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 toll highway system, undertakes major repairs and maintains the tollways.

### **Puerto Rico Aqueduct and Sewer Authority (PRASA)**

The Puerto Rico Aqueduct and Sewer Authority is governed by a seven-member board. Four members are appointed by the Governor, one is the Secretary of Transportation and Public Works and two members appointed by the Puerto Rico Consumer Affairs Department. PRASA owns and operates the system of public water supply and sanitary sewer facilities. PRASA is authorized, among other powers, to borrow money and issue revenue bonds for any of its corporate purposes. PRASA is required, under the terms of its Trust Agreements, to determine and collect reasonable rates for water and sewer services to produce revenues sufficient to cover all operating and financing obligations. PRASA's capital is generated by non-reimbursable legislative appropriations from the Commonwealth, grants from various agencies of the Federal government, donations in-kind or other operating cash transfers from various governmental agencies and instrumentalities of the Commonwealth, other customers of PRASA, and internally generated funds. As discussed in Note 16, the Commonwealth guarantees the principal and interest payments of certain outstanding bonds and of all future bonds issued to refinance those outstanding bonds.

### **Puerto Rico Telephone Authority (PRTA)**

The Puerto Rico Telephone Authority was governed by a five-member board appointed by the Governor with the consent of the Senate. PRTA was responsible for acquiring, developing and operating telephone, radio, cable or other communication systems through its wholly-owned subsidiaries Puerto Rico Telephone Company, Inc. ("PRTC") and Celulares Telefónica, Inc. ("CT").

On April 7, 1997, the Commonwealth of Puerto Rico (the "Commonwealth") announced a plan to privatize PRTC and CT through a competitive bidding process. On July 21, 1998, after the conclusion of the bidding process, a consortium led by GTE Corporation (the "GTE Group") was awarded the right to purchase a controlling interest in PRTC and CT.

The acquisition was completed on March 2, 1999. (See Note 25).

### **Puerto Rico Government Investment Trust Fund (PRGITF)**

The Puerto Rico Government Investment Trust Fund was created in fiscal 1996 and is governed by the Secretary of the Treasury of the Commonwealth, who is appointed by the Governor, with the consent of the Senate. The Government Development Bank for Puerto Rico is its trustee, custodian and administrator. PRGITF's main objective is to provide investment opportunities in a 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. PRGITF is neither subject to regulation under the Investment Company Act of 1940, nor is it required to register under the Securities and Exchange Act of 1933. (See Note 4).

**Puerto Rico Housing Bank and Finance Agency (PRHBFA)**

The Puerto Rico Housing Bank and Finance Agency is governed by the Secretary of Housing who is appointed by the Governor with the consent of the Senate. PRHBFA issues bonds and notes to provide interim and permanent financing for low-income housing projects and single-family home ownership programs. It is also engaged in insuring and servicing mortgages originated by the former Puerto Rico Urban Renewal and Housing Corporation which ceased operations effective August 9, 1991. PRHBFA obtains funds from legislative appropriations, sale of mortgages, collection of mortgage repayments, and other sources.

**State Insurance Fund Corporation (SIFC)**

The State Insurance Fund Corporation is governed by a five-member board appointed by the Governor with the consent of the Senate. SIFC provides workers' compensation and disability insurance to public and private employees.

**Economic Development Bank for Puerto Rico (EDB)**

The Economic Development Bank for Puerto Rico is governed by a nine-member board comprised of the President of the Government Development Bank for Puerto Rico, who is the Chairman, the Secretary of Agriculture, the Secretary of Economic Development and Commerce, the Economic Development Administrator, the Executive Director of the Tourism Company of Puerto Rico and four other members appointed by the Governor with the consent of the Senate. 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, and/or direct investments to any person or business organization devoted to manufacturing, agriculture, trade, tourism or other service enterprises, whose economic activity may have the effect of substituting imports.

**Puerto Rico Industrial Development Company (PRIDCO)**

The Puerto Rico Industrial Development Company is governed by the Economic Development Administrator who is appointed by the Governor with the consent of the Senate. PRIDCO administers the Commonwealth-sponsored economic development program by providing facilities, general assistance, and special incentive grants to manufacturing companies in Puerto Rico. PRIDCO has issued interim notes and revenue bonds to finance factories and other facilities. Rentals derived from the leasing of specified facilities of PRIDCO are pledged for the payment of PRIDCO's revenue bonds.

PRIDCO also administers the Special Incentives Program. This program provides governmental funds, appropriated by the Legislature, for reimbursement to manufacturers for allowable start-up costs or for improvement in infrastructure that result in better manufacturing facilities.

**Puerto Rico Ports Authority (PRPA)**

The Puerto Rico Ports Authority is governed by a five-member board consisting of the Secretary of Transportation and Public Works, who is the Chairman, the Secretary of Economic Development and Commerce, the Economic Development Administrator, the Executive Director of the Tourism Company of Puerto Rico 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.

**Puerto Rico Municipal Finance Agency (PRMFA)**

The Puerto Rico Municipal Finance Agency is governed by a five-member board comprised of the Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico 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 Infrastructure Financing Authority (PRIFA)**

The Puerto Rico Infrastructure Financing Authority was created by the Commonwealth. PRIFA is governed by the Secretary of the Treasury and six members of the board of the Government Development Bank for Puerto Rico. 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.

**Sugar Corporation of Puerto Rico (SCPR)**

The Sugar Corporation of Puerto Rico is administered by the Governing Board of the Land Authority of Puerto Rico consisting of the Secretary of Agriculture who is the Chairman, and four other members appointed by the Governor with the consent of the Senate. SCPR was created to consolidate ownership and management of the Commonwealth's interests in Puerto Rico's sugar industry. (See Note 27).

**Puerto Rico School of Plastic Arts (SPA)**

The Puerto Rico School of Plastic Arts is governed by a seven-member board elected by the Board of Directors of the Institute of Puerto Rican Culture (the Institute). Board members may not be employees of the SPA. Of these, three are elected from among the members of the Board of Directors of the Institute, one of whom will serve as president. SPA 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.

**Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (AFICA)**

The Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority is governed by a seven-member board consisting of the Economic Development Administrator, the President of the Government Development Bank for Puerto Rico, the Executive Director of the Puerto Rico Aqueduct and Sewer Authority, the Executive Director of the Tourism Company of Puerto Rico, the President of the Environmental Quality Board and two private citizens appointed by the Governor with the consent of the Senate. AFICA is authorized to issue revenue bonds to finance industrial, pollution control, medical, and educational facilities in Puerto Rico and the United States for use by private companies, non-profit entities or governmental agencies. The bonds are payable solely from collections from such private companies, non-profit entities or governmental agencies, and do not constitute debt of the Commonwealth or any of its other components units.

**Caribbean Basin Projects Financing Authority (CBPFA)**

The Caribbean Basin Projects Financing Authority is governed by a five-member board consisting of the Economic Development Administrator, the President of the Government Development Bank for Puerto Rico, the President of the Economic Development Bank for Puerto Rico and two private citizens appointed by the Governor with the consent of the Senate. CBPFA is authorized to issue revenue bonds and to loan the proceeds thereof to finance projects for the development of the Caribbean Basin countries that were authorized to receive investments of funds under the provisions of Section 936 of the US Internal Revenue Code. CBPFA did not issue revenue bonds during the year ended June 30, 1999.

**Automobile Accident Compensation Administration (AACA)**

The Automobile Accident Compensation Administration is governed by a board comprised of one member of the Cabinet of the Governor and four members appointed by the Governor with the 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.

**Puerto Rico Metropolitan Bus Authority (PRMBA)**

The Puerto Rico Metropolitan Bus Authority is governed by the Secretary of Transportation and Public Works, who is appointed by the Governor with the consent of the Senate. The PRMBA provides transportation to passengers within the San Juan Metropolitan Area. This service is financed by Commonwealth and Federal government appropriations, and passenger fares.

### **Puerto Rico Public Broadcasting Corporation (PRPBC)**

The Puerto Rico Public Broadcasting Corporation is governed by a board of directors comprised of four members from the public sector and five private citizens on behalf of the public interest, appointed by the Governor with the consent of the Senate. PRPBC was created with the purpose of integrating, developing and operating the radio, television and electronic communication facilities that belong to the Commonwealth.

### **Puerto Rico Solid Waste Authority (PRSWA)**

The Puerto Rico Solid Waste Authority is governed by the Secretary of Natural Resources, who is appointed by the Governor with the consent of the Senate. PRSWA provides alternatives for processing of solid waste and encourages recycling, reuse and recovery of resources from waste.

### **Tourism Company of Puerto Rico (TCPR)**

The Tourism Company of Puerto Rico is governed by an eleven-member board comprised of the Secretary of Economic Development and Commerce, who serves as Chairman, the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Transportation and Public Works, the Secretary of Housing, the Economic Development Administrator, the President of the Planning Board, and four other members appointed by the Governor with the consent of the Senate. Its purpose is to promote the tourism industry of Puerto Rico.

### **Employment and Training Enterprises Corporation and Subsidiary (ETEC)**

The Employment and Training Enterprises Corporation and Subsidiary is governed by a ten-member board comprised of the Corrections Administrator, the Administrator of Youth Correctional Institutions, the Secretary of Justice, the Secretary of Education, the Executive Director of the Right to Employment Administration, the Administrator of the Administration of Mental Health and Anti-Addiction Services, the Sub-Administrator for the Promotion of Puerto Rico Industries of the Economic Development Administration, the Director of the Volunteer Corps and two private citizens appointed by the Governor with the consent of the Senate. The purpose of ETEC is to provide training, management development and employment for inmates of the correctional institutions of the Commonwealth.

### **Industries for the Blind, Mentally Retarded and Other Disabled Persons of Puerto Rico**

The Industries for the Blind, Mentally Retarded and Other Disabled Persons of Puerto Rico is governed by the Secretary of the Department of Family Affairs, who is its President. The purpose of the entity is to provide economic and social rehabilitation for the blind, mentally retarded and other disabled persons through job opportunities within public and private industries.

### **Institutional Trust of the National Guard of Puerto Rico (ITNGPR)**

The Institutional Trust of the National Guard of Puerto Rico is administered by a seven-member board comprised of the Adjutant General of the Puerto Rico National Guard, the President of the Government Development Bank for Puerto Rico, the Secretary of Justice and four members of the Puerto Rico National Guard appointed by the Governor with the consent of the Senate. 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.

### **Musical Arts Corporation and Subsidiaries (MAC)**

The Musical Arts Corporation and Subsidiaries are 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.

### **Puerto Rico Conservatory of Music Corporation (PRCMC)**

The Puerto Rico Conservatory of Music Corporation is governed by the same board as the Musical Arts Corporation. PRCMC was created for the development, promotion, planning, coordination and operation of the Baccalaureate Program, the Children's Strings Program, the Artistic Varieties Program, and the Extension Program.

### **Corporation of Stocks and Deposits Insurance for the Savings and Loans Cooperatives (CSDISLC)**

The Corporation of Stock and Deposits Insurance for the Savings and Loans Cooperatives is governed by a nine-member board consisting of the Commissioner of Financial Institutions of Puerto Rico, the Insurance Commissioner of Puerto Rico, the Administrator of the Cooperative Development Administration, the Secretary of the Treasury, the Director of the Office of Management and Budget, a representative of the Government Development Bank for Puerto Rico, two citizens representing the cooperative movement, and one private citizen. CSDISLC has the responsibility of providing to all the cooperatives, and the Federation of Cooperatives of Puerto Rico, insurance coverage over the stocks and deposits, for monitoring the financial condition of the insured cooperatives, and of uninsured cooperatives when requested by the Commissioner of Financial Institutions of Puerto Rico.

### **Puerto Rico Land Administration (PRLA)**

The Puerto Rico Land Administration is governed by an eleven-member board comprised of the Secretary of Economic Development and Commerce, who serves as Chairman, the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Transportation and Public Works, the Secretary of Housing, the Economic Development Administrator, the President of the Planning Board, 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.

### **Puerto Rico Health Insurance Administration (PRHIA)**

The Puerto Rico Health Insurance Administration is governed by a board comprised of the Secretary of Health, the Secretary of the Treasury, the Insurance Commissioner of Puerto Rico and four additional members appointed by the Governor, with the 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.

### **Land Authority of Puerto Rico (LAPR)**

The Land Authority of Puerto Rico is governed by a five-member board consisting of the Secretary of Agriculture and four members appointed by the Governor with the consent of the Senate. LAPR was created to carry out the provisions of the Land Law of Puerto Rico.

### **Fine Arts Center Corporation (FACC)**

The Fine Arts Center Corporation is governed by a seven-member board of which five are appointed by the President of the Board of Directors of the Arts and Cultural Development Administration and two members are appointed by the President of the Board of Directors of the Institute of Puerto Rican Culture. FACC was created with the purpose of administering the Fine Arts Center.

### **Right to Employment Administration**

The Right to Employment Administration is governed by an Administrator appointed by the Governor with the consent of the Senate. In addition, a Consultative Board comprised of the Secretary of Labor, the Secretary of Agriculture, the Secretary of Transportation and Public Works, the Secretary of Education and five additional members appointed by the Governor, with the consent of the Senate, will advise the Administrator on the implementation of the Right to Employment Act.

### **Farm Insurance Corporation of Puerto Rico (FICPR)**

The Farm Insurance Corporation of Puerto Rico is governed by a five-member board consisting of the Secretary of Agriculture, the Director of the Agriculture Sciences Faculty of the Mayagüez Campus of the University of Puerto Rico, a representative of the Government Development Bank for Puerto Rico 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.

### **Puerto Rico Medical Services Administration**

The Puerto Rico Medical Services Administration is governed by the Secretary of Health who is appointed by the Governor with the consent of the Senate. It was created 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 *Puerto Rico Medical Center*.

### **Puerto Rico and Caribbean Cardiovascular Center Corporation (PRCCCC)**

The Puerto Rico and Caribbean Cardiovascular Center Corporation is governed by a seven-member board comprised of the Secretary of Health, the Director of the Medical Sciences Campus of the University of Puerto Rico, 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. The purpose of the PRCCCC is to provide special treatment to patients suffering cardiovascular diseases.

### **Puerto Rico Exports Development Corporation (PREDC)**

The Puerto Rico Exports Development Corporation, formerly, Commercial and Farm Credit and Development Corporation for Puerto Rico, is governed by a seven-member board comprised of the Secretary of Economic Development and Commerce, who is the Chairman, the Executive Director of the Puerto Rico Industrial Development Company, the President of the Economic Development Bank for Puerto Rico, the Executive Director of the Puerto Rico Ports Authority and three representatives of the private sector appointed by the other members of the Board. PREDC has as its purpose to encourage the economic development of Puerto Rico by promoting the export of products and services of Puerto Rico to other countries and maintaining commercial facilities for lease to the public and private sector.

### **Recreational Development Company of Puerto Rico (RDCPR)**

The Recreational Development Company of Puerto Rico is governed by the Secretary of Sports and Recreation, who is appointed by the governor with the consent of the Senate. The purpose of RDCPR is to develop a program for the construction and operation of recreational facilities, which shall contribute to the physical and mental development of communities, family welfare and improvement in the quality of life.

### **Farm Credit Guarantee Fund and Guarantee Loan Fund for Eligible Businesses of Puerto Rico**

Pursuant to Act No. 1 of October 4, 1954, as amended, the Farm Credit Guarantee Fund was empowered to secure loans granted by financial institutions to farmers and agricultural entities for agricultural purposes up to a maximum of \$120 million under the guarantee of the good faith and credit of the Commonwealth of Puerto Rico. It is governed by the Secretary of Agriculture who is appointed by the Governor with the consent of the Senate. Pursuant to Act No. 87 of July 9, 1985, as amended, the Guarantee Loan Fund for Eligible Businesses of Puerto Rico was empowered to guarantee the payment of loans granted by legally established credit institutions to certain eligible business organizations. It is administered by an Executive Committee that consists of the President of the Puerto Rico Exports Development Corporation and the President of the Government Development Bank for Puerto Rico.

### **Agricultural Services and Development Administration**

The Agricultural Services and Development Administration was created by Law No. 5 of July 1, 1994 to provide a wide variety of services and incentives to the agricultural sector. It is governed by the Secretary of Agriculture who is appointed by the Governor with the consent of the Senate.

### **Trust for the Conservation, Operation and Maintenance of the Puerto Rico National Parks**

The Trust for the Conservation, Operation and Maintenance of the Puerto Rico National Parks is governed by the Secretary of Sports and Recreation, and one representative each from the government, the private sector, the advisory council and the trustees, all of which are appointed by the Governor with the consent of the Senate. The Trust shall develop, operate and provide maintenance to the national parks of Puerto Rico.

### **Puerto Rico Council on Higher Education (PRCHE)**

The Puerto Rico Council on Higher Education was created as an entity independent from the University of Puerto Rico through Law No. 17 of June 16, 1993 to develop higher education, to administer the licensing and certification of institutions of higher education, and to administer scholarship funds. The PRCHE is comprised of eight members appointed by the Governor with the consent of the Senate and, the Secretary of Education as an ex-officio member.

### **Medical University Services, Inc. (MUS)**

Medical University Services, Inc. is a non-profit corporation created to operate and administer three hospital facilities acquired by the University of Puerto Rico (UPR). MUS will become the primary medical education institution of the UPR and will offer health services to the people of the Commonwealth. MUS is a discretely presented component unit of the UPR because it is legally separated from UPR and governed by a separate board.

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

University of Puerto Rico  
PO Box 364984  
San Juan, PR 00936-4984

PR Electric Power Authority  
PO Box 363508  
San Juan, PR 00936-4267

University of Puerto Rico Retirement  
System  
PO Box 21769  
University Station  
San Juan, PR 00931-1769

PR Highway and Transportation  
Authority  
PO Box 42007  
San Juan, PR 00940-2007

Government Development Bank for  
Puerto Rico and Subsidiaries  
PO Box 42001  
San Juan, PR 00940-2001

PR Aqueduct and Sewer Authority  
PO Box 7066  
San Juan, PR 00916-7066

Puerto Rico Telephone Authority  
PO Box 360998  
San Juan, PR 00936-0998

PR Government Investment Trust Fund  
PO Box 42001 Minillas Station  
San Juan, PR 00940

PR Housing Bank and Finance Agency  
PO Box 345  
San Juan, PR 00919-0345

State Insurance Fund Corporation  
PO Box 365028  
San Juan, PR 00936-5028

Economic Development Bank for  
PR and Subsidiary  
PO Box 2134  
San Juan, PR 00922-2134

PR Industrial Development Co.  
PO Box 362350  
San Juan, PR 00936-2350

Puerto Rico Ports Authority  
PO Box 362829  
San Juan, PR 00936-2829

PR Municipal Finance Agency  
PO Box 42001  
San Juan, PR 00940-2001

Puerto Rico Infrastructure  
Financing Authority  
PO Box 42001  
San Juan, PR 00940-2001

Sugar Corporation of Puerto Rico  
PO Box 9477  
San Juan, PR 00908-9477

Puerto Rico School of Plastic Arts  
PO Box 9021112  
San Juan, PR 00902-1112

Puerto Rico Industrial, Tourist,  
Educational, Medical and  
Environmental Control Facilities  
Financing Authority  
PO Box 42001 Minillas Station  
San Juan, PR 00940-2001

Caribbean Basin Projects Financing  
Authority  
PO Box 3271  
San Juan, PR 00904-3271

Automobile Accident Compensation  
Administration  
PO Box 364847  
San Juan, PR 00936-4847

PR Metropolitan Bus Authority  
PO Box 195349  
San Juan, PR 00919-5349

Puerto Rico Public Broadcasting  
Corporation  
PO Box 190-0909  
San Juan, PR 00919-0909

PR Solid Waste Authority  
PO Box 40285, Minillas Station  
San Juan, PR 00940-0285

Tourism Company of Puerto Rico  
PO Box 902-3960  
Old San Juan Station  
San Juan, PR 00902-3960

Employment and Training Enterprises  
Corporation  
PO Box 366505  
San Juan, PR 00936-6505

Industries for the Blind, Mentally  
Retarded and Other Disabled  
Persons of PR  
PO Box 13382  
San Juan, PR 00908

Institutional Trust of the National  
Guard of PR  
PO Box 9023786  
San Juan, PR 00902-3786

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

PR Conservatory of Music Corporation  
350 Lamar Street & Roosevelt Ave.  
San Juan, PR 00918-2199

Corporation of Stocks and Deposits  
Insurance for the Savings and  
Loans Cooperatives  
PO Box 195449  
San Juan, PR 00919-5449

Puerto Rico Land Administration  
PO Box 363767  
San Juan, PR 00936-3767

Puerto Rico Health Insurance  
Administration  
PO Box 4264  
San Juan, PR 00902-4264

Land Authority of Puerto Rico  
PO Box 9745  
San Juan, PR 00908-9745

Fine Arts Center Corporation  
PO Box 41287 - Minillas Station  
Santurce, PR 00940-1287

Right to Employment Administration  
PO Box 364452  
San Juan, PR 00936-4452

Farm Insurance Corporation of  
Puerto Rico  
PO Box 9200  
San Juan, PR 00908-0200

Puerto Rico Medical Services  
Administration  
PO Box 2129  
San Juan, PR 00922-2129

Puerto Rico and Caribbean  
Cardiovascular Center Corporation  
PO Box 366528  
San Juan, PR 00936-6528

Puerto Rico Exports Development  
Corporation  
PO Box 195009  
San Juan, PR 00936-5009

Recreational Development  
Company of Puerto Rico  
PO Box 9022089  
San Juan PR 00902-2089

Farm Credit Guarantee Fund and  
Guarantee Loan Fund for Eligible  
Business of PR  
PO Box 195009  
San Juan, PR 00919-5009

Agricultural Services and Development  
Administration  
PO Box 9200  
San Juan, PR 00908-0202

Trust for the Conservation,  
Operation and Maintenance of  
the Puerto Rico National Parks  
PO Box 363332  
San Juan, PR 00936-3332

Puerto Rico Council on Higher  
Education  
PO Box 195429  
San Juan, PR 00919-5429

Medical University Services, Inc.  
PO Box 364984  
San Juan, PR 00936-4984

The financial statements of the discretely presented component units have a year end of June 30, 1999 except for Sugar Corporation of Puerto Rico which has a year end of December 31, 1998 and Puerto Rico Telephone Authority, which has a period-ended of March 2, 1999 (date of acquisition).

### C. **Basis of Presentation**

The Commonwealth reports its financial position and results of operations in funds and account groups, each of which is considered an independent fiscal entity, 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 that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. They are not considered funds because they do not report expendable available financial resources and related liabilities. For financial reporting purposes, the Commonwealth's reporting entity is divided into the primary government and its component units. Individual funds of the primary government are classified into three type categories: governmental funds, proprietary funds and fiduciary funds. Discretely presented component units are classified into public university funds, and component units - other.

The Commonwealth has established the following fund categories, fund types, account groups and discrete presentation of component units:

#### 1. **Governmental Fund Types:**

Governmental funds are used to account for the general government functions of the Commonwealth. The following are the Commonwealth's governmental fund types:

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.

Debt Service Funds - The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs other than bonds payable from the operations of proprietary fund types, nonexpendable 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.

Capital Projects Funds - Capital projects funds are used to account for the financial resources used for acquisition or construction of major capital facilities not financed by proprietary fund types, nonexpendable trust funds and discretely presented component units.

#### 2. **Proprietary Fund Type:**

Proprietary funds are used to account for activities that are similar to those found in the private sector where net income and capital maintenance are measured. The enterprise fund is the Commonwealth's only proprietary fund, and is used to account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

3. **Fiduciary Fund Types:**

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

Expendable Trust Funds - are used to account for trusts which principal and income may be expended for their designated purpose.

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 retirement systems.

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

4. **Account Groups:**

Account groups establish control and accountability over the Commonwealth's general fixed assets and general long-term obligations.

General Fixed Assets Account Group - This account group is used to account for general fixed assets of the Commonwealth, and excludes the fixed assets held by the proprietary funds and discretely presented component units.

General Long-Term Debt Account Group - This account group is used to account for long-term obligations of the Commonwealth including bonds, appropriation and revenue bonds and long-term notes payable, obligations under lease/purchase agreements, net pension obligation, and other long-term liabilities excluding the liabilities of proprietary funds, public university funds and discretely presented component units.

5. **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 Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, with the funds and account groups of the primary government. The following are the Commonwealth's discrete presentation columns:

Public University Funds - are used to account for the activities of the University of Puerto Rico and the University of Puerto Rico Retirement System.

Component Units - Other - are used to account for the financial activities of the Commonwealth's discretely presented component units, excluding public university funds. The financial statements of these component units are presented in accordance with the appropriate accounting methods as discussed below.

#### **D. Basis of Accounting**

The basis of accounting determines when the Commonwealth recognizes revenues and expenditures or expenses and related assets and liabilities.

The modified accrual basis of accounting is followed by governmental fund types, expendable trust funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to pay liabilities of the current period. Tax revenues, net of estimated overpayments (refunds), are recorded by the Commonwealth as taxpayers earn income (income and unemployment), as sales are made (consumption and use taxes) and as cash is received (miscellaneous taxes).

In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. For the majority of grants, monies must be expended by the Commonwealth on the specific purpose or project before any amounts will be reimbursed. Revenues are, therefore, recognized as expenditures are incurred. For the other revenues, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria is met.

Expenditures and related liabilities are recorded in the accounting period in which the liability is incurred, except for (1) principal payment and interest on long-term obligations, which is recorded when due, except for principal and interest due in July 1 of the following fiscal year which is recorded when resources are available in the debt service funds and (2) vacation, sick leave, federal funds cost disallowances and amounts subject to judgments under litigation which are recorded in the general long-term debt account group.

The Commonwealth reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received before the Commonwealth has a legal claim to them, as when grant monies 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 revenues is removed from the combined balance sheet and the revenue is recognized.

The accrual basis of accounting is used by proprietary fund types and pension trust funds. 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. The accrual basis is also used by the public university funds, except that depreciation of fixed assets is not required to be recorded.

The public university funds include the University of Puerto Rico, and the University of Puerto Rico Retirement System. The University reports using the AICPA Audit and Accounting Guide model defined by Governmental Accounting Standards Board Statement No. 15, *Governmental College and University Accounting and Financial Reporting Models*. Accordingly, the public university funds are an aggregate of the following funds: current funds - restricted and unrestricted; loan funds; endowment and similar funds; plant funds; agency funds; and the activities of the retirement system. The Retirement System is a defined benefit single employer retirement plan and, therefore, follows the accounting and reporting practices applicable to public employees' retirement systems.

The Commonwealth's primary government and the blended component units have elected not to follow Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989 for its proprietary fund types, as allowed by Statement No. 20 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. However, certain discretely presented component units have disclosed their election in their separately issued financial statements.

The component units - other follow generally accepted accounting principles as issued by the Governmental Accounting Standards Board (GASB), and the Financial Accounting Standards Board (FASB) as applicable to each component unit based on the nature of their operations. Certain discretely presented component units also follow specialized accounting and financial reporting practices, such as banking, insurance, telecommunications, public utilities and higher education. In addition, the Puerto Rico Government Investment Trust Fund follows the specialized accounting and reporting practices for investment companies.

**E. Statutory (Budgetary) Accounting**

The Commonwealth's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with GAAP. Revenues are generally recognized when cash is received. However, revenues receivable for federal grants and reimbursements are recognized when related expenditures are incurred. Amounts due from certain political subdivisions of the Commonwealth are recognized when considered measurable and available at year end.

Expenditures are generally recorded when the related cash disbursement occurs. At year end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, provided that the goods or services have been received by June 30. Available appropriations and encumbrances lapse three years after the end of the fiscal year. Amounts required to settle 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 combined statement of revenues and expenditures-budget and actual - budget basis-general and debt service funds, only present the information for those funds for which there is a legally adopted budget, as required by generally accepted accounting principles. See Note 3 for a reconciliation of the combined statement of revenues and expenditures - budget and actual - budget basis-general and debt service funds with the combined statement of revenues, expenditures and changes in fund balance (deficit), for the general and debt service funds.

**F. Cash, Cash Equivalents and Short Term-Investments**

The Commonwealth follows the practice of pooling 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 with the Government Development Bank for Puerto Rico, and with the Puerto Rico Government Investment Trust Fund.

Cash and cash equivalents include investments with original maturities of ninety days or less.

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.

**G. Securities Purchased Under Agreements to Resell**

Certain component units of the Commonwealth enter into purchases of securities with simultaneous agreements to resell. The amounts advanced under these agreements generally represent short-term loans and are reflected as an asset with a corresponding liability. The securities underlying these agreements mainly consist of US Government obligations, mortgage-backed securities, and interest-bearing deposits with other banks.

**H. 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.

**I. Investments**

As described in Note 5, investments include US Government and agencies obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, investment contracts, and corporate debt and equity obligations. Investment securities 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 a net increase (decrease) in the fair value of investments in the combined statement of revenues, expenditures and changes in fund balance. Fair value is determined based on quoted market prices. When securities are not listed on national exchanges, quotations are obtained from brokerage firms.

The Puerto Rico Government Investment Trust Fund is considered a 2a7-like external investment pool, and as such, reports its investments at amortized cost.

**J. Receivables**

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience and current economic conditions. Intergovernmental receivables represent amounts owed to the Commonwealth for reimbursement of expenditures incurred pursuant to federally funded programs.

The loan funds of the public university funds are stated net of uncollectible amounts.

The accounts receivable from nongovernmental customers of the component units - other 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.

**K. Contribution in Lieu of Taxes**

Certain component units are required, by local laws, to contribute a specific percentage of their revenues as payment in lieu of taxes to the Commonwealth and the municipalities of Puerto Rico. During the year ended June 30, 1999, the Commonwealth received payments in lieu of taxes of approximately \$56.8 million, which have been included as operating transfers-in from component units.

**L. Inventories**

The proprietary fund types, public university funds and component units - other recognize an asset when the inventory is purchased and an expense when it is consumed. Inventories in proprietary fund types are primarily valued at the lower of cost or market using the first-in, first-out method.

**M. Restricted Assets**

Funds set aside by the general fund for payment and guarantee of notes and interest payable are classified as restricted assets since their use is limited for this purpose by applicable debt agreements. Restricted assets in the proprietary fund types mainly include amounts set aside for the payment of lottery prizes. Restricted assets in the public university funds and in the component units - other column are set aside primarily for the payment of bonds and notes for construction funds, and for other specific purposes. (See Note 10).

**N. Housing Units and Land Lots Held for Sale**

Housing units and land lots held for sale are stated at their estimated net realizable value determined by the management based on previous housing units sales, commitment or appraisal values.

**O. Fixed Assets**

For governmental fund types, general fixed asset acquisitions are recorded as expenditures in the acquiring fund and capitalized in the general fixed assets account group in the year purchased. General fixed assets are recorded at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market value at the time of donation.

Interest costs are capitalized during the construction period. The costs of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. Public domain general fixed assets (infrastructure) consisting of roads, bridges, streets, sidewalks, drainage and lighting systems are not capitalized as these assets are immovable and of value only to the government.

Fixed assets of the proprietary fund types and similar trust funds are stated at cost or estimated historical cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Interest costs are capitalized on projects during the construction period. Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives of fixed assets are as follows:

	Years
Buildings	25 - 50
Building improvements	10 - 20
Equipment, furniture, fixtures and vehicles	3 - 10

Fixed assets of the public university funds are stated at cost or fair value at the date of donation in the case of gifts. Interest costs are capitalized during the construction period. Depreciation on physical plant and equipment is not recorded, except for equipment of auxiliary enterprises of the University Pediatric Hospital.

The fixed assets of the component units - other are recorded in accordance with the applicable standards. 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.

**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.

**Q. Long-Term Debt**

The liabilities reported in the general long-term debt account group include the Commonwealth's general obligation bonds and long-term notes, obligations under lease/purchase agreements and other long-term liabilities including vacation, sick leave, litigation, long-term liabilities to other governmental entities, net pension obligation, and non-current federal fund cost disallowances related to expenditures of federal grants. Long-term obligations financed by proprietary fund types, public university funds, and component units - other are recorded as liabilities in those funds and discretely presented component unit columns.

**R. Reservations of Fund Balance**

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure. The Commonwealth has the following reservations of fund balance:

Encumbrances - Represents future expenditures under purchase orders and other commitments. These committed amounts represent a reservation of unexpired appropriations and generally will become liabilities in future periods as the goods or services are received.

Debt Service - Represents net assets available to finance future debt service payments.

Unemployment Benefits - Represents net assets available to fund future unemployment benefits payments.

Employee Pension Benefits - Represents the net assets available for pension benefits in the pension plans.

Advances and Other Specified Purposes - Represents the reservation of monies set aside for long-term receivables which are not considered current financing resources, the guarantee of notes payable, disability and drivers insurance, long-term assets, construction commitments, endowment and amounts available to fund various fiduciary arrangements.

Net Assets Available in the Investment Trust Fund - The net assets available in the investment trust fund represent the net value of the investments held for municipal participants by the Puerto Rico Government Investment Trust Fund, a discretely presented component unit. (See Note 4).

Net Assets in Liquidation – The net assets in liquidation represent the dollar amount of the net assets available for sale or transfer, as required by generally accepted accounting principles applicable to entities under liquidation. As established on Law No. 106 of June 30, 1998, the Office for the Administration of the Accounts of the Puerto Rico Urban Renewal and Housing Corporation terminated its operations on June 30, 1998. All assets and liabilities were transferred to the Puerto Rico Housing Department (Public Housing) effective July 1, 1998.

**S. Bond Premiums, Discounts and Issuance Costs**

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of the applicable premium or discount. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges. Public university funds present bond premiums and discounts in the net investment in plant fund and are amortized using the interest method. Component units - other follow appropriate statements issued by the Governmental Accounting Standards Board.

**T. Accounting for Pension Costs**

For the purpose of applying the requirements of Statements of Governmental Accounting Standards Board Statement No. 27, (SGAS), *Accounting for Pensions by State and Local Government Employers*, the Commonwealth's financial reporting entity is considered to be a participant in three single-employer defined benefits pension plans: Employees Retirement System of the Government of Puerto Rico and Its Instrumentalities (ERS); Puerto Rico Judiciary Retirement System (JRS); and the Puerto Rico System of Annuities and Pensions for Teachers (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 general purpose financial statements, and as disclosed in Note 22, the Commonwealth's annual pension cost, measured on the accrual basis of accounting, for the year ended June 30, 1999 amounted to approximately \$918 million. However, the amount recognized as pension expenditure in the governmental funds, (excluding blended component units) was recorded under the modified accrual basis, and amounted to approximately \$591 million. The excess of the annual required contribution over the statutorily required contributions of approximately \$309 million increased the net pension obligation at June 30, 1999 to approximately \$2.4 billion. This amount is presented in the general long-term debt account group at June 30, 1999.

For purposes of the stand-alone financial statements of each of the blended and discretely presented component units - other, 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.

In addition, the University of Puerto Rico, which is reported in the public university funds, applied the provisions of SGAS 27 as it is applicable to an entity with a single-employer defined benefits pension plan.

**U. Deferred Compensation Plan**

The University of Puerto Rico offers certain employees a non-qualified deferred compensation plan, which was created pursuant to Certification No. 94 of the Council of Higher Education, dated February 13, 1984. The plan, managed by independent plan administrators, permits employees to defer a portion of their salary until future years. At the employee's election, such amounts may be invested in mutual funds which represent varying levels of risk and return. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to these amounts, are (until paid or made available to the employee or other beneficiary) solely the property and rights of the University (without being restricted to the provisions of benefits under the plan), subject only to the claims of the University's general creditors.

Participant's rights under the plan are equal to those of general creditors of the University in an amount equal to the fair market value of the deferred account for each participant. It is the opinion of the University's legal counsel that the University has no liability for the losses under the plan but does have the duty of care that would be required of an ordinary prudent investor. The University believes that it is unlikely that it will use the assets of the plan to satisfy the claims of general creditors in the future.

**V. Postemployment Benefits**

In addition to the pension benefits described in Note 22, the Commonwealth provides postemployment health care benefits and a Christmas bonus 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. Health care benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share of not more than \$40 per month for each retiree. During the year ended June 30, 1999, the cost of providing health care benefits amounted to approximately \$30.6 million for approximately 64,870 retirees. The Christmas bonus paid to the retired employees during the year ended June 30, 1999 was \$250 per retiree and the total amount was approximately \$21.9 million for approximately 88,180 retirees. These benefits are recorded as expenditures when paid in the general fund.

**W. 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 sick leave at the current rate, if the employee has at least ten years of service with the Commonwealth.

Compensated absence accumulation policies for the blended component units, the public university funds, and component units - other vary from entity to entity based on negotiated agreements and other factors agreed upon between the management of these entities and its employees.

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

## **X. Interfund and Intra-Entity Transactions**

The Commonwealth has the following types of transactions among funds:

Operating Transfers - Legally required transfers that are reported when incurred as "Operating transfers-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.

Interfund Payments (Quasi-external Transactions) - Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund and as expenditures or expenses of the disbursing fund.

Intra-Entity Transactions - There are three types of intra-entity transactions. First are transactions between the primary government and its component units, and among the component units. Transfers between the primary government and its other funds are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds. Balances and transfers between the primary government and discretely presented component units (and among those component units) are reported separately from balances with blended component units.

Second are intra-entity balances that do not represent available/demands on current financial resources of governmental funds and are generally of intermediate terms. These balances are reported as interfund advances.

Third are intra-entity balances between the primary government funds and component unit-other entities that are tantamount to long-term bond financing. The primary government's liability is reported in the long-term debt account group, the proceeds in the primary government's fund balances, and the asset in the component unit-other.

Residual Equity Transfers - These are nonrecurring or nonroutine transfers of equity between funds.

## **Y. Lottery Revenues and Prizes**

The revenues, expenses and prizes awarded by the Lottery of Puerto Rico, and the Additional Lottery System, are reported within the enterprise funds and are recognized as drawings are held. Monies collected prior to June 30 for tickets related to drawings to be conducted subsequent to June 30 are reported as deferred revenues. Unpaid prizes awarded as of June 30 are reported as a fund liability. For prizes payable in installments, the Commonwealth purchases annuities through the Government Development Bank for Puerto Rico, which are reported as restricted assets and lottery prizes payable.

## **Z. Public University Funds**

Financial activities of the University of Puerto Rico (the University) and the University of Puerto Rico Retirement System (the System) are reported in the public university funds. Such funds are discretely presented in a separate column in the general purpose financial statements and represent the combination of the following funds of the University:

Current Funds - Account for resources that may be used for any purpose in carrying out the primary objectives of the University.

Loan Funds - Account for resources available for loans to students, faculty, or staff of the University.

Endowment and Similar Funds - Account for endowment and quasi-endowment transactions. These funds are similar to trust funds and the University must comply with the terms of any applicable agreement.

Plant Funds - Account for transactions involving physical facilities of the University. The investment in plant accounts for funds expended and, thus, invested for property and any related outstanding debt.

Agency Funds - Account for resources held by the University as custodian or agent for others.

The combined statement of current funds revenues, expenditures and other changes - public university funds is a statement of financial activities related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

The public university funds measurement focus is based upon determination of resources received and used. Current funds used to finance plant assets are accounted for as (1) expenditures, for normal replacement of movable equipment and library books; (2) mandatory transfers, for required provisions for debt amortization/interest and equipment renewal and replacement; and (3) transfers of a nonmandatory nature for all other cases.

Public university funds record expenditures when they acquire fixed assets and capitalize those assets within the plant funds. These funds capitalize interest expenditures during construction but do not record depreciation.

#### **AA. Use of Estimates**

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

**BB. Future Adoption of Accounting Pronouncements**

The Governmental Accounting Standards Board has issued the following statements which the Commonwealth, or its component units, have not yet adopted.

Statement No.		Adoption required in fiscal year
33	Accounting and Financial Reporting for Nonexchange Transactions	2001
34	Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments	2002
35	Basic Financial Statements – and Management’s Discussion Analysis – for Public Colleges and Universities – an amendment of GASB No. 34	2002

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

**CC. Risk Financing**

The Commonwealth purchases commercial insurance to cover for casualty, theft, tort claims and other losses. The current insurance policies have not been canceled or terminated. For workers’ compensation, the Commonwealth has a discretely presented component unit, the State Insurance Fund Corporation, 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.

Most component units carry commercial insurance as part of their risk financing programs. Certain other component units combine commercial insurance with internal self-insurance funds covering specific risks related to their specialized operations.

**DD. Reclassifications**

Certain reclassifications have been made to the information presented in the separately issued financial statements of certain component units included within the debt service, capital projects, enterprise, expendable trust and pension trust funds; public university, and other discretely presented component units to conform to the accounting classifications used by the Commonwealth in the general purpose financial statements.

## **EE. Totals Columns (Memorandum Only)**

Total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present consolidated financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

## **2. COMPONENT UNITS**

The Commonwealth follows the provisions of Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*. The general purpose financial statements include the financial statements of the following component units that were audited by other auditors:

Agricultural Services and Development Administration  
Automobile Accident Compensation Administration  
Employment and Training Enterprises Corporation and Subsidiary  
Farm Credit Guarantee Fund and Guarantee Loan Fund for Eligible  
Businesses of Puerto Rico  
Farm Insurance Corporation of Puerto Rico  
Fine Arts Center Corporation  
Industries for the Blind, Mentally Retarded and Other Disabled Persons  
of Puerto Rico  
Institutional Trust of the National Guard of Puerto Rico  
Land Authority of Puerto Rico  
Medical University Services, Inc.  
Musical Arts Corporation and Subsidiaries  
Puerto Rico Aqueduct and Sewer Authority  
Puerto Rico Council on Higher Education  
Puerto Rico and Caribbean Cardiovascular Center Corporation  
Puerto Rico Electric Power Authority  
Puerto Rico Highway and Transportation Authority  
Puerto Rico Housing Bank and Finance Agency  
Puerto Rico Industrial Development Company  
Puerto Rico Medical Services Administration  
Puerto Rico Metropolitan Bus Authority  
Puerto Rico Public Broadcasting Corporation  
Puerto Rico School of Plastic Arts  
Recreational Development Company of Puerto Rico  
Right to Employment Administration  
Puerto Rico Solid Waste Authority  
Sugar Corporation of Puerto Rico  
Tourism Company of Puerto Rico  
Trust for the Conservation, Operation and Maintenance of the Puerto Rico National Parks  
University of Puerto Rico  
University of Puerto Rico Retirement System

Condensed financial information of the major discretely presented component units-other are presented on the following two pages (expressed in thousands).

<b>Balance Sheet</b>	<b>Government Development Bank for Puerto Rico and Subsidiaries</b>	<b>Puerto Rico Highway and Transportation Authority</b>	<b>Puerto Rico Electric Power Authority</b>	<b>Puerto Rico Aqueduct and Sewer Authority</b>	<b>Puerto Rico Infrastructure Financing Authority</b>	<b>Puerto Rico Housing Bank and Finance Agency</b>	<b>State Insurance Fund Corporation</b>	<b>Economic Development Bank for Puerto Rico</b>	<b>Puerto Rico Ports Authority</b>	<b>Other Entities</b>	<b>Total Component Units Other</b>
<b>Assets and Other Debits</b>											
Current assets	\$ 968,255	\$ 95,166	\$ 697,890	\$ 144,413	\$ 12,530	\$ 144,568	\$ 111,453	\$ 153,114	\$ 47,675	\$ 717,761	\$ 3,092,825
Investments	3,457,212					55,215	690,998	612,802		609,242	5,435,469
Due from:											
Primary government										10,580	10,580
Component units								580		1,894	2,474
Other governmental entities										2,562	2,562
Advances to:											
Primary government	918,512		50,731							6,000	975,243
Component units	1,477,975							14,850			1,492,825
Other governmental entities	705,533	19,359								5,000	729,892
Restricted assets:											
Cash and cash equivalents		60,352			43,778	313,322		285	63,613	99,309	580,659
Other restricted assets	717,342	540,051	674,960	33,628	1,230,482	580,837	303,685		8,246	959,292	5,048,523
Housing units and land lots held for sale										127,046	127,046
Fixed assets, net		940,522	3,749,578	3,921,925	1,012	917	112,026	13,947	629,986	1,154,904	10,524,817
Amount available in debt service funds		366,048			43,778	22,861				869	433,556
Amount to be provided for the retirement of bonds and notes payable		3,139,827			962,647					24,380	4,126,854
Amount to be provided for payment of accrued compensated absences and other long-term debt		20,849				326,939				9,371	357,159
<b>Total</b>	<b>\$ 8,244,829</b>	<b>\$ 5,182,174</b>	<b>\$ 5,173,159</b>	<b>\$ 4,099,966</b>	<b>\$ 2,294,227</b>	<b>\$ 1,444,659</b>	<b>\$ 1,218,162</b>	<b>\$ 795,578</b>	<b>\$ 749,520</b>	<b>\$ 3,728,210</b>	<b>\$ 32,930,484</b>
<b>Liabilities and Fund Equity</b>											
Current liabilities	\$ 4,117,612	\$ 300,209	\$ 739,790	\$ 303,893	\$	\$ 271,399	\$ 1,146,214	\$ 659,700	\$ 132,309	\$ 1,031,712	\$ 8,702,838
Due to:											
Primary government						12,715				35,736	48,451
Component units										8,442	8,442
Other governmental entities										2,732	2,732
Advances from component units		95,406	35,000	581,229		99,618		14,060	220,377	353,300	1,398,990
Notes payable	1,081,694		130,000	101,079			60,150	33,800		21,183	1,427,906
Bonds payable	1,484,633	3,477,059	3,851,823	425,271	1,006,425	725,086			110,511	757,555	11,838,363
Other liabilities	16,241	3,947			42,930				1,704	6,221	71,043
Other long-term liabilities		18,000				3,329				146,127	167,456
Net pension obligation			15,294								15,294
<b>Total liabilities</b>	<b>6,700,180</b>	<b>3,894,621</b>	<b>4,771,907</b>	<b>1,411,472</b>	<b>1,049,355</b>	<b>1,112,147</b>	<b>1,206,364</b>	<b>707,560</b>	<b>464,901</b>	<b>2,363,008</b>	<b>23,681,515</b>
Fund equity	1,544,649	1,287,553	401,252	2,688,494	1,244,872	332,512	11,798	88,018	284,619	1,365,202	9,248,969
<b>Total</b>	<b>\$ 8,244,829</b>	<b>\$ 5,182,174</b>	<b>\$ 5,173,159</b>	<b>\$ 4,099,966</b>	<b>\$ 2,294,227</b>	<b>\$ 1,444,659</b>	<b>\$ 1,218,162</b>	<b>\$ 795,578</b>	<b>\$ 749,520</b>	<b>\$ 3,728,210</b>	<b>\$ 32,930,484</b>

Statement of Operations	Government Development Bank for Puerto Rico and Subsidiaries	Puerto Rico Highway and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	Puerto Rico Infrastructure Financing Authority	Puerto Rico Housing Bank and Finance Agency	State Insurance Fund Corporation	Economic Development Bank for Puerto Rico	Puerto Rico Ports Authority	Other Entities	Total Component Units Other
Operating revenues	\$ 420,427	\$ 2,551	\$ 1,530,354	\$ 319,661	\$ 19,378	\$ 48,397	\$ 496,719	\$ 62,789	\$ 138,416	\$ 2,272,514	\$ 5,311,206
Operating expenses	322,367	19,540	1,254,822	477,878		50,100	571,903	69,516	134,026	2,832,421	5,732,573
Operating income (loss)	98,060	(16,989)	275,532	(158,217)	19,378	(1,703)	(75,184)	(6,727)	4,390	(559,907)	(421,367)
Non-operating revenues (expenses)	8,633		(255,527)	(6,811)			58,899	9,691	(10,936)	(71,503)	(267,554)
Income (loss) before operating transfers	106,693	(16,989)	20,005	(165,028)	19,378	(1,703)	(16,285)	2,964	(6,546)	(631,410)	(688,921)
Transfers from (to): Primary government				35,000			(24,236)			772,795	783,559
Net income (loss)	106,693	(16,989)	20,005	(130,028)	19,378	(1,703)	(40,521)	2,964	(6,546)	141,385	94,638
Excess of revenues over expenditures from governmental operations		(97,008)			(120,083)	29,986				5,220	(181,885)
Depreciation on fixed assets acquired through contributed capital		1,381		62,387						4,661	68,429
Increase (decrease) in retained earnings (deficit) fund balance	106,693	(112,616)	20,005	(67,641)	(100,705)	28,283	(40,521)	2,964	(6,546)	151,266	(18,818)
Retained earnings (deficit) fund balance at beginning of year (as restated)	112,956	832,776	241,264	260,422	144,566	165,401	52,319	23,500	(85,227)	977,751	2,725,728
Transfers to contributed capital										(379)	(379)
Residual equity transfer		(306,246)			1,200,000					(1,203,330)	(309,576)
Retained earnings (deficit)/ fund balances at end of year	\$ 219,649	\$ 413,914	\$ 261,269	\$ 192,781	\$ 1,243,861	\$ 193,684	\$ 11,798	\$ 26,464	\$ (91,773)	\$ (74,692)	\$ 2,396,955

Condensed financial statements of the public university funds are as follows (expressed in thousands):

	University of Puerto Rico	Retirement System	Total
<b>ASSETS</b>			
Current assets	\$ 89,205	\$683,760	\$ 772,965
Due from primary government	17		17
Due from component units	2,700		2,700
Restricted assets:			
Cash and cash equivalents	15,518		15,518
Other restricted assets	175,552	222	175,774
Fixed assets - net	<u>775,153</u>	<u>353</u>	<u>775,506</u>
 Total Assets	 <u>\$1,058,145</u>	 <u>\$684,335</u>	 <u>\$1,742,480</u>
<b>LIABILITIES AND FUND EQUITY</b>			
Current liabilities	\$ 79,239	\$ 33,834	\$ 113,073
Advances from component units	36,152		36,152
Notes payable	2,700		2,700
Bonds payable	300,757		300,757
Other liabilities	111,157	206	111,363
Net pension obligation	<u>8,421</u>	<u>          </u>	<u>8,421</u>
 Total Liabilities	 538,426	 34,040	 572,466
 Fund Equity	 <u>519,719</u>	 <u>650,295</u>	 <u>1,170,014</u>
 Total Liabilities and Fund Equity	 <u>\$1,058,145</u>	 <u>\$684,335</u>	 <u>\$1,742,480</u>

### 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 Office of Management and Budget, and takes into consideration the advice provided by the Planning Board (annual economic growth forecasts; four year capital improvements plan), the Department of the Treasury (revenue estimates; accounting records and the comprehensive annual financial report), the Government Development Bank for Puerto Rico (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 revenues, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided by law*”.

The annual budget, which is developed utilizing elements of performance-based program budgeting and zero-based budgeting, includes an estimate of revenues and other resources for the ensuing fiscal year under (i) laws existing at the time the budget is submitted and (ii) 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 adopted by the 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 to cover such deficit. Upon approval 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 Legislature made several special budgetary appropriations to the general fund throughout the year, which amounted to approximately \$2.5 billion.

The Office of Management and Budget (OMB) has authority to modify budget within an agency without legislative approval.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year end are reported as reservations of budgetary appropriations and GAAP fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse three years after the end of such fiscal year or at the date prescribed by the Secretary of the Treasury. Others 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.

In addition, the Legislature may direct that certain revenues 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 included in the combined balance sheet of the general fund, and the debt redemption fund. For these funds, a Combined Statement of Revenues and Expenditures - Budget and Actual - Budget Basis - Budgeted General and Debt Service Funds is included.

Appropriations for capital projects are made for each bond issue and the authorization continues for the expected construction period. The Commonwealth's Treasury Department and OMB have the responsibility to ensure that budgetary spending control is maintained on an individual department basis. The 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.

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 revenues and other sources of financial resources over expenditures and other uses of financial resources for the year ended June 30, 1999 is presented below for the general and debt service funds (expressed in thousands):

	General	Debt Service
Excess (deficiency) of revenues and other sources over expenditures and other uses - budget basis	\$ 85,901	\$ 8,383
Entity differences:		
Excess of revenues and other sources over expenditures and other uses for:		
Non-budgeted amounts	(114,922)	
Inclusion of blended component units		1,514
Timing differences:		
Adjustment for encumbrances	91,642	
Expenditure against prior year encumbrances	(80,036)	
Basis of accounting differences:		
Net increase in taxes receivable	11,193	14,837
Net increase in other receivables and other assets	19,190	
Net decrease in accounts payable and other liabilities	<u>64,762</u>	<u>          </u>
Excess of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$ 77,730</u>	<u>\$ 24,734</u>

**C. Deficit Fund Equity**

The following funds and component units reflect a deficit fund balance or retained earnings at June 30, 1999 (expressed in thousands):

Primary Government:

Health Facilities and Services Administration of Puerto Rico	\$ 1,153,346
Additional Lottery System	1,365

Prior to June 30, 1999, the operations of the Health Facilities and Services Administration (HFSA) were funded substantially by appropriations from the Commonwealth of Puerto Rico

Component Units - Other:

Sugar Corporation of Puerto Rico	\$317,709
Tourism Company of Puerto Rico	222,165
Land Authority of Puerto Rico	154,890
Puerto Rico Ports Authority	91,773
Puerto Rico Metropolitan Bus Authority	49,434
Agricultural Services and Development Administration	11,997
Corporation of Stocks and Deposits Insurance for the Savings and Loan Cooperatives	10,530
Puerto Rico Exports Development Corporation	8,493
Puerto Rico and Caribbean Cardiovascular Center Corporation	6,517
Employment and Training Enterprises Corporation and Subsidiary	5,480
Medical University Services, Inc.	1,802
Fine Arts Center Corporation	300
Industries for the Blind, Mentally Retarded and Other Disabled Persons of PR	117

In the past, the Commonwealth and the component units have provided financial resources and capital investments to support these activities. Tourism Company of Puerto Rico and Puerto Rico Ports Authority are implementing plans to liquidate properties and to increase revenues. Sugar Corporation of Puerto Rico is in the process of transferring certain assets, liabilities and operations for a nominal value to the sugar cane farmers. (See Note 27).

**4. PUERTO RICO GOVERNMENT INVESTMENT TRUST FUND (PRGITF)**

The Puerto Rico Government Investment Trust Fund (PRGITF), was created by the Secretary of the Treasury of 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 administered by the Government Development Bank for Puerto Rico, a discretely presented component unit, 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. 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, 1999 consisted of bankers' acceptances, certificates of deposit, bank notes, corporate obligations, commercial paper and US Government and agencies obligations, all of which may be considered highly-liquid. However, the participants' investments are subject to the ability of the Trust Fund 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, 1999, at \$1.00 per unit of participation, was reported in the individual component units financial statements of each of the participants, and combined in the general purpose financial statements as follows (expressed in thousands):

	Balance Outstanding	Percentage of Total
<b><u>Primary Government:</u></b>		
Commonwealth	\$ 383,952	47.23%
Public Buildings Authority	112,665	13.86%
Office for the Improvement of the Public Schools	73,958	9.10%
Employees Retirement System of the Government of PR and Its Instrumentalities	<u>18,623</u>	<u>2.29%</u>
Total for primary government	<u>589,198</u>	<u>72.48%</u>
<b><u>Public University Funds:</u></b>		
University of Puerto Rico	<u>221</u>	<u>.03%</u>
<b><u>Discretely Presented Component Units:</u></b>		
Recreational Development Company of Puerto Rico	79,093	9.73%
Puerto Rico Land Administration	48,873	6.01%
State Insurance Fund Corporation	46,888	5.77%
Puerto Rico Housing Bank and Finance Agency	12,715	1.56%
Puerto Rico Council on Higher Education	10,128	1.25%
Government Development Bank for PR and Subsidiaries	20,227	2.49%
Institutional Trust of the National Guard of PR	2,625	.32%
Puerto Rico Land Administration	1,651	.20%
Corporation of Stocks and Deposits Insurance for the Savings and Loans Cooperatives	1,136	.14%
Puerto Rico Plastic Arts School	<u>123</u>	<u>.02%</u>
Total for discretely presented component units	<u>223,459</u>	<u>27.49%</u>
Total for all participants	<u>\$ 812,878</u>	<u>100%</u>

The deposits at June 30, 1999 were invested in securities with a cost which approximates fair value, plus accrued interest, for approximately \$812.9 million.

## 5. DEPOSITS AND INVESTMENTS

Under Commonwealth statutes, public funds deposited in commercial banks 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's agents in the Commonwealth's name. In addition, the Commonwealth maintains deposits with the Government Development Bank for Puerto Rico (GDB) and the Economic Development Bank for Puerto Rico (EDB), two discretely presented component units, and the United States Government (for unemployment insurance).

Cash, cash equivalents and investments of the primary government at June 30, 1999 consist of (expressed in thousands):

**Primary Government**

	Unrestricted	Included in Debt Service	Included in Capital Projects	Included in Trust and Agency	Included in Restricted Assets	Total
Cash and cash equivalents	\$ 203,605	\$ 40,102	\$ 257,760	\$ 975,200	\$	\$1,476,667
Cash and cash equivalents in governmental banks	423,482	300,063	447,547	418,156	603,501	2,192,749
Investments	<u>          </u>	<u>2,371</u>	<u>186,623</u>	<u>3,558,420</u>	<u>272,850</u>	<u>4,020,264</u>
Total	<u>\$ 627,087</u>	<u>\$ 342,536</u>	<u>\$ 891,930</u>	<u>\$4,951,776</u>	<u>\$ 876,351</u>	<u>\$7,689,680</u>

The Commonwealth's bank balance of deposits with financial institutions is categorized to provide an indication of the level of collateral risk assumed by the Commonwealth at year end. Risk categories are described as follows:

Category 1: Insured or collateralized with securities held by the Secretary of the Treasury's agents in the Commonwealth's name.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the Commonwealth's name.

Category 3: Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Commonwealth's name).

The carrying amount of deposits with financial institutions of the primary government at June 30, 1999 consists of (expressed in thousands):

Carrying amounts of deposits in governmental banks	\$ 1,808,797
Carrying amount of deposits in commercial banks	932,984
Carrying amount of deposits in US Government	541,180
Investments disclosed as cash equivalents for GASB 9	<u>386,455</u>
Total carrying amount of deposits as reported on the combined balance sheet	<u>\$ 3,669,416</u>
Bank balance of deposits in commercial banks:	
Category 1	\$ 763,991
Category 3	<u>181,849</u>
Total bank balance of deposits in commercial banks	<u>\$ 945,840</u>

The amount of the bank balance of deposits in commercial banks uninsured or uncollateralized at June 30, 1999 shown above, belongs mainly to the Puerto Rico Public Building Authority.

The bank balance of deposits in governmental banks, which as of June 30, 1999, is uninsured and uncollateralized, is approximately \$2,256 million. Such deposits are maintained in the Government Development Bank for Puerto Rico and the Economic Development Bank for Puerto Rico.

Deposits of approximately \$541 million with the US Government represent unemployment insurance taxes collected from employers which are transferred to the Federal Unemployment Insurance Trust Fund in the United States Treasury.

Deposits in governmental banks represent the balance of interest and non-interest bearing accounts in GDB and EDB. The deposit liability at GDB 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 because of reconciling items such as outstanding checks and deposits in transit.

The bank balance of GDB's deposits at June 30, 1999 is broken down as follows (expressed in millions):

Primary government	\$ 2,251
Public university funds	2
Other discretely presented components units	<u>377</u>
Total reporting entity	2,630
Effect of the inclusion of financial statements of a component unit with different date of financial statements	33
Municipalities of Puerto Rico	398
Other non-governmental entities	95
Certificates of indebtedness	222
Escrow accounts	<u>500</u>
Total deposits per GDB	<u>\$ 3,878</u>

On February 22, 1996, the Board of Directors of the Government Development Bank for Puerto Rico adopted the *Statement of Investment Guidelines for the Government of Puerto Rico*. These guidelines promulgate a uniform investment policy for the Government of Puerto Rico. The guidelines under this statement are to be followed by municipalities, agencies and public corporations, public insurance companies and public retirement plans. These guidelines include the allowable and the prohibited assets in which each governmental entity may invest, except for the Government Development Bank for Puerto Rico and the Economic Development Bank for Puerto Rico, which may establish their own investment policy with the approval of the Board of Directors of the Government Development Bank.

Pursuant to the Statement of Investment Guidelines, the agencies and public corporations may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others.

The retirement systems may invest in stocks, corporate bonds, obligations of the United States, mortgage loans, private equity and others.

The Commonwealth's investments are categorized to provide an indication of the level of collateral risk assumed by the Commonwealth at year end. Risk categories are described as follows:

- Category 1: Insured or registered, or securities held by the Commonwealth or its agent in the Commonwealth's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commonwealth's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commonwealth's name.

Collateral risk classification for short-term investments and investments of the primary government are as follows (expressed in thousands):

	1	Category 2	3	Carrying Amount
<u>Unrestricted</u>				
Stocks	\$ 2,296,856	\$ 159,174	\$ 6,815	\$ 2,462,845
US Government and agencies securities	547,145		26,579	573,724
Corporate bonds	156,671			156,671
Foreign and municipal bonds			10,179	10,179
Mortgage-backed securities			6,563	6,563
Commercial paper			449	449
Repurchase Agreements	48			48
Short-term investments			37	37
Subtotal	<u>3,000,720</u>	<u>159,174</u>	<u>50,622</u>	<u>3,210,516</u>
Investments not subject to categorization:				
Mortgage loans				4,661
PR Government Trust Fund				589,198
Investment pool				303,185
Limited partnership/private equity				<u>26,309</u>
Total - unrestricted				<u>4,133,869</u>
<u>Restricted</u>				
US Government and agencies securities			<u>39,977</u>	<u>39,977</u>
Investments not subject to categorization:				
Annuity contracts				<u>232,873</u>
Total - restricted				<u>272,850</u>
Total	<u>\$ 3,000,720</u>	<u>\$ 159,174</u>	<u>\$ 90,599</u>	<u>\$4,406,719</u>

The following schedule reconciles the carrying amount of investments as disclosed above to the combined balance sheet (expressed in thousands):

Carrying amount of investments	\$4,406,719
Investments disclosed as cash equivalents for GASB 9	<u>(386,455)</u>
Investments reported on the combined balance sheet	<u>\$4,020,264</u>

Unrestricted investments include approximately \$384 million of deposits from the Commonwealth that are invested in the Puerto Rico Government Investment Trust Fund (See Note 4). Such amount has been included as cash and cash equivalents in the combined balance sheet.

Annuity contracts included as restricted investments are purchased from the Government Development Bank for Puerto Rico to fund Lotto prizes of \$200 thousand or more payable on an installment basis. Investments in zero coupon US Treasury strips (with maturity dates that coincide with pay-out schedules of the Lotto prizes) constitute collateral for the annuities. As of June 30, 1999, the fair value of such collateral amounts to approximately \$242 million. Annuity contracts are recorded at present value of future installment prize payments. Interest earned is not recognized as revenue, but credited to obligations for unpaid prize awards.

Local laws require that annuity contracts be held until maturity, unless the prizes to which they relate are not claimed within the statutory period. If not claimed, the annuities are canceled and proceeds thereof are transferred to the General Fund.

**Public University Funds**

Cash and investments of the public university funds at June 30, 1999 consist of (expressed in thousands):

	Unrestricted	Restricted	Total
Cash in commercial banks	\$ 92,291	\$ 14,051	\$ 106,342
Cash in governmental banks	73	1,467	1,540
Investments	<u>570,359</u>	<u>78,752</u>	<u>649,111</u>
Total	<u>\$ 662,723</u>	<u>\$ 94,270</u>	<u>\$ 756,993</u>

As of June 30, 1999, cash mainly includes certificates of deposit, demand and interest bearing accounts in commercial and governmental banks. The carrying amount and the bank balance of deposits at June 30, 1999 consists of (expressed in thousands):

	Carrying Amount	Bank Balance
Commercial banks	\$ 78,712	\$ 94,696
Governmental banks	<u>71,168</u>	<u>71,095</u>
Total	<u>\$ 149,880</u>	<u>\$ 165,791</u>
Bank balances of deposits uninsured or uncollateralized		<u>\$ 109,742</u>

The following schedule reconciles the carrying amount of deposits as disclosed above to the combined balance sheet (expressed in thousands:)

Carrying amount of deposits	\$ 149,880
Cash equivalents disclosed as investments for GASB 9	<u>(41,998)</u>
Deposits as reported on the combined balance sheet	<u>\$ 107,882</u>

The uninsured bank balance mainly includes deposits with Government Development Bank for Puerto Rico and Economic Development Bank for Puerto Rico.

Investments of the public university funds are as follows (expressed in thousands):

	Category 1	Carrying Amount
<u>Unrestricted</u>		
Stocks	\$ 345,730	\$ 345,730
US Government and agencies securities	65,939	65,939
Corporate bonds	75,420	75,420
Mortgage-backed securities	34,256	34,256
Negotiable certificates of deposit	1,457	1,457
Foreign securities certificates	<u>3,731</u>	<u>3,731</u>
Subtotal	<u>526,533</u>	<u>526,533</u>
Investments not subject to categorization:		
Limited partnerships/private equity		2,943
Mortgage loans		<u>1,711</u>
Total-unrestricted		<u>531,187</u>
<u>Restricted</u>		
US Government and agencies securities	37,208	37,208
Corporate bonds	6,669	6,669
Stocks	<u>6,133</u>	<u>6,133</u>
Subtotal	<u>50,010</u>	<u>50,010</u>
Investments not subject to categorization:		
Mortgage loans		3
Real estate		350
PR Government Investment Trust Fund		221
Mutual funds		<u>25,342</u>
Total-restricted		<u>75,926</u>
Total	<u>\$ 576,543</u>	<u>\$ 607,113</u>

The following schedule reconciles the carrying amount of investments as disclosed above to the combined balance sheet (expressed in thousands):

Carrying amounts of investments	\$ 607,113
Cash equivalents disclosed as investments for GASB 9	41,998
Other restricted assets	<u>97,022</u>
Investments as reported on the combined balance sheet	<u>\$ 746,133</u>

Unrestricted investments mainly belong to the University of Puerto Rico Retirement System. Such investments have been presented in the general purpose financial statements at their fair value, which as of June 30, 1999 amounts to approximately \$531 million.

The fair value of investments held in foreign currencies are translated into US dollars generally using current rates of exchange. The related translation adjustments and the unrealized appreciation (depreciation) in fair value of investments are recorded in the statement of changes in fund balances as investment income.

### Component Units - Other

Cash, cash equivalents and investments of the component units - other at June 30, 1999 consist of (expressed in thousands):

	Unrestricted	Restricted	Total
Cash and cash equivalents	\$ 676,744	\$ 580,659	\$ 1,257,403
Investments	<u>5,425,469</u>	<u>5,048,523</u>	<u>10,473,992</u>
Total	<u>\$6,102,213</u>	<u>\$5,629,182</u>	<u>\$11,731,395</u>

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

Information of carrying amounts and bank balances for deposits with financial institutions and bank investment contracts is as follows (expressed in thousands):

	Carrying Amount	Bank Balance
Deposits in commercial banks	\$1,434,595	\$1,465,515
Deposits in governmental banks	<u>506,249</u>	<u>468,011</u>
Total	<u>\$1,940,844</u>	<u>\$1,933,526</u>
Bank balance of deposits in commercial banks:		
Category 1		\$ 404,812
Category 3		<u>1,060,703</u>
Total bank balance of deposits in commercial banks		<u>\$1,465,515</u>

The bank balance of deposits in governmental banks is uninsured and uncollateralized. Such deposits are maintained with the Government Development Bank for Puerto Rico and with the Economic Development Bank for Puerto Rico.

The following schedule reconciles the carrying amount of deposits as disclosed above to the combined balance sheet (expressed in thousands):

Carrying amount of deposits	\$1,940,844
Cash equivalents disclosed as investments for GASB 9	(781,975)
Investments disclosed as cash equivalents for GASB 9	<u>98,534</u>
Deposits as reported on the combined balance sheet	<u>\$1,257,403</u>

Collateral risk classification for short-term investments and investments of component units - other are as follows (expressed in thousands):

	1	Category 2	3	Carrying Amount
<u>Unrestricted</u>				
US Government and agencies securities	\$2,043,005	\$	\$	\$2,043,005
Mortgage-backed securities	974,714		47,318	1,022,032
Stocks	416,903			416,903
Repurchase agreements	364,326		8,758	373,084
Corporate bonds	241,367			241,367
Negotiable certificates of deposit	76,772	9,970	35,501	122,243
Commercial paper	66,402			66,402
Foreign and municipal bonds	17,613			17,613
Subtotal	<u>4,201,102</u>	<u>9,970</u>	<u>91,577</u>	<u>4,302,649</u>
Investments not subject to categorization:				
Guaranteed investment contracts				203,021
PR Government Investment Trust Fund				121,010
Repurchase agreements				97,736
Securities lending underlying securities				50,490
Limited partnership/private equity				23,876
Money market funds				11,425
Investment pool				<u>2,219</u>
Total - unrestricted				<u>4,812,426</u>
<u>Restricted</u>				
US Government and agencies securities	2,464,708	2,090	9,514	2,476,312
Foreign and municipal bonds	508,296			508,296
Mortgage-backed securities	456	317,356		317,812
Repurchase agreements	19,459		287,838	307,297
Negotiable certificates of deposit	14,322			14,322
Stocks	37			37
Subtotal	<u>3,007,278</u>	<u>319,446</u>	<u>297,352</u>	<u>3,624,076</u>
Investments not subject to categorization:				
Guaranteed investment contracts				632,196
Securities lending underlying securities				217,431
Certificates of indebtedness				159,302
PR Government Investment Trust Fund				86,209
Repurchase agreements				77,123
Limited partnership/private equity				22,030
Money market funds				<u>1,081</u>
Total - restricted				<u>4,819,448</u>
Total	<u>\$7,208,380</u>	<u>\$ 329,416</u>	<u>\$ 388,929</u>	<u>\$9,631,874</u>

The following schedule reconciles the carrying amount of investments as disclosed above to the combined balance sheet (expressed in thousands):

Carrying amounts of investments	\$ 9,631,874
Cash equivalents disclosed as investments for GASB 9	781,975
Investments disclosed as cash equivalents for GASB 9	(98,534)
Other assets disclosed as investment for GASB 9	168,549
Investments disclosed as other assets for GASB 9	<u>(9,872)</u>
Investments as reported on the combined balance sheet	<u>\$ 10,473,992</u>

Unrestricted investments do not include approximately \$445 million of interest bearing deposits, which have been classified as investments in the combined balance sheet. Such amount has been categorized as deposits with financial institutions.

Restricted investments do not include approximately \$229 million of interest bearing deposits, which have been classified as investments in the combined balance sheet. Such amount has been categorized as deposits with financial institutions.

In addition, contributions made by the Government Development Bank for Puerto Rico and Subsidiaries to the Puerto Rico Government Investment Trust Fund amounting to approximately \$4 million are included as investments in the combined balance sheet.

Unrestricted repurchase agreements of approximately \$361 million belong to the Economic Development Bank for Puerto Rico. As of June 30, 1999, the fair value of the collateral for the repurchase agreements amounted to approximately \$369 million and consisted mainly of interest-bearing deposits with other banks and government securities held under safekeeping by a financial institution independent of the transaction.

Restricted repurchase agreements of approximately \$250 million correspond to the Puerto Rico Housing Bank and Finance Agency and are funded through obligations under reverse repurchase agreements. As of June 30, 1999, the fair value of the underlying securities amounted to approximately \$250 million and mainly consisted of US government obligations and mortgage backed securities held by the broker, or his agent, with whom the agreement is transacted.

During the year ended June 30, 1999, the Government Development Bank for Puerto Rico (GDB), and the Economic Development Bank for Puerto Rico (EDB) entered into investment transactions in commercial paper. Information related to these transactions are as follows (expressed in thousands):

	GDB	EDB
Carrying amount as of June 30, 1999	-	\$ 53,944
Maximum amount outstanding at any month-end	\$132,125	\$182,824
Average amount outstanding during the year	\$34,153	\$ 97,565
Weighted average interest rate for the year	5.68%	5.40%
Weighted average interest rate at year end	-	5.16%

## 6. SECURITIES LENDING TRANSACTIONS

During the year the State Insurance Fund Corporation and the Automobile Accident Compensation Administration, two discretely presented component units, entered into securities lending transactions.

### State Insurance Fund Corporation (SIFC)

The SIFC 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% of the fair value of the security lent for securities issued in the United States and 105% for securities issued outside of the United States. Additional collateral has to be provided by the next business day if its value falls to less than 100% of 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 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, although the average term of the loans is two weeks. In lending securities, the term to maturity of the securities loans is matched with the term to maturity of the investments of the cash collateral. Such matching existed at year-end.

Securities lending obligations for which cash was received as collateral as of June 30, 1999 consist of (expressed in thousands):

Securities Lent	Fair Value of Underlying Securities
U.S. Government and agencies obligations	\$ 63,779
Corporate bonds and notes	9,962
Equity securities	<u>931</u>
	<u>\$ 74,672</u>

Cash collateral received amounted to \$77.4 million and it was invested \$40 million in interest bearing deposits and \$37.4 million in repurchase agreements.

In addition, SIFC had the following securities lending obligations collateralized by securities as of June 30, 1999 (expressed in thousands):

Securities Lent	Fair Value of Underlying Securities	Securities Collateral Received
U.S. Government and agencies obligations	<u>\$142,759</u>	<u>\$ 149,734</u>

Securities lending transactions collateralized by securities that cannot be pledged or sold unless the borrower defaults, do not have to be reported as assets and liabilities in the combined balance sheet.

## **Automobile Accident Compensation Administration (AACA)**

Under the provisions of Commonwealth statutes and AACA's Board of Directors, AACA lends securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The custodial bank manages the securities lending program and receives cash, government securities and letters of credit as collateral. The collateral securities cannot be pledged or sold by AACA unless the borrower defaults. The securities lending program provides for an initial minimum collateralization of 102% of the fair value of the securities on loan 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 shall be allocated pro rata among all client lenders within the program.

All securities loans can be terminated at any time by either the custodian bank or the borrower. Collateral received consists of an investment in the lending agent's investment pools. The relationship between maturities of the investment pool and AACA's loans cannot be determined.

The following represent the balances relating to the securities lending transactions as of June 30, 1999 (expressed in thousands):

Securities Lent	Fair Value of Underlying Securities	Securities Collateral Received
US Treasury bills, bonds and notes	\$ 34,081	\$ 34,492
Common stocks and preferred stocks	10,917	11,049
Corporate bonds	5,524	5,590
Foreign government bonds	<u>124</u>	<u>131</u>
Totals	<u>\$ 50,646</u>	<u>\$ 51,262</u>

Securities lending transactions collateralized by securities that cannot be pledged or sold unless the borrower defaults do not have to be reported as assets and liabilities in the combined balance sheet.

## **7. INVESTMENT IN LIMITED PARTNERSHIPS**

Pursuant to the *Statement of Investment Guidelines for the Government of Puerto Rico*, the Pension Trust Funds, the University of Puerto Rico Retirement System and a component unit invested \$14.6 million in limited partnerships during the fiscal year ended June 30, 1999.

The amount of \$11.3 million was invested in Guayacán Funds of Funds, L.P., a Delaware limited partnership, organized by Grupo Guayacán, Inc. as General Partner, that has commitments of \$55.5 million from public pension funds and private corporate investors. This fund invests in United States and international private equity partnerships that in turn invest in private companies.

The amount of \$3.3 million was invested in Guayacán Private Equity Fund, L.P., a Delaware limited partnership, organized by Advent/Morro Partners as General Partner, that has commitments of \$41.9 million from the government pension funds and private corporate investors in Puerto Rico. This fund invests in Puerto Rico private equity.

The allocations of net gain and net loss to the limited partners is based on certain percentages, as established in the Limited Partnership Agreements.

As of June 30, 1999 the primary government and discretely presented component units had capital commitments and contributions as follows (expressed in thousands):

**Guayacán Funds of Funds, LP**

	Commitments	Contributions
<u>Primary Government</u>		
Employee's Retirement System of the Government of Puerto Rico	\$ 25,000	\$ 9,188
Annuity and Pension System for the Teachers of Puerto Rico	20,000	7,350
<u>Public University Fund</u>		
University of Puerto Rico Retirement System	<u>5,000</u>	<u>1,838</u>
Subtotal	<u>50,000</u>	<u>18,376</u>

**Guayacán Private Equity Fund, LP**

Primary Government

Employee's Retirement System of the Government of Puerto Rico	5,000	1,461
Annuity and Pension System for the Teachers of Puerto Rico	5,000	1,461

Public University Fund

University of Puerto Rico Retirement System	2,500	731
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Component Units - Other

Government Development Bank for Puerto Rico	<u>20,000</u>	<u>5,845</u>
Subtotal	<u>32,500</u>	<u>9,498</u>
Total	<u>\$ 82,500</u>	<u>\$27,874</u>

Subsequent to June 30, 1999, the Employee's Retirement System of the Government of Puerto Rico and the Puerto Rico System of Annuities and Pensions for Teachers entered into agreements to invest up to \$50 million in Guayacán Funds of Funds II, LP, which has similar terms as Guayacán Funds of Funds, LP.

**8. RECEIVABLES**

Receivables in the general fund include approximately \$80.4 million of accrued income and excise taxes and \$176.5 million of receivables from the Federal government. In addition, the Trust and Agency funds include \$73.9 million of accrued unemployment and disability taxes.

## 9. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 1999 are summarized as follows (expressed in thousands):

Due from/to other funds:

Receivable fund	Payable fund	Amount
General	Agency fund - Governmental Board 911 Service	\$ 1,835
	The Additional Lottery System	5,215
	Lottery of Puerto Rico	19,565
Capital projects	General	39,511
Debt service	Public Buildings Authority	28,647
Fiduciary	General	6,313
Enterprise	Health Facilities and Services Administration of Puerto Rico Trust Fund	<u>4,674</u>
Total		<u>\$105,760</u>

Due from/to primary government and component units:

Receivable Entity	Payable Entity	
Public University Funds	General Fund	<u>\$ 17</u>
Puerto Rico Metropolitan Bus Authority	Puerto Rico Highway and Transportation Authority	\$ 3,666
Tourism Company of Puerto Rico	General Fund	981
Puerto Rico Health Insurance Administration	Health Facilities and Services Administration	806
Land Authority of Puerto Rico	General Fund	<u>5,127</u>
		<u>\$10,580</u>
General Fund	Tourism Company of Puerto Rico	<u>\$11,645</u>
University of Puerto Rico	Medical University Services, Inc.	<u>\$ 2,700</u>
Economic Development Bank	Puerto Rico Exports Development Corporation	\$ 580
Puerto Rico Exports Development Corporation	Farm Credit Guaranty Fund and Guaranty Loan Fund	1,591
Farm Credit Guaranty Fund and Guaranty Loan Fund	Puerto Rico Exports Development Corporation	<u>303</u>
		<u>\$ 2,474</u>

Advances to/from primary government and component units

Receivable Entity	Payable Entity	Amount
Government Development Bank for Puerto Rico		
	General Fund	\$ 918,512
	Puerto Rico Aqueduct and Sewer Authority	581,267
	Puerto Rico Ports Authority	212,709
	Tourism Company of Puerto Rico	115,061
	Puerto Rico Housing Bank and Finance Agency	99,618
	Puerto Rico Highway and Transportation Authority	95,406
	Land Authority of Puerto Rico	70,929
	Sugar Corporation of Puerto Rico	58,107
	Public Finance Corporation	41,871
	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority	40,007
	University of Puerto Rico	36,152
	Puerto Rico Electric Power Authority	35,000
	Agricultural Services and Development Administration	21,082
	Puerto Rico Industrial Development Company	17,357
	Economic Development Bank for Puerto Rico	14,252
	Puerto Rico Exports Development Corporation	14,000
	Puerto Rico Medical Services Administration	10,000
	Puerto Rico Metropolitan Bus Authority	5,261
	Institutional Trust of the National Guard of Puerto Rico	4,241
	Solid Waste Authority of Puerto Rico	3,000
	Puerto Rico Land Administration	1,970
	Fine Arts Center Corporation	685
Economic Development Bank for Puerto Rico	Puerto Rico Exports Development Corporation	14,850
Puerto Rico Electric Power Authority	General Fund	50,731
Puerto Rico Medical Services Administration	Health Facilities and Service Administration of Puerto Rico	<u>6,000</u>
		<u>\$2,468,068</u>

The immaterial difference between due and advances to/from arise due to timing differences in the recognition of transactions between various component units and the primary government. Certain component units reflect inter-entity loans as advances in their separately issued financial statements, principally the Government Development Bank for Puerto Rico.

## 10. RESTRICTED ASSETS

Restricted assets included in the general purpose financial statements at June 30, 1999 consist of cash, investments and other assets to be used for the following purposes (expressed in thousands):

### Primary Government

Debt service and sinking fund requirements	\$643,132
Payment of lottery prizes	232,873
Other restricted assets of the Public Building Authority	58,002
Purchase of assets	<u>346</u>
Total for the primary government	<u>\$934,353</u>

### Public University Funds

Construction funds	\$ 34,988
Retirement plan	25,357
Donations	19,684
Renewal and replacement funds	9,846
University future development funds	2,096
General reserved funds	1,991
Debt service and sinking fund requirements	308
Other restricted assets	<u>97,022</u>
Total for public university funds	<u>\$191,292</u>

**Component Units - Other**

Debt service and sinking fund requirements	\$4,364,010
Construction funds	387,901
Payment of reverse repurchase agreements*	327,123
Collateral for underlying securities	294,831
Pension plan	173,526
Payment of incentive to farmers	24,587
Federal grants **	13,565
Industrial incentive fund	13,460
Death, catastrophe and disability funds	12,459
Purchase of assets	11,611
Renewal and replacement funds	4,374
Maintenance reserve fund	3,123
Life and funeral insurance fund	2,721
EDA reserve fund	1,642
Court order restriction	1,660
Production and personnel funds	686
Educational fund	549
Special revenue fund	462
Severance payment	237
Agricultural services	105
Reserve for reinsurance claims	173
Trust fund	231
Child care	14
General reserve fund	<u>3</u>
Total for component units - other	<u>\$5,639,053</u>

\* Includes approximately \$250 million in repurchase agreements that generate interest income that must be used mainly to subsidize low-income housing mortgage activities.

\*\* Includes \$9,871 netted against the Due to the Financial Assistance Council in the Puerto Rico Council on Higher Education financial statements.

## 11. FIXED ASSETS

### Primary Government

Activity in the general fixed assets account group for the fiscal year ended June 30, 1999, was as follows (expressed in thousands):

	Balance July 1, 1998 (As Restated)	Additions	Retirements Transfers	Balance June 30, 1999
Land	\$ 68,032	\$ 2,111	\$	\$ 70,143
Buildings and improvements	1,509,919	263,237	194,310	1,578,846
Equipment	84,265	24,095	5,101	103,259
Construction in progress	<u>440,951</u>	<u>109,014</u>	<u>148,279</u>	<u>401,686</u>
Total	<u>\$ 2,103,167</u>	<u>\$ 398,457</u>	<u>\$ 347,690</u>	<u>\$ 2,153,934</u>

As discussed in Note 19, the general fixed assets account group beginning balance at July 1, 1998 was restated to give effect to the change in reporting entity of the Puerto Rico Highway and Transportation Authority.

Fixed assets for the proprietary and fiduciary fund types as of June 30, 1999, were as follows (expressed in thousands):

	Enterprise Funds	Fiduciary Funds
Land	\$ 197,986	\$ 969
Buildings and improvements	94,898	20,635
Equipment	96,220	13,571
Other fixed assets	<u>127</u>	<u>          </u>
Total	389,231	35,175
Less: accumulated depreciation	<u>146,038</u>	<u>11,867</u>
Fixed assets, net	<u>\$243,193</u>	<u>\$ 23,308</u>

**Discretely Presented Component Units**

	Public University Funds	Component Units - Other
Land	\$ 32,219	\$ 327,050
Buildings and improvements	377,981	10,980,693
Equipment	250,857	381,310
Construction in progress	113,195	2,831,736
Other fixed assets	<u>2,532</u>	<u>317,845</u>
Total	776,784	14,838,634
Less accumulated depreciation and amortization	<u>1,278</u>	<u>4,313,817</u>
Fixed assets, net	<u>\$ 775,506</u>	<u>\$10,524,817</u>

**12. OBLIGATIONS UNDER LEASE/PURCHASE ARRANGEMENTS**

The Commonwealth and its component units are obligated under capital leases with third parties that expire through 2018 for buildings and equipment. At June 30, 1999, the capitalized cost of the buildings and equipment amounted to approximately \$48.9 million and is included in the general fixed assets account group. The present value of future minimum capital lease payments as of June 30, 1999, included in other long-term liabilities in the general long-term debt account group is as follows (expressed in thousands):

Year Ending June 30,	Amount
2000	\$12,249
2001	11,753
2002	10,342
2003	9,143
2004	5,735
Thereafter	<u>27,105</u>
Total minimum lease payments	76,327
Less: amount representing interest	<u>27,467</u>
Present value of minimum lease payments	<u>\$48,860</u>

The Commonwealth and its component units, are also committed under numerous operating leases, excluding those with the Public Buildings Authority, covering real property and equipment. Rental expenditures within the general fund for the year ended June 30, 1999, under such operating leases were approximately \$103 million. Management believes that future minimum rental commitments under noncancelable real property and equipment leases with terms exceeding one year is not significant.

**13. ADVANCES FROM COMPONENT UNITS TO PRIMARY GOVERNMENT**

General Fund

Advances from component units in the general fund of \$71.1 million include (expressed in thousands):

Family Department loan	\$30,000
Correction Department loan	20,619
Police Department loan	<u>20,500</u>
Total	<u>\$71,119</u>

The Family Department loan consists of a line of credit with the Government Development Bank for Puerto Rico (GDB), a discretely presented component unit, for the residents of Puerto Rico affected by Hurricane George in 1998.

The Correction Department loan consists of three lines of credit with the Government Development Bank for Puerto Rico to pay the Puerto Rico Aqueduct and Sewer Authority outstanding invoices for aqueduct and sewer service for several prisons for the years 1988 through 1997.

The Police Department loan consists of a line of credit with the Government Development Bank for Puerto Rico to complete the payroll payment for the month of June 1999.

The loans from the Government Development Bank for Puerto Rico represent a construction line of credit as part of the construction financing activities of the Public Buildings Authority (PBA). At June 30, 1999, PBA had an authorized line of credit of approximately \$646.5 million. Advances outstanding under the line of credit amounted to approximately \$77 million bearing interest at 4.76%.

#### 14. NOTES PAYABLE

Notes payable in the general fund include \$600 million of tax revenue anticipation notes plus accrued interest due on July 30, 1999. The proceeds of the tax revenue anticipation notes were used to cover a temporary cash deficiency resulting from the timing differences between tax collections and the payment of current expenditures.

#### 15. LONG-TERM DEBT

##### Governmental Funds Operations

##### Summary of General Long-Term Debt

The following schedule shows the changes in the general long-term debt account group for the year ended June 30, 1999 (expressed in thousands):

	Balance at July 1, 1998 (As restated)	Debt Issued	Debt paid or defeased	Other Net Increases	Balance at June 30, 1999
Bonds payable	\$ 6,600,558	\$ 587,730	\$ 416,172	\$ 36,246	\$ 6,808,362
Notes payable	21,416			23,397	44,813
Debts payable to component units	1,292,927		71,699	1,055	1,222,283
Compensated absences	745,536			65,637	811,173
Net pension obligation	2,047,815			308,624	2,356,439
Other long-term liabilities	<u>604,362</u>	<u>          </u>	<u>4,218</u>	<u>45,739</u>	<u>645,883</u>
Total	<u>\$11,312,614</u>	<u>\$ 587,730</u>	<u>\$ 492,089</u>	<u>\$ 480,698</u>	<u>\$ 11,888,953</u>

As discussed in Note 19, the general long-term debt group beginning balance at July 1, 1998 was restated to give effect to the change in reporting of the Puerto Rico Highway and Transportation Authority.

Total debt issued includes approximately \$10 million of bond issuance costs, discounts and premiums. Total debt paid or defeased includes approximately \$22 million of bonds premiums and discounts.

**A. Debt Limitation**

The Constitution authorizes the contracting of debts as determined by the Legislature. Nevertheless, the Constitution 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 is 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 revenues raised under the provisions of Commonwealth legislation and conveyed into the Treasury (hereinafter "internal revenues") in the two fiscal years preceding the then 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 revenues consist principally of income taxes and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages, tobacco products and customs duties, which are collected by the United States Government and returned to the Commonwealth, and motor vehicle fuel taxes and license fees, which are allocated to the Puerto Rico Highway and Transportation Authority, a blended component unit, are not included as revenues for the purpose of calculating the debt limit, although they may be available for the payment of debt service. At June 30, 1999, the Commonwealth is in compliance with the debt limitation requirement.

**B. Bonds Payable**

The Constitution of the Commonwealth provides that public debt will constitute a first claim on the available revenues of the Commonwealth. Public debt includes general obligations and notes 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 good 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.

Law 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 the Municipal Revenues Collection Center (MRCC), a municipal corporation, not a component unit of the Commonwealth. MRCC is required to remit the 1.03% of property tax collected to the Commonwealth to be used by the Commonwealth's debt service funds for payment of debt service on general obligations and notes of the Commonwealth. During the year ended June 30, 1999, the total amount remitted and receivable to the Commonwealth amounted to approximately \$64 million and \$61 million, respectively.

For financial reporting purposes, long-term bonds are carried at their face amount, without premium or discount. The outstanding amount represents the total principal to be repaid; for capital appreciation bonds, it represents total principal and accreted interest to be repaid.

Bonds payable outstanding at June 30, 1999 are as follows (expressed in thousands):

	General Obligation	Revenue Bonds	Total
Term bonds payable through 2028; interest payable semiannually at rates varying from 3% to 8%	\$ 1,882,335	\$ 808,865	\$2,691,200
Serial bonds payable through 2024; interest payable semiannually at rates varying from 4.75% to 7.5%	2,204,445	698,450	2,902,895
Capital appreciation bonds payable through 2011; no interest rate, yield ranging from 4.42% to 7.8%. Net of unaccreted discount of \$304 million	419,400	119,768	539,168
Appropriation Refunding Bonds for Low Income Housing payable through 2005, interest payable at rates varying from 6.9% to 8%	107,598		107,598
Bond payment obligation payable through 2008; interest payable at rates varying from 3.5% to 5.5%	33,450		33,450
Bond payment obligation payable through 2009; interest payable at rates varying from 3.5% to 5.5%	44,240		44,240
Bond payment obligation payable through 2010; interest payable at rates varying from 1.5% to 5.5%	48,220		48,220
Auction rate notes payable from 2007 through 2008; and from 2015 through 2020; interest payable in arrears from 2007 through 2008 at rates varying from 2.65% to 11.564%, and from 2015 through 2020 at rates varying from 2.65% to 11.662%	136,600		136,600
Yield curve notes payable from 2007 through 2008; no interest rate, yield of 8.914%	26,700		26,700
Yield curve notes payable from 2015 through 2020; no interest rate, yield of 9.012%	94,900		94,900
Tax-exempt components maturing through 2007 and 2008, interest at rates ranging from 5.5% to 5.6%		72,160	72,160
Deferred interest bonds payable through 2002; interest payable semiannually at 8%	50,000		50,000
Indexed inverse floaters maturing through 2016 with interest at 5.70%		46,000	46,000
Inverse rate securities payable from 2009 through 2011, at an interest rate of 6%	<u>15,000</u>	<u>          </u>	<u>15,000</u>
Total	5,062,888	1,745,243	6,808,131
Savings Bonds	<u>231</u>	<u>          </u>	<u>231</u>
Total bonds payable	<u>\$ 5,063,119</u>	<u>\$1,745,243</u>	<u>\$6,808,362</u>

The appropriation refunding bonds for low income housing is the balance of bonds payable assumed by the Commonwealth pursuant to Law No. 134 dated December 13, 1994. This Law authorized the assumption of bonds payable by the former Puerto Rico Urban Renewal and Housing Corporation. The Commonwealth had been funding this liability.

During the year ended June 30, 1999, the following changes occurred in the bonds payable (expressed in thousands):

	Outstanding July 1, 1998 (As restated)	Issued	Discount Accretion (Redeemed)	Outstanding June 30, 1999
Term bonds	\$ 2,570,335	\$ 240,330	\$ (119,465)	\$2,691,200
Serial bonds	2,824,430	347,400	(268,935)	2,902,895
Capital appreciation bonds	520,712		18,456	539,168
Appropriation refunding bonds	117,571		(9,973)	107,598
Auction rate notes	136,600			136,600
Bond payment obligations	125,910			125,910
Yield curve notes	121,600			121,600
Tax-exempt components	72,160			72,160
Deferred interest bonds	50,000			50,000
Indexed inverse	46,000			46,000
Inverse rate notes	15,000			15,000
Savings bonds	<u>240</u>	<u>          </u>	<u>(9)</u>	<u>231</u>
Total	<u>\$ 6,600,558</u>	<u>\$ 587,730</u>	<u>\$ (379,926)</u>	<u>\$6,808,362</u>

Maturities of general obligations and of revenue bonds payable, including accrued interest of capital appreciation bonds are as follows (expressed in thousands):

Year Ending June 30,	Principal	Interest	Total
2000	\$ 321,689	\$ 374,378	\$ 696,067
2001	339,647	350,789	690,436
2002	343,391	328,413	671,804
2003	279,719	390,743	670,462
2004	253,759	384,080	637,839
Thereafter	<u>5,078,457</u>	<u>3,066,752</u>	<u>8,145,209</u>
Total	6,616,662	<u>\$4,895,155</u>	<u>\$ 11,511,817</u>
Plus accreted discount	<u>191,700</u>		
Total	<u>\$ 6,808,362</u>		

**C. Notes Payable**

The note payable of approximately \$21.4 million is a special promissory note, which bears interest at rates ranging between 5.875% and 8%. It represents the amount paid for insurance premiums by the Commonwealth on behalf of the municipalities of Puerto Rico which was not financed as part of the property tax settlement loan (See E below). The note is payable from property tax collections that the municipalities of Puerto Rico shall remit to the Secretary of the Treasury over a period not to exceed fifteen (15) years.

In addition, note payable at June 30, 1999 consisted of approximately \$23.4 million mortgage notes payable to the Farmers Home Administration and the US Department of Housing and Urban Development, secured by land. The notes are due in monthly installments of varying amounts, including interest at 3% to 11.25% through the year 2032.

Future amounts required to pay principal balances at June 30, 1999 are as follows (expressed in thousands):

Future amounts required to pay principal balances at June 30, 1999 are as follows (expressed in thousands):

2000	\$ 601
2001	643
2002	698
2003	745
2004	738
Thereafter	<u>19,972</u>
Total	<u>\$23,397</u>

**D. Debt Payable to Component Units**

The Commonwealth financed certain long-term liabilities through the Government Development Bank for Puerto Rico (GDB), and the Puerto Rico Public Finance Corp., (PFC), a component unit of GDB. The Commonwealth considers these loans long-term because the term and repayment structure is tantamount to bonded debt. The proceeds were used for the following purposes (expressed in thousands):

The financing provided by GDB is comprised of the following:

Health Facilities and Services Administration of Puerto Rico	\$ 264,926
Disaster assistance loan	52,545
Police Department loan	<u>20,350</u>
Total with GDB	<u>337,821</u>

The financing provided by PFC is comprised of the following:

Public schools infrastructure improvement loan	376,944
Promissory note of the Puerto Rico Maritime Shipping Authority	289,453
Property tax settlement loan	<u>167,334</u>
Total provided by PFC	<u>833,731</u>
Note payable to Puerto Rico Electric Power Authority	<u>50,731</u>
Total	<u>\$1,222,283</u>

On February 5, 1997, the Health Facilities and Services Administration of Puerto Rico (HFSA) entered into a revolving line of credit agreement with the Government Development Bank for Puerto Rico (GDB) which provides for borrowings up to \$332 million. Borrowings outstanding under this revolving line of credit bear interest at variable rates and are payable quarterly, before the tenth (10) day of July, October, January and April. Advances under the revolving line of credit are made only upon the authorization of the Director of the Office of Management and Budget of the Commonwealth of Puerto Rico. The line of credit will be used solely for the purpose of implementing the Health Care Reform. As of June 30, 1999, \$265 million were still outstanding. The proceeds of the line of credit were recorded in the accompanying financial statements of the Puerto Rico Health Insurance Administration, a discretely presented component unit, as transfers from the primary government.

The disaster assistance loan of approximately \$93.9 million was used to repay a debt for such amount to the Federal Emergency Management Agency, which funded the Commonwealth's share of the relief grants for the residents of Puerto Rico affected by Hurricane Hugo in 1989. Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30,	Principal	Interest	Total
2000	\$ 9,524	\$ 2,631	\$ 12,155
2001	10,000	2,155	12,155
2002	10,500	1,655	12,155
2003	11,025	1,130	12,155
2004	<u>11,496</u>	<u>579</u>	<u>12,075</u>
Total	<u>\$ 52,545</u>	<u>\$ 8,150</u>	<u>\$ 60,695</u>

As of June 30, 1999, the balance outstanding for the loan to the Police Department to pay for the lawsuit of Rivera Correa and others vs. Betancourt Lebron and the Commonwealth of Puerto Rico and related expenses was approximately \$20.3 million. Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30,	Principal	Interest	Total
2000	\$ 4,440	\$ 1,421	\$ 5,861
2001	4,850	980	5,830
2002	5,292	507	5,799
2003	<u>5,768</u>	<u>404</u>	<u>6,172</u>
Total	<u>\$ 20,350</u>	<u>\$ 3,312</u>	<u>\$ 23,662</u>

The public schools infrastructure improvement loan provided additional funds for major repairs and improvements of 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 capital project fund of the primary government. The loan is repaid by the Commonwealth using annual legislative appropriations, beginning with appropriations made in fiscal year 1999-2000.

As of June 30, 1999, OIPS outstanding indebtedness to GDB under the Loan Agreement totaled \$376.9 million. Act 85 of the Legislature of Puerto Rico, approved on June 13, 1998 (the Act), authorized OIPS to obtain from GDB a new loan in a principal amount not to exceed \$425 million and bearing interest at a maximum rate of 8%. The Act provided that the proceeds of the loan will be used to refinance OIPS existing loan (\$284.9 million) as well as all closing costs associated with the loans.

On June 25, 1998, GDB, OIPS and PFC entered into a Debt Restructuring and Assignment Agreement whereby, (i) GDB made the loan available to OIPS in order to refinance and restructure OIPS's existing loan and fund the undisbursed portion of the existing line of credit facility; (ii) OIPS executed a Note to evidence its obligation under the new loan, and (iii) PFC purchased the Note from GDB, without recourse to GDB. Minimum payments in future years, of principal and interest, are as follows (expressed in thousands):

Year Ending June 30,	Principal	Interest	Payments
2000	\$ 6,630	\$ 19,224	\$ 25,854
2001	7,010	18,862	25,872
2002	7,410	18,462	25,872
2003	7,835	18,045	25,880
2004	8,265	18,500	26,765
Thereafter	<u>339,794</u>	<u>242,250</u>	<u>582,044</u>
Total	<u>\$ 376,944</u>	<u>\$ 335,343</u>	<u>\$ 712,287</u>

The promissory note payable of approximately \$289.5 million is the liability owed by the Puerto Rico Maritime Shipping Authority (PRMSA) to GDB that was assumed by the Commonwealth in connection with the sale of the maritime operations of PRMSA. GDB, through one of its component units, issued bonds to restructure this liability, and pledged the note receivable for the payment of the bonds. The promissory note payable bears interest at a variable rate not to exceed 12% (6% at June 30, 1999). Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30,	Principal	Interest	Total
2000	\$ 5,650	\$ 18,570	\$ 24,220
2001	5,935	18,210	24,145
2002	6,325	18,022	24,347
2003	6,770	17,387	24,157
2004	7,235	16,969	24,204
Thereafter	<u>251,743</u>	<u>277,845</u>	<u>529,588</u>
Total	283,658	<u>\$ 367,003</u>	<u>\$ 650,661</u>
Plus accreted discount	<u>5,795</u>		
Total	<u>\$ 289,453</u>		

During fiscal year 1996, the Commonwealth refinanced the liability for the settlement of the property taxes owed to the municipalities of Puerto Rico. GDB, through one of its subsidiaries, issued bonds to restructure this liability. The new financing was for approximately \$183 million, bearing interest at rates ranging from 5.87% to 7.25%. Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30,	Principal	Interest	Total
2000	\$ 8,590	\$ 9,295	\$ 17,885
2001	9,200	8,685	17,885
2002	9,850	8,032	17,882
2003	10,550	7,333	17,883
2004	11,185	6,699	17,884
Thereafter	<u>117,959</u>	<u>84,771</u>	<u>202,730</u>
Total	<u>\$ 167,334</u>	<u>\$ 124,815</u>	<u>\$292,149</u>

The note payable is to the Puerto Rico Electric Power Authority (PREPA), a discretely presented component unit, and consists of the following subsidy reimbursements (expressed in thousands):

Fuel adjustment subsidy	\$ 50,613
Rural irrigation system cost reimbursement	<u>118</u>
Total	<u>\$ 50,731</u>

The rural irrigation system cost reimbursement debt is repaid by the Commonwealth by offsetting certain contributions in lieu of taxes that PREPA must remit to the Commonwealth. The yearly amortization will vary depending on the gross electric sales for the year. The amortized amount for the year ended June 30, 1999 was approximately \$6.3 million.

**E. Compensated Absences**

General long-term debt includes approximately \$431 million of accrued sick leave benefits, and approximately \$380 million of accrued vacation benefits, representing the Commonwealth's commitment to fund such costs from future operations.

**F. Net Pension Obligation**

The amount presented as net pension obligation of approximately \$2.4 billion represents the cumulative amount owed by the Commonwealth to the pension plans for the unfinanced prior years actuarially required pension contribution. (See Note 22).

### **G. Other Long-Term Liabilities**

The remaining long-term liabilities include (expressed in thousands):

Provisions for legal claims and judgments	\$ 352,361
Provision for federal cost disallowances	138,914
Advances for construction	105,748
Obligations under capital lease	<u>48,860</u>
Total	<u>\$645,883</u>

Changes in the provision for legal claims and judgments for the current and prior fiscal year were as follows (expressed in thousands):

	1999	1998
Provisions for legal claims and judgments - July 1	\$361,000	\$ 307,206
Incurred Claims and Changes in Estimates	12,243	69,063
Payments for Claims and Adjustment Expenses	<u>(20,882)</u>	<u>(15,269)</u>
Provision for legal claims and judgments - June 30	<u>\$352,361</u>	<u>\$ 361,000</u>

### **H. Advance Refunding and Defeased Bonds**

The Commonwealth advance refunded certain general obligation bonds through the issuance of approximately \$112.7 million of general obligation public improvements refunding bonds during the year ended June 30, 1999. The Commonwealth used approximately \$117.5 million from the net proceeds of the issued bonds which were used to purchase US Government securities which were deposited in an irrevocable trust fund with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities have therefore been removed from the general long-term debt account group. As a result of this advance refunding, the Commonwealth decreased current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately \$4.9 million over the next 6 years and obtained an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$4.7 million. At June 30, 1999 approximately \$7.6 million of the bonds refunded remain outstanding and are considered defeased.

In prior years, the Commonwealth also defeased certain general obligation and other bonds by placing the proceeds of bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 1999 approximately \$1.3 billion of bonds outstanding from prior years advance refundings are considered defeased.

In addition, the Public Buildings Authority (PBA) a blended component unit, has 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 account assets and liabilities for the defeased bonds are not included in the general purpose financial statements. As of June 30, 1999, approximately \$1.232 billion for PBA are considered defeased.

## I. Pension Trust Funds

On August 1, 1996, the Puerto Rico System of Annuities and Pensions for Teachers (TRS) entered into a loan agreement with the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (AFICA), a discretely presented component unit, to secure the Authority's issuance of \$26.9 million of Industrial Revenue Term Bonds. The bonds were issued under a trust agreement and are secured by a pledge of certain marketable securities of the System.

The proceeds from the sale of the bonds were lent by AFICA to TRS to finance the acquisition of certain buildings and related facilities and to pay certain expenses incurred in connection with the issuance and sale of the bonds.

Bonds payable outstanding at June 30, 1999 are as follows (expressed in thousands):

Term Bonds Series A payable through 2011; interest payable on a monthly basis at rates varying from 6.3% to 6.65%	\$ 10,225
Term Bonds Series B payable through 2021; interest payable semiannually at 5.50%	<u>15,210</u>
Total	<u>\$ 25,435</u>

Maturities of the Term Bonds are as follows (expressed in thousands):

Year Ending June 30,	Principal	Interest	Total
2000	\$ 590	\$ 1,507	\$ 2,097
2001	625	1,470	2,095
2002	665	1,430	2,095
2003	710	1,387	2,097
2004	670	1,341	2,011
Thereafter	<u>22,175</u>	<u>12,229</u>	<u>34,404</u>
Totals	<u>\$ 25,435</u>	<u>\$19,364</u>	<u>\$ 44,799</u>

The Series A and Series B Bonds are subject to partial redemptions on July 1, 2002 and July 1, 2007, for Series A and on July 1, 2012 and July 1, 2017, for Series B and on each July thereafter to the extent of the respective sinking fund requirement, as defined in the Trust Agreement, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date.

## J. Discretely Presented Component Units

### Public University Funds

The University of Puerto Rico has issued revenue bonds designated as *University System Revenue Bonds*, the proceeds of which have been used mainly to finance new activities in connection with its educational facilities construction program and to cancel and refinance previous debts.

Revenue bonds outstanding at June 30, 1999, were approximately \$300.8 million net of discounts of approximately \$33.2 million with interest rates varying from 2.75% to 7.67% and a final maturity date of 2025. Future amounts required to pay principal and interest on University System Revenue Bonds at June 30, 1999, are as follows (expressed in thousands):

Year Ending June 30,	Principal	Interest	Total
2000	\$ 14,652	\$ 15,083	\$ 29,735
2001	15,340	14,402	29,742
2002	16,075	13,671	29,746
2003	16,880	12,886	29,766
2004	17,685	12,200	29,885
Thereafter	<u>253,297</u>	<u>111,958</u>	<u>365,255</u>
Subtotal	333,929	180,200	514,129
Discounts	<u>(33,172)</u>	<u>          </u>	<u>(33,172)</u>
Total	<u>\$ 300,757</u>	<u>\$ 180,200</u>	<u>\$ 480,957</u>

The bonds are general obligations of the University and are collateralized by the pledge of, and a first charge on, all revenues derived or to be derived by the University, except for appropriations and contributions, as defined in the Trust Agreement governing the bonds issued. In the event that the pledged revenues are insufficient to pay the principal of, and the interest on, the bonds, the University agrees to provide any additional required monies from other funds available to the University for such purposes, including funds appropriated by the Commonwealth.

In prior years, the University defeased certain revenue bonds by placing the proceeds in irrevocable trusts to provide for all future debt service payments. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the public university funds. At June 30, 1999, the bonds issues defeased were called for redemption.

#### Component Units - Other

Bonds and notes payable are those liabilities that are paid out of resources pledged by the other component units. These notes and revenue bonds do not constitute a liability or debt of the Commonwealth. Bonds payable and notes payable outstanding at June 30, 1999 are as follows (expressed in thousands):

	Final Maturity Date	Interest Rates	Balance
<u>Bonds Payable:</u>			
Puerto Rico Electric Power Authority	2028	4.2% to 8.7%	\$ 3,851,823
Puerto Rico Highway and Transportation Authority	2036	3.5% to 7.7%	3,477,059
Government Development Bank for Puerto Rico	2021	Variable	1,484,633
Puerto Rico Infrastructure Financing Authority	2009	Variable	1,006,425
Puerto Rico Housing Bank and Finance Agency	2029	3.8% to 7.5%	725,086
Puerto Rico Municipal Finance Agency	2008	4.4% to 9.25%	556,987
Puerto Rico Aqueduct and Sewer Authority	2035	Variable	425,271
Puerto Rico Industrial Development Company	2016	3.88% to 8.27%	200,568
Puerto Rico Ports Authority	2021	5% to 7.3%	<u>110,511</u>
Total bonds payable			<u>\$ 11,838,363</u>

	Final Maturity Date	Interest Rates	Balance
<u>Notes Payable:</u>			
Government Development Bank for Puerto Rico	1999	Variable	\$1,081,694
Puerto Rico Electric Power Authority	Not fixed	Variable	130,000
Puerto Rico Aqueduct and Sewer Authority	2001	5.75% to 7.25%	101,079
State Insurance Fund Corporation	2019	Variable	60,150
Economic Development Bank for Puerto Rico	2001	Variable	33,800
Puerto Rico Industrial and Development Corp.	1998	7.125%	14,695
Tourism Company of Puerto Rico	2002	7.85% to 8.35%	1,900
Automobile Accident Compensation Administration	1999	4.7% to 6.63%	1,745
Puerto Rico Exports Development Corporation	Not fixed	Variable	1,589
Institutional Trust of the National Guard of Puerto Rico			790
Corporation of Stocks and Deposit Insurance for the Savings and Loans Cooperatives	2003	N/A	<u>464</u>
Total notes payable			<u>\$1,427,906</u>

Notes payable of \$130 million of the Puerto Rico Electric and Power Authority include \$120 million from a note payable that has no fixed maturity date and variable interest rates.

Fixed maturities required to pay principal and interest on other component units bonds and notes payable with fixed maturities at June 30, 1999, were as follows (expressed in thousands):

<b>Bonds Payable</b>			
<b>Year Ending</b>			
<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2000	\$ 787,352	\$ 475,350	\$ 1,262,702
2001	368,272	353,479	721,751
2002	402,000	342,257	744,257
2003	400,013	330,034	730,047
2004	387,862	286,933	674,795
Thereafter	<u>9,778,827</u>	<u>2,802,364</u>	<u>12,581,190</u>
Total	12,124,326		16,714,742
Discounts	<u>(285,963)</u>		<u>(285,963)</u>
<b>Total</b>	<b><u>\$11,838,363</u></b>	<b><u>\$4,590,417</u></b>	<b><u>\$16,428,779</u></b>
<b>Notes Payable</b>			
<b>Year Ending</b>			
<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2000	\$ 997,170	\$ 1,904	\$ 999,074
2001	26,288	323	26,611
2002	15,610	71	15,681
2003	5,777	59	5,836
2004	6,147	17	6,164
Thereafter	<u>309,485</u>	<u>9</u>	<u>309,494</u>
Total	1,360,477		1,362,860
Discounts	<u>(52,571)</u>		<u>(52,571)</u>
<b>Total</b>	<b><u>\$ 1,307,906</u></b>	<b><u>\$ 2,383</u></b>	<b><u>\$ 1,310,289</u></b>

The Puerto Rico Highway and Transportation Authority (PRHTA), has 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 account assets and liabilities for the defeased bonds are not included in the general purpose financial statements. As of June 30, 1999, approximately \$643.2 million are considered defeased.

During 1999 and in prior years, the Puerto Rico Electric Power Authority (PREPA) has refunded in advance certain Power Revenue Bonds and Electric Revenue Bonds (the "Power Revenue Bonds") by placing the proceeds of new debt in an irrevocable trust to provide for future debt service payments on such bonds. Accordingly, the trust accounts, assets, and liabilities for the defeased bonds are not included in PREPA's financial statements. At June 30, 1999, \$1.1 billion of Power Revenue Bonds series M, N, O, P, R, T, and X which remain outstanding are considered defeased.

During 1996 and in prior years, the Puerto Rico Aqueduct and Sewer Authority (PRASA) defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts invested in U.S. Treasury Securities to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the PRASA's financial statements. PRASA has \$16.6 million of bonds outstanding at June 30, 1999 which are considered defeased, and which mature from July 1, 1999 through July 1, 2003.

## 16. GUARANTEED AND APPROPRIATION DEBT

### Guaranteed Debt

The Commonwealth may provide guarantees for the repayment of certain borrowings of component units to carry out designated projects. At June 30, 1999, the following component unit debts are guaranteed by the Commonwealth (expressed in thousands):

	Maximum Guarantee	Outstanding Balance
Public Buildings Authority	\$ 2,100,000	\$ 1,762,056
Puerto Rico Aqueduct and Sewer Authority	400,340	388,010
Government Development Bank for Puerto Rico	550,000	267,000
Puerto Rico Housing Bank and Finance Agency	<u>325,000</u>	<u>35,495</u>
Total	<u>\$ 3,375,340</u>	<u>\$ 2,452,561</u>

Law 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 the Puerto Rico Aqueduct and Sewer Authority (PRASA). During December 1995, PRASA issued refunding bonds to refinance all outstanding bonds amounting to approximately \$400.3 million.

The Puerto Rico Housing Bank and Finance Agency (Housing Bank) insures 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, 1999, the mortgage loan insurance program was insuring loans aggregating \$334 million and had not issued any debenture bonds. Currently, the Commonwealth has not been called to make any direct payments pursuant to these guarantees.

During the fiscal year ended June 30, 1995, Housing Bank created a new loan insurance program to provide mortgage credit insurance to low and moderate-income families for the purchase of land lots. The program began with an initial contribution of \$500 thousand from Housing Bank's Governmental Funds. In addition, the programs are to be financed by further legislative appropriations from the Commonwealth, and proceeds from mortgage insurance premiums and any other income derived from the insurance activity. Under this program, Housing Bank is authorized to commit the good faith and credit of the Commonwealth for up to \$5 million in connection with the issuance of debenture bonds.

The Commonwealth guarantees the Adjustable Refunding Bonds, Series 1985, issued by the Government Development Bank for Puerto Rico, a discretely presented component unit.

The Commonwealth has guaranteed the payments of rentals of its departments, agencies and component units to the Public Buildings Authority (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 as of June 30, 1999 for the next five years and thereafter follows (expressed in thousands):

Year Ending June 30,	Principal	Interest
2000	\$ 68,960	\$ 96,942
2001	69,645	97,718
2002	70,077	95,305
2003	70,595	92,786
2004	71,000	95,000
Thereafter	<u>1,394,966</u>	<u>823,138</u>
Total	<u>\$1,745,243</u>	<u>\$1,300,889</u>

### **Appropriation Debt**

At June 30, 1999, the outstanding balances of debt payable by government appropriations and which are included in the individual financial statements of these entities are as follows (expressed in thousands):

#### **Enterprise Funds:**

Health Facilities and Services Administration of Puerto Rico	\$ 713,247
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#### **Component Units - Other:**

Puerto Rico Infrastructure and Financing Authority	\$1,006,425
Puerto Rico Housing Bank and Finance Agency	374,523
Puerto Rico Aqueduct and Sewer Authority	88,506
Sugar Corporation of Puerto Rico	51,257
Puerto Rico Industrial Development Company	16,200
Agricultural Services and Development Administration	10,000
Puerto Rico Metropolitan Bus Authority	5,620
Puerto Rico Land Authority	5,127
Puerto Rico Solid Waste Authority of Puerto Rico	3,000
Puerto Rico Land Administration	1,970
Tourism Company of Puerto Rico	1,900

## **17. CONDUIT DEBT OBLIGATIONS**

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, commercial facilities, and Caribbean Basin projects 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 financial statements of the issuing entities.

As of June 30, 1999, conduit debt obligations consisted of the following bonds issued by component units (expressed in thousands):

Issuing Entity	Issued To Date	Amount Outstanding
<b>Discretely Presented Component Units:</b>		
Caribbean Basin Projects Financing Authority	\$ 676,000	\$ 635,000
Puerto Rico Ports Authority	\$ 155,410	\$ 155,410
Puerto Rico Highway and Transportation Authority	\$ 117,000	\$ 128,614
Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority	\$4,550,000	\$2,400,000

#### **Caribbean Basin Projects Financing Authority (CBPFA)**

Pursuant to the loan agreements covering the issuance of these bonds, the proceeds from the sales were borrowed from CBPFA by corporations and partnerships operating in qualified Caribbean Basin countries. The revenue bonds are special and limited obligations of CBPFA and, except to the extent payable from bond proceeds and investments thereof, will be payable solely from and secured by a pledge and assignment of the amounts payable under the loan agreements between the CBPFA and the borrowers. Furthermore, payment of the principal and interest on the revenue bonds is unconditionally guaranteed by the borrowers, their parent companies and/or letters of credit from major United States banks or United States branches of international banks. The revenue bonds do not constitute a debt or a pledge of the good faith and credit of CBPFA or the Commonwealth or any political subdivision thereof. At June 30, 1999, \$635 million of these bonds were outstanding.

#### **Puerto Rico Ports Authority**

The Puerto Rico Ports Authority (PRPA) issued Special Facilities Revenue Bonds (1993 Series A) under the provisions of a Trust Agreement between PRPA and a private bank. The proceeds from the sale of the bonds were used to finance the construction of facilities, acquisition of equipment, and improvements to the Luis Muñoz Marín 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 agreement 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.

#### **Puerto Rico Highway 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, pursuant a signed agreement for the construction, transfer and operation of the bridge. The bonds shall be paid from the proceeds received by the private entity from the operations of the bridge. However, under certain circumstances, the private entity may have the right of terminating the agreement and PRHTA will assume the obligation to pay the bonds. At June 30, 1999, the outstanding debt balance, including accrued interest, amounted to approximately \$128.6 million and the sinking fund balance amounted to \$3.5 million.

**Puerto Rico Industrial, Tourist, Educational, Medical, and  
Environmental Control Facilities Financing Authority**

The revenue bonds of the Authority 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 the Authority 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 the Authority 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 US banks or US branches of international banks. Since inception and up to June 30, 1999, the Authority has sold revenue bonds aggregating \$4,550 million, of which \$2,400 million were outstanding as of June 30, 1999.

**18. CONTRIBUTED CAPITAL**

The changes in the government's contributed capital accounts for its enterprise funds and discretely presented component units were as follows (expressed in thousands):

	Enterprise Funds	Component Units Other
Contributed capital, at beginning of year, as previously reported	\$ 447,047	\$ 5,659,856
Change in presentation of blended component units		<u>818,007</u>
Contributed capital, as restated	<u>447,047</u>	<u>6,477,863</u>
Contributing sources (uses):		
Payments for acquisition of fixed assets	4,012	728
Payments of principal on capital leases	431	904
Change in reporting entity for the Puerto Rico Highway and Transportation Authority (See Note 19)	(446,271)	
Change in method of financial reporting for capital contributions (See Note 19).		19,165
Capital assets appropriations from the Commonwealth	2,000	119,588
Capital projects assistance from Federal government		39,406
Contributions from cooperatives		3,114
Depreciation on equipment acquired through capital contributions	<u>(1,250)</u>	<u>(67,047)</u>
Contributed capital, at end of year	<u>\$ 5,969</u>	<u>\$ 6,593,721</u>

**19. RESTATEMENTS**

The Commonwealth has restated the beginning retained earnings/fund balances of the following fund types and discrete component units to reflect the change in accounting policies and restatements made by various component units (expressed in thousands):

	Debt Service	Capital Projects	General Fixed Assets	General Long- Term Debt	Component Units-Other
Beginning retained earnings/fund balances, as previously reported	\$357,178	\$1,458,263	\$2,153,491	\$14,734,663	\$2,325,922
Changes in financial reporting presentation:					
Puerto Rico Highway and Transportation Authority (See Note A below)	(348,850)	(483,926)	(50,324)	(3,422,049)	832,776
Puerto Rico Government Investment Trust Fund (See Note B below)					(415,508)
Puerto Rico Solid Waste Authority (See Note C below)					(19,165)
Other changes (See Note D below):					
a) Agricultural Services and Development Administration					1,631
b) Recreational Development Company of Puerto Rico					151
c) Employment and Training Enterprises Corporation					(122)
d) Puerto Rico School of Plastic Arts	_____	_____	_____	_____	_____43
Beginning retained earnings/fund balances, as restated	<u>\$ 8,328</u>	<u>\$ 974,337</u>	<u>\$2,103,167</u>	<u>\$11,312,614</u>	<u>\$2,725,728</u>

- A. The Commonwealth changed its method of reporting the Puerto Rico Highway and Transportation Authority to a discrete presentation from a blended approach. The change was made because the Authority through its toll system is providing services to the citizens directly as well as to the primary government. Discrete presentation was determined to provided better information for the citizen users.
- B. The Puerto Rico Government Investment Trust Fund changed its method of reporting investments to reflect only the external investment pool of municipalities and residual balances. The change was made to conform the presentation between the requirements of Government Accounting Standards Board (GASB) Statement 14 *The Financial Reporting Entity* and those of GASB Statement 31 *Accounting and Financial Reporting for Certain Investments and for External Investements Pools*. All operations are now reported in the Government Development Bank for Puerto Rico, a discretely presented component unit, and the separate fund types for the reporting entity.
- C. The Puerto Rico Solid Waste Authority changed the balance reported as contributed capital to appropriately report amounts received from appropriations in prior years from the primary government as capital contributions instead of as revenue received.
- D. Other opening adjustments:
  - a) The Agricultural Services and Development Administration (ASDA) adjusted the beginning accumulated deficit to adjust the balance of accrued compensated absences for approximately \$1.4 million. In addition, ASDA corrected the property and equipment balance by approximately \$230 thousand.
  - b) The Recreational Development Company of Puerto Rico adjusted the beginning fund balance for approximately \$153 thousand of revenues and \$2 thousand of expenditures not recorded in prior years.
  - c) The Employment and Training Enterprises Corporation adjusted the beginning accumulated deficit for approximately \$121 thousand of revenues that were billed but the services were not realized.
  - d) The Puerto Rico Plastic Arts School adjusted the beginning fund balance for approximately \$43 thousand due to cancellation of estimated expenses.

**20. RISK MANAGEMENT**

The following describes the risk management programs administered by the University of Puerto Rico, the Puerto Rico Electric Power Authority, the Puerto Rico Aqueduct and Sewer Authority and the State Insurance Fund Corporation.

**Public University Funds**

The University of Puerto Rico (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 thousand per occurrence up to an annual aggregate of \$500 thousand. 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 Law Number 98 of August 24, 1994, the responsibility of UPR on medical malpractice claims is limited to a maximum amount of \$75 thousand per person, or \$150 thousand 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 risks 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 on 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 for the current and prior fiscal year were as follows (expressed in thousands):

	1999	1998
Claims payable - July 1	\$ 8,855	\$ 7,600
Incurred Claims and Changes in Estimates	5,302	2,229
Net Payments for Claims and Adjustment Expenses	<u>(2,368)</u>	<u>(974)</u>
Claims payable - June 30	<u>\$11,789</u>	<u>\$ 8,855</u>

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.

**Puerto Rico Electric Power Authority (PREPA)**

The Puerto Rico Electric Power Authority (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. Under the property and casualty insurance program PREPA provides coverage, among others, for up to a maximum of \$250 thousand for each general and liability claim, and \$2 million, for each boiler and machinery and property liability claim. In addition, the property liability policy imposes windstorm and earthquake deductibles at 2% and 5% of the locations value subject to a maximum deductible of \$25 million per occurrence. PREPA purchases commercial insurance for claims in excess of coverage provided through the property and casualty insurance program. PREPA

considers its Self-Insurance Fund adequate to provide for its self-insurance risk. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

PREPA has a cost plus health insurance program covering substantially all employees. PREPA entered into contracts with two plan administrators for the processing, approval and payment of claims at cost plus an administrative fee. The accrual includes claims processed and an estimate for claims incurred but not reported.

In addition, PREPA is self-insured for damage to its transmission and distribution lines since June 1993. Transmission and distribution lines amounted to approximately \$2.5 billion at June 30, 1999. The Authority Self-Insurance Fund provides for its self insurance risk. This fund represents, principally retained earnings and restricted assets set aside for self insurance amounting to approximately \$94.7 million as of June 30, 1999.

Changes in the balances of the health insurance program and other self-insurance risks for the current and prior fiscal year were as follows (expressed in thousands):

	1999	1998
Claims payable - July 1	\$ 35,289	\$ 29,316
Incurred claims	65,959	66,389
Claim payments	<u>(63,444)</u>	<u>(60,416)</u>
Claims payable - June 30	<u>\$ 37,804</u>	<u>\$ 35,289</u>

**Puerto Rico Aqueduct and Sewer Authority (PRASA)**

The Puerto Rico Aqueduct and Sewer Authority (PRASA) 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. Under the property insurance program PRASA has a \$200 million blanket insurance on all real and personal property. The deductible for windstorm and flood is 2% and 5% for earthquake. All other perils have a deductible of \$100 thousand per occurrence except underground perils which have a \$1.5 million deductible.

The Comprehensive General liability and Automobile liability has basic limits of \$3 million and the umbrella is \$50 million per occurrence.

The Boiler and Machinery Policy has a \$12.5 million aggregate and the Director and Officers Liability policy has a \$12 million aggregate.

Also, Crime Insurance Policy is provided with \$1 million fidelity bond, and an insurance coverage of \$500 thousand for the premises, transit, and depositors forgery. There is a sublimit of \$10 thousand for money orders and counterfeit currency coverages.

PRASA's insurance program is carried out by insurance brokers in coordination with the Insurance Office. Claims and liabilities are accounted for when it is probable that a claim has occurred and the amount of loss can be reasonably estimated.

PRASA has a cost plus health insurance program covering its managerial employees. The plan administrator has a contract for the processing, approval and payment of claims at cost plus an administrative fee. The Authority incurred health insurance claims including an estimate for incurred but not reported claims of approximately \$3.4 million for the year ended June 30, 1999.

**State Insurance Fund Corporation (SIFC)**

The 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 suffered as a consequence of their employment.

SIFC establishes liabilities for 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 years ended June 30, 1999 and 1998 (expressed in thousands):

	1999	1998
Liability for incurred but unpaid benefits and benefit adjustment expenses, beginning of year	<u>\$ 879,618</u>	<u>\$ 823,020</u>
Incurred benefits related to:		
Insured events of the current year	430,692	402,950
Insured events of prior years	<u>15,974</u>	<u>69,851</u>
Total incurred benefits	<u>446,666</u>	<u>472,801</u>
Benefit payments related to:		
Insured events of the current year	201,061	195,431
Insured events of prior years	<u>211,331</u>	<u>220,772</u>
Total benefit payments	<u>412,392</u>	<u>416,203</u>
Liability for incurred but unpaid benefits and benefit adjustment expenses, end of year	<u>\$ 913,892</u>	<u>\$ 879,618</u>

The liability for compensation benefits is based on historical claims experience data and assumptions and projections as to future events, including claims frequency, severity, persistency and inflationary trends determined by an independent actuary. The liability for benefits and expenses payable has been discounted at 6% in 1999 and 1998. The actuarial study considered the experience of SIFC from fiscal years 1983-84 to 1998-99, and included estimates for cases reported that have not been adjudged and cases incurred but not reported. The actuarial study also included estimates for medical benefits, benefit adjustment expenses and reimbursement of premiums. The assumptions used in estimating and establishing the liability are reviewed annually based on current circumstances and any adjustments resulting thereof are reflected in operations in the current period.

## 21. 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 thousand or \$150 thousand 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 judgment.

With respect to pending and threatened litigation, excluding the litigation mentioned in the following paragraph, the Commonwealth has reported liabilities of approximately \$352 million for awarded and anticipated unfavorable judgments. This amount was included as other long-term liabilities in the general long-term debt account group and represents the amount estimated as a probable liability or a liability with a fixed or expected due date which will require future available financial resources for its payment and includes approximately \$200 million related to the complaints filed in 1979 by the inmates of the correctional facilities in Puerto Rico (see Note 26). Management believes that the ultimate liability in excess of amounts provided, if any, would not be significant.

The Commonwealth and various component units are defendants in a lawsuit alleging violations of civil rights. Preliminary hearings and discovery proceedings are in progress. The amounts claimed exceed \$50 billion; however, the ultimate liability cannot be presently determined. It is the opinion of management that the claim is excessive and exaggerated. No provision for any liability that may result upon adjudication of this lawsuit has been recognized in the financial statements by the Commonwealth.

On September 5, 1996, the Legislature of Puerto Rico approved Act 190 to regulate the process of privatization of the Governmental Health Facilities, as amended on July 6, 1997. Under Act 190, the Department, HFSA and the Government Development Bank for Puerto Rico (GDB), a discrete component unit, has started a plan to privatize all government owned health facilities, most of them now operated by HFSA. This privatization process is focused on the sale, lease or sublease of the facilities in order to accomplish the main objective of the Health Care Reform.

During the year ended June 30, 1999, ten health facilities with a carrying value of approximately \$40.2 million were sold for \$27.9 million. In addition, Public Buildings Authority, a blended component unit, transferred certain hospital buildings with a carrying value of approximately \$32.8 million to another component unit.

On July 28, 1994, the Commonwealth enacted Law No. 45 (the Law) and Joint Resolution No. 298 (Joint Resolution) through which the Commonwealth guarantees the principal, premium and interest payments to the bondholders of all outstanding bonds issued by PRASA at the effective date of this law (approximately \$397 million) and of all future bonds issued or any other obligations incurred by PRASA to refinance all outstanding bonds covered by the guarantee. According to the Law, if

PRASA's funds are not available for bonds payments of principal, premium and interest, the Commonwealth will provide such funds to cover all required payments. On December 21, 1995, Law 45 was enforced resulting in the issuance of refunding bonds for approximately \$400.3 million, which are guaranteed by the Commonwealth. On August 1, 1997 a new Joint Resolution was approved by the Puerto Rico Legislature to provide a subsidy of \$35 million annually for fiscal years 1999 through 2008. The Authority received payment of \$35 million of this subsidy for the fiscal year ended June 30, 1999.

The Commonwealth's escheat bank account regulations require financial institutions doing business in Puerto Rico to remit to the Commonwealth all balances in deposit accounts under their custody that have been inactive for a period of five years. The Commonwealth shall reimburse any claims received from the owners of those accounts for a period of 10 years from the date of receipt from the financial institution. The balance of unclaimed escheat bank accounts as of June 30, 1999 is approximately \$40 million. No liability has been recorded at June 30, 1999 because subsequent payments are immaterial.

The minimum annual payments related to unpaid awards for The Additional Lottery System, an enterprise fund, during the next five years is approximately \$24.6 million from 2000 through 2001 inclusive, \$24.5 million during 2002, \$24.4 during 2003 and 2004 and \$249.5 million thereafter. Imputed interest amounts to approximately \$139 million at June 30, 1999.

The Commonwealth receives financial assistance from the federal government in the form of grants and entitlements. Non-cash federal financial assistance programs received by the Commonwealth amounted to approximately \$14.4 million. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to audit under the Single Audit Act of 1984, as amended, all of which are performed at the individual agency level. Disallowances as a result of these audits may become liabilities of the Commonwealth. At June 30, 1999, based on an evaluation of pending disallowances, the Commonwealth has recorded approximately \$138.9 million as other long-term liabilities in the general long-term debt account group for this purpose.

Construction commitments at June 30, 1999 for the Public Buildings Authority, a blended component unit amounted to approximately \$171 million.

#### **Public University Funds**

The University of Puerto Rico (UPR) capital construction program for educational facilities for the fiscal year ended on June 30, 1999 amounts to approximately \$9.6 million. This program is intended to be permanently financed with a future bond issuance.

UPR participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of the Single Audit Act of 1984 as amended, and U.S. Office of Management and Budget Circular A-133, "Audits of State, Local Governments, and Non-Profit Organizations", or to compliance audits by grantor agencies. Although these programs have been audited through June 30, 1999 under the Single Audit Act of 1984, as amended, and through various dates by grantor agencies, the resolution of certain previously identified questioned costs has not been resolved. The amount, if any, of expenditures which may be disallowed by the grantor

agencies cannot be determined at this time, although, UPR's management expects such amounts, if any, will be immaterial.

### **Component Units - Other**

In the normal course of their operations the various component units-other are subject to actions brought by third parties seeking damages or enter into commitments. Such actions are disclosed in the separately issued reports of the component units and are summarized below if material to the Commonwealth's reporting entity.

### **Government Development Bank for Puerto Rico and Subsidiaries (GDB)**

At June 30, 1999, GDB has financial guarantees for public entities for approximately \$155.8 million and for private sector of approximately \$530 million. In addition, standby letters of credit to public entities were approximately \$118.8 million and to private sector were approximately \$56.8 million. Commitments to extend credit to public entities were approximately \$1.6 billion, and to private sector was approximately \$40.6 million.

GDB enters into sale of securities under agreements to repurchase. These agreements generally represent short-term debts and are presented as a liability in the general purpose financial statements. The securities underlying these agreements, are usually held by the broker, or its agent, with whom the agreement is transacted. As of June 30, 1999 the carrying amount of those investments was approximately \$77.1 million. During the year, the average amount outstanding was approximately \$45.3 million; the maximum amount outstanding at any month-end was approximately \$77.1 million; and the weighted average interest rate for the year and at year end was approximately 4.49% and 4.68%, respectively.

GDB issues commercial paper in the United States taxable and tax exempt commercial paper markets, the Euro-dollar commercial paper market and to corporations that have tax exemption under the Commonwealth's Industrial Incentives Act and qualify for benefits provided by the US Internal Revenue Code Section 936. Commercial paper represents unsecured obligations of GDB. The carrying amount of commercial paper at June 30, 1999 was approximately \$902 million, the maximum amount outstanding at any month-end was approximately \$902 million, the weighted average amount outstanding during the year was approximately \$630 million, and the weighted average interest rate for the year and at year end was approximately 3.53% and 3.44%, respectively.

During 1996 GDB designated certain real estate for the site to be known as the Puerto Rico Art Museum. The Museum has been organized as a nonprofit organization, which will have a separate board of directors. GDB intends to invest approximately \$55 million in refurbishing the property. The amount incurred in connection with the project and charged to operations during the year ended June 30, 1999 was approximately \$24.4 million.

### **Puerto Rico Electric Power Authority (PREPA)**

The Puerto Rico Electric Power Authority is required to make contributions to the Commonwealth, and to the municipalities, to the extent net revenues (as defined by the bond indentures of PREPA), are available. For the year ended June 30, 1999, PREPA contributed approximately \$10.1 and \$59.0 million, to the Commonwealth and to the municipalities of Puerto Rico, respectively.

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. In February 1992, the Environmental Protection Agency (EPA) performed an inspection of various facilities of PREPA and noted deficiencies in various areas. Since 1993, the EPA, the Federal Department of Justice (DOJ) and PREPA have been involved in negotiations to pursue a comprehensive settlement of the case and assure future compliance with applicable regulatory provisions. Among other things, the settlement proposal considers investment in capital improvements and Supplemental Environmental Projects.

On October 27, 1993, DOJ and EPA filed a complaint in the United States District Court for the District of Puerto Rico based upon the above violations. PREPA and EPA undertook negotiations to resolve the issues and to ensure future compliance with all applicable regulations. As a result of the negotiations, PREPA and EPA, with the active participation of the United States Department of Justice, reached an agreement which resulted in a proposed Consent Decree. In the proposed Consent Decree, PREPA agreed to pay a civil penalty of \$1.5 million, to implement additional compliance projects costing \$4.5 million, both of which the PREPA has accrued as of June 30, 1999, and to undertake improvements to its existing compliance programs and its operations in order to assure compliance with environmental laws and regulations.

On October 11, 1994, PREPA signed a contract with AES Puerto Rico, L.P. (AES) for the purchase of up to 413 megawatt of electrical power generated from a coal fluidized bed combustion facility. PREPA will pay its purchased power based on energy and dependable capacity delivered, as more fully explained in the Agreement. The term of the agreement is for twenty-five years. This project is currently in its final stages.

In March 1995, PREPA signed a contract with EcoEléctrica, a joint venture of Kenetech Corporation and Enron Corporation, to purchase power from a 461 megawatt gas-fired combined cycle power plant. PREPA will pay for purchased power based on energy and dependable capacity delivered, as more fully explained in the Agreement. It is expected that the plant will commence generating power at full capacity during fiscal year 1999-2000.

#### **Puerto Rico Highway and Transportation Authority (PRHTA)**

Construction commitments at June 30, 1999 for the Puerto Rico Highway and Transportation Authority amounted to approximately \$593.8 million.

#### **Puerto Rico Aqueduct and Sewer Authority (PRASA)**

PRASA is a defendant or co-defendant in various claims for damages and lawsuits. Most of the cases are pending trial or final judgment. Management of PRASA and legal counsel are of the opinion that any liability that may result from such claims and lawsuits would not have a material adverse effect on PRASA's financial position as of June 30, 1999.

Facilities and operations of PRASA's system are subject to regulation under numerous Federal and Commonwealth environmental laws, including the Federal Clean Water Act (the Act), administered by the Environmental Protection Agency (EPA). In January 1978, the United States, acting on behalf of EPA, initiated litigation against PRASA and the Commonwealth to enforce compliance with the Act with respect to violations of the Act occurring at numerous plants in the Authority's sewer system. On April 20, 1988, PRASA and EPA reached an agreement to settle and resolve all

the outstanding and claimed assessment amounts embodied in a Supplemental Consent Order (the 1988 Supplemental Order) modifying the Final Order. The 1988 Supplemental Order was entered by the Court on September 27, 1988, in substantially the form lodged.

Since the 1988 Supplemental Consent Order was entered, the United States has filed motions to enforce the provisions of the 1985 Consent Order and the 1988 Supplemental Consent Order each quarter. PRASA has a deposit with the Government Development Bank for Puerto Rico, a discrete component unit, amounting to approximately \$692 thousand as of June 30, 1999 to be held in escrow for various projects required by the 1988 Supplemental Consent Order; which have been agreed upon.

On August 1, 1998, the United States and PRASA lodged a proposed Consent Decree with the United States District Court for the District of Puerto Rico. A revised Consent Decree was approved by the Court on June 4, 1998; thus resolving the claims against PRASA regarding the compliance of its National Pollutant Discharge Elimination System (NPDES) at Mayagüez. PRASA paid \$150 thousand on August 3, 1998 and to perform activities directed at constructing facilities necessary to achieve NPDES permit compliance. For the year ended June 30, 1999, PRASA paid \$400 thousand in penalties under the Mayaguez consent decree. In addition, PRASA will need to comply with interim effluent limitations and pay, within 60 days from notice by EPA, \$400 thousand for the development of a comprehensive watershed management plan for the Añasco River. As of June 30, 1999, notice by EPA was not received.

On December 5, 1995, the Court approved PRASA's and EPA's Consent Decree regarding the construction of sludge treatment facilities for the filter backwash discharges of eight (8) major water treatment plants. PRASA paid to the Treasury of the United States \$200 thousand. PRASA estimates that the cost of complying with the terms of the Consent Decree will be approximately \$14.4 million through June 30, 2001. PRASA also subscribed currently to an Administrative Order and Consent for the construction of sludge treatment facilities at seventy-four (74) other minor water treatment plants which requires a capital cost of \$43 million during fiscal years 1998 through 2000. Quarterly Compliance Reports, in which self-assessed noncompliance penalties were determined for the eight plants subject to the Consent Decree, were submitted to EPA. For the fiscal year ended June 30, 1999, self assessments paid amounted to \$1.3 million.

On May 26, 1995, PRASA and Professional Services Group, Inc. (PSG) entered into an agreement (Agreement) for the operation, management, repair and maintenance of PRASA's aqueduct, sewer and customer services systems (System). The Agreement commenced on September 1, 1995 for a five-year term. This Agreement was amended and restated on September 15, 1998. Payments under the PSG contract for management fees and administrative expenses amounted to \$135 million for the year ended June 30, 1999.

On March 1, 1999, PRASA, Compagnie Generale Des Eaux-Sahide ("CGE"), and Aqua Alliance Inc. ("AA"), as assignee of PSG, entered into a Second Amended and Restated Agreement ("the New Agreement") for the operation, management, repair and maintenance of the System. PSG changed its name to Compañía de Aguas de Puerto Rico, Inc. ("CAPR"). The New Agreement covers contract years commencing on September 1, 1998 and expires on August 31, 2001, unless terminated earlier pursuant to the provisions of the New Agreement.

CGE guarantees performance of the New Agreement, and the Government Development Bank for Puerto Rico, a discretely presented component unit, guarantees the full payment and collection of the management fee and incentives earned by CAPR pursuant to the New Agreement.

PRASA, pursuant to the New Agreement will make payments to CGE for each contract year (from September 1 through August 31) as follows:

Contract Year	Management Fee	Operational Costs	Water Trucking	Electricity	Chemicals	Training	Total
1999	\$ 17.4	\$ 46.3	\$ 7.0	\$ 51.5	\$ 17.2	\$ 2.3	\$ 141.7
2000	19.2	46.3	7.0	51.5	17.2	2.7	143.9
2001	<u>19.2</u>	<u>46.3</u>	<u>7.0</u>	<u>51.5</u>	<u>17.2</u>	<u>2.7</u>	<u>143.9</u>
	<u>\$ 55.8</u>	<u>\$ 138.9</u>	<u>\$ 21.0</u>	<u>\$ 154.5</u>	<u>\$ 51.6</u>	<u>\$ 7.7</u>	<u>\$ 429.5</u>

The Federal Government has made various audits in which it claims that PRASA should reimburse the Federal Government for grants used in the construction of projects which it considers are ineligible and are unsupported. Audit findings amount to approximately \$9.9 million. PRASA is challenging the findings and expects that the final resolution will not be significant to its financial position.

The estimated cost of construction contracts in progress at June 30, 1999 amounted to approximately \$460 million.

On September 21, 1998, PRASA's facilities suffered damages from Hurricane Georges. Estimated property damage and business interruption losses amounted to approximately \$48 million, which are partially covered by insurance and the Federal Emergency Management Agency. PRASA's accounting policy for major replacements states that no loss will be recognized and that accumulated depreciation will be charged for losses relating to property damages.

#### **Puerto Rico Telephone Authority (PRTA)**

During the fourteen month period ended March 2, 1999, PRTA made operational contributions to the Puerto Rico Public Broadcasting Corporation, a discrete component unit of the Commonwealth, amounting to approximately \$29.8 million.

#### **Puerto Rico Industrial Development Company (PRIDCO)**

PRIDCO estimates expenditures of approximately \$41 million for construction, land acquisition and development for the year ending June 30, 2000. The expenditures will be financed through internally generated funds, federal grants and external financing sources.

A significant amount of PRIDCO's revenues is derived from United States mainland companies most of which operate in Puerto Rico under the benefits of US Internal Revenue Code Section 936. On August 20, 1996, the President of the United States signed into law a minimum wage legislative package which, among other matters, eliminated US Tax Code Section 936. However, the management of PRIDCO does not foresee a major impact in PRIDCO's operations due to the elimination of Section 936.

### **Puerto Rico Infrastructure Financing Authority (PRIFA)**

The law that created PRIFA requires that in fiscal year 1998 the first \$60 million and \$70 million thereafter up to fiscal year 2028 of Federal excise taxes received by the Commonwealth be transferred to PRIFA for deposit to PRIFA's infrastructure fund (the "Infrastructure Fund"). Federal excise taxes consist of taxes received by the Commonwealth from the United States in connection with rum and other articles produced in Puerto Rico and sold in the United States that are subject to Federal excise tax.

The trust agreement requires PRIFA to deposit to the credit of the sinking fund the Federal excise taxes and other moneys deposited to the credit of the Infrastructure Fund in such amounts as are required to meet debt service requirements in respect of the bonds. Rum is the only article currently produced in Puerto Rico subject to Federal excise tax, the proceeds of which are required to be transferred from the Federal government to 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 to deposit the amount required by the Act into the Infrastructure Fund, the Act requires that PRIFA request and the Director of the Office of Management and Budget 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 legally obligated to make the necessary appropriation to cover such deficiency.

During the year ended June 30, 1999, the amount required by the Act was deposited in the Infrastructure Fund.

Act No. 92 of the Legislature of the Commonwealth of June 24, 1998 provides, among others, for the creation of an Infrastructure Development Fund (the "Development Fund") to be administered by PRIFA. The Development Fund consists of a corpus account, to be funded with a portion of the proceeds from the sale of assets of Puerto Rico Telephone Authority ("PRTA"), and additional accounts created or to be created by PRIFA. Act No. 92 provides that the principal of the corpus account may not be reduced for any reason and that income received from the investment of monies in the corpus account and other monies received may be deposited in any of the additional accounts. On March 2, 1999, PRIFA received \$1.2 billion in connection with the sale of certain assets of PRTA, which were deposited in the corpus account. Monies deposited in the additional accounts are to be used first to pay the principal premium, and interest of any bonds outstanding or to be issued by PRIFA and then for the expansion, development, and modernization of infrastructure related to the aqueduct and sewer systems of Puerto Rico.

The monies deposited in the Development Fund shall be invested up to \$1 billion in (1) direct obligations of the U.S. Government; (2) obligations, the payment of principal and interest of which is unconditionally guaranteed by the U.S. Government; (3) certificates of deposit of any bank, national bank association or trust company organized and existing under the laws of the Commonwealth, the United States of America or any of its states, on which the excess over the federal deposit insurance is secured by investments of the types described in (1) and (2) above; or (4) tax-exempt obligations of any state, instrumentality, agency, or political subdivision of Puerto Rico or the United States, the payment of principal and interest of which is secured by investments of the types described in (1) and (2) above. Monies in excess of \$1 billion shall be invested in any of the instruments mentioned

above or in any other instruments, including publicly traded common and preferred stock, not prohibited by investment guidelines adopted by the Government Development Bank for Puerto Rico, a discretely presented component unit.

**Puerto Rico Housing Bank and Finance Agency (PRHBFA)**

The PRHBFA is an “Eligible Similar Institution”, as defined by the Puerto Rico Commissioner of Financial Institutions. Such designation allows PRHBFA to receive up to \$250 million in eligible funds (commonly known as “936” tax exempt funds) which are received through obligations under reverse repurchase agreements and used for an arbitrage program. At June 30, 1999, PRHBFA has approximately \$250 million in such funds, through obligations under reverse repurchase agreements.

The \$250 million of 936 funds received under reverse repurchase agreements are presented as a liability in the general purpose financial statements at June 30, 1999. As of June 30, 1999, the aggregate market value plus accrued interest of the underlying securities does not exceed the obligations under reverse repurchase agreement including accrued interest.

**Land Authority of Puerto Rico (LAPR)**

LAPR is a defendant under a claim brought by a group of pineapple farmers amounting to approximately \$43 million. LAPR is litigating this action, but the ultimate outcome cannot be presently determined due to the stage of proceedings. Accordingly, no provision for any liability that may result upon final resolution of these actions has been made in the financial statements of LAPR.

**Corporation of Stocks and Deposit Insurance for the Savings and Loans Cooperatives (CSDISLC)**

At June 30, 1999, the maximum limit of the insurance coverage was \$75 thousand per member or depositor. Effective July 1, 1999, the insurance coverage was increased up to \$100 thousand. The total shares and deposits of insured cooperatives as of June 30, 1999 approximated \$4.1 billion.

The activity in the reserve for possible losses during the years ended June 30, 1999 and 1998 was as follows (expressed in thousands):

	1999	1998
Balance, beginning of year	\$19,000	\$16,276
Provision for the year	3,500	2,904
Claim payments	(2,200)	(1,952)
Recoveries	<u>1,700</u>	<u>1,772</u>
Balance, end of year	<u>\$22,000</u>	<u>\$19,000</u>

Under the terms of certain merger agreements for troubled cooperatives, CSDISLC has agreed to repurchase certain loans. CSDISLC’s management is of the opinion that any liability ultimately arising from these agreements will not be material.

## **Economic Development Bank for Puerto Rico (EDB)**

Time deposits of approximately \$326.8 million at June 30, 1999 consist principally of certificates of indebtedness from eligible or similar depository institutions which are recipients of funds from corporations that have grants of tax exemption under the Commonwealth's Industrial Incentives Act, and that qualify for the benefits provided under US Internal Revenue Code Section 936, pursuant to the investment requirements under Regulation 5105 of the Commissioner of Financial Institutions of the Commonwealth.

EDB enters into sale of securities under agreements to repurchase. These agreements generally represent short-term borrowings and are presented as a liability in the general purpose financial statements. The securities underlying these agreements, are usually held by the broker, or its agent, with whom the agreement is transacted. As of June 30, 1999, the carrying amount of those investments was approximately \$303.9 million. During the year, the average amount outstanding was approximately \$470.7 million; the maximum amount outstanding at any month-end was approximately \$757.1 million; and the weighted average interest rate for the year and at year end was approximately 4.83% and 4.6%, respectively.

At June 30, 1999, total outstanding loan guarantees amounted to approximately \$6.5 million. EDB has recorded an accrual for losses on loan guarantees amounting to approximately \$1 million, which is included in the financial statements of EDB.

EDB's business activities are with customers located in Puerto Rico. EDB's loan transactions are all directed toward the private sector of the Island's economy, principally encompassing manufacturing, agriculture, tourism and other service enterprises, among others. The purpose of these loans is to provide financing to commercial and agricultural entrepreneurs doing business in Puerto Rico. The collateral held on the EDB's loans varies, but usually includes chattel and real estate mortgages.

Approximately 67% of the EDB's deposits, repurchase agreements and promissory notes represent funds ("936 Funds") received from United States corporations ("936 Corporations") which qualified for the income tax credit provided by Section 936 of the United States Internal Revenue Code of 1986 (the "Code"). The interest paid by EDB on these 936 Funds constituted qualified possession source investment income ("QPSII") eligible for the credit provided by Section 936 of the Code.

On August 20, 1996, the President of the United States signed into law a legislative package which, among other things, eliminated the Section 936 credit for QPSII for taxable years commencing after December 31, 1995. The elimination of the Section 936 credit for QPSII is expected to reduce the supply of 936 Funds available for investment in Puerto Rico.

Certain amendments have been adopted to the regulation issued by the Puerto Rico Commissioner of Financial Institutions which establishes investment requirements for 936 Funds ("Regulation 5105"). These amendments are designed to promote the availability of 936 Funds to EDB. Management of EDB expects that the elimination of the Section 936 credit for QPSII will result in a manageable reduction in the amount of 936 funds available to it and that the cost of these funds will not increase significantly.

In the normal course of business, EDB is party to financial instruments with off-balance sheet risk to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and to purchase investment

and mortgage-backed securities, financial guarantees, and interest rate exchange agreements. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the financial statements. These off-balance sheet risks are managed and monitored in manners similar to those used for on-balance sheet risks. EDB's exposure to credit loss for lending commitments is represented by the contractual amount of such transactions. The notional amounts for other off-balance sheet risks express the dollar volume of the transactions, but the credit risk might be lower.

EDB enters into derivatives, primarily interest rate swaps, as part of its asset/liability management. Interest rate swaps involve the exchange of fixed and floating rate payment obligations without the exchange of the underlying principal amounts. Entering into interest rate exchange agreements involves the risk of dealing with counterparties and their ability to meet the terms of the contracts. Notional principal amounts often are used to express the volume of these transactions, but the amount potentially subject to credit risk are much smaller. Settlements are made monthly. At June 30, 1999, there were no interest rate swap contracts outstanding.

### **State Insurance Fund Corporation (SIFC)**

During March and April 1998, SIFC entered into various contracts for the construction of its new headquarters at an estimated cost of approximately \$50.2 million. The undisbursed portion of these contracts amounted to approximately \$44.8 million at June 30, 1999.

In addition, in December 1998 SIFC signed a contract to acquire facilities to relocate a regional office. The underlying financing agreements will become effective when all the related building permits are obtained and SIFC takes possession of the facilities, and will require SIFC to make payments of approximately \$111.7 million over 30 years.

### **Sugar Corporation of Puerto Rico (SCPR)**

SCPR is a defendant in several wage actions for back wages and other claims. Most of these claims resulted from the sugar mills closing throughout the years. As of December 31, 1998, labor related claims amounted to approximately \$15.4 million. Management is defending its position vigorously and believes that resulting financial impact, if any, is adequately covered with recorded reserves.

Also, there is a provision of approximately \$20 million for the estimated environment costs to be incurred in the clean up of the SCPR's properties. These costs will be covered by Legislative Appropriations from the Commonwealth of Puerto Rico.

SCPR is also involved in other legal cases arising in the normal course of business. As of December 31, 1998, such claims amounted to approximately \$70.4 million. SCPR is in the process of litigating these actions, but the ultimate outcome is uncertain at this time and accordingly, the liability of SCPR, if any, cannot be presently determined.

A reserve related to the liquidation process was established which considers an estimate for labor legal cases, environmental financial exposure and other claims. However, it is not presently determinable if this reserve will be sufficient to cover actual losses. (See Note 27).

### **Tourism Company of Puerto Rico (TCPR)**

TCPR has entered into several agreements with private third parties to make capital contributions and investments in several hotel development projects. At June 30, 1999, capital contributions made amounted to approximately \$24.5 million.

### **Puerto Rico Solid Waste Authority (PRSWA)**

PRSWA initiated in 1996 the implementation and development of the first phase of the Infrastructure Regional Plan for Recycling and Disposal of Solid Waste in Puerto Rico at an estimated cost of approximately \$96 million. The first stage consist of the construction of twenty-four projects to be financed through an interim financing agreement with the Government Development Bank for Puerto Rico, a discrete component unit, of which \$23 million was approved through a line of credit.

As of June 30, 1999, PRSWA is committed with various municipalities and governmental agencies to acquire the land in which the projects will be developed.

The PRSWA is also in negotiations with the Puerto Rico Aqueduct and Sewer Authority to purchase two yard waste composting plants at Mayagüez and Arecibo, with an estimated total cost of \$13 million.

### **Farm Credit Guarantee Fund and Guarantee Loan Fund for Eligible Business of PR (Funds)**

As of June 30, 1999, total outstanding guaranteed loans under the Funds amounted to approximately \$7.3 million. Under the guarantee agreements, when these loans are declared in default, the Funds will honor them, including accrued interest.

### **Puerto Rico Land Administration (PRLA)**

During fiscal year 1998, PRLA was sued by Paseo Portuario and Company, S.E. (the Developer) for allegedly illegally terminating the Development Agreement for the Barrio La Marina Project in the Old San Juan Waterfront Project. The Developer is asking for a preliminary injunction, specific contract compliance and damages of approximately \$50 million. The Developer also sought injunctive relief for the specific performance of the contract and to enjoin PRLA from negotiating with third parties the continuance of the development. The Superior Court of San Juan dismissed the request for injunctive relief. The Court of Appeals affirmed. Both, plaintiff (“Paseo”) and PRLA, have filed motions for summary judgment requesting the adjudication of their respective principal claims. PRLA believes it will also succeed in the ordinary course of this litigation. Therefore, the outcome of the case should not have an adverse effect upon the PRLA’s financial condition. Paseo has also requested possession of the land under the original development, subject of the legally terminated agreement, by means of a remedy known as an injunction for possession (“interdicto posesorio”). Paseo’s original request for this remedy was denied by the Superior Court. However, the Court of appeals reversed that decision. The PRLA will appeal to the Supreme Court. It is the PRLA’s strong belief that the decision of the Court of Appeals will be reversed by the Supreme Court. Nevertheless, said decision should not have an adverse economical effect upon the PRLA’s financial condition, inasmuch as the object of the litigation is simply the possession of certain premises under the original development agreement.

## 22. RETIREMENT SYSTEMS

The Commonwealth has three contributory defined benefit pension plans which are reported in the pension trust fund:

- Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities
- Puerto Rico Judiciary Retirement System
- Annuity and Pension System for the Teachers of Puerto Rico

Each system is independent, thus assets may not be transferred from one system to another or used for any purpose other than to benefit each system's participants. In addition, the University of Puerto Rico Retirement System is reported in the public university funds.

The retirement systems issue publicly available financial reports that include their financial statements and required supplementary information for each of them. Those reports may be obtained by writing to the corresponding administrator of each retirement system at the addresses detailed in Note 1 to the general purpose financial statements.

### **Employees' Retirement System of the Government of PR and Its Instrumentalities (ERS)**

#### Plan Description:

The ERS is the administrator of a single-employer (as related to the Commonwealth financial reporting entity) defined benefit pension plan established by the Commonwealth. The System was created under Act 447 (the "Act"), approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth and its instrumentalities and certain municipalities and component units not covered by their own retirement systems.

The System provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation.

On September 24, 1999, an amendment to the Act was enacted with the purpose of establishing a new pension program. (See Note 24).

Funding Policy:

Contribution requirements are established by law and are as follows:

Commonwealth Employees:	9.275% of gross salary
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600
	8.275% of gross salary over \$6,600
Hired on or after April 1, 1990	8.275% of gross salary

**Puerto Rico Judiciary Retirement System (JRS)**

Plan Description:

The JRS is a single-employer defined benefit plan, which is administered by the ERS. The System was created under Act 12, approved on October 19, 1954. The membership includes all individuals holding a position as Judge of the Supreme Court, Judge of the Superior Court or the District Court or Municipal Judges of the Commonwealth of Puerto Rico.

The System provides retirement as well as death and disability benefits. Benefits vest after 10 years of service.

Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the last three years of service (effective July 28, 1993, highest monthly salary), except for judges of the Supreme Court for whom it is based on the last month of compensation. The retirement annuity is limited to a minimum of 25% and a maximum of 100% of the average compensation.

During 1997, JRS enacted Act No. 177 which provides, effective January 1, 1999, for increases of 3%, every three years, of the pensions paid by JRS to those plan members with three or more years of retirement.

Funding Policy:

All participants are required to make contributions to the plan equal to 8% of gross salary. The Commonwealth must contribute 20% of the applicable payroll. Contributions are established by law, and are not actuarially determined.

**Annuity and Pension System for the Teachers of Puerto Rico (TRS)**

Plan Description:

The TRS is a single-employer defined benefit plan (as related to the Commonwealth's financial reporting entity) which was created under Act 218 approved on May 6, 1951. TRS provides retirement benefits to all teachers of the Department of Education of the Commonwealth, those holding positions in the Retirement Board, all pensioned teachers, all teachers transferred to an administrative position in the Department of Education, teachers who work in the Teachers' Association of Puerto Rico, and those who practice in private institutions accredited by the Department of Education.

The Plan provides retirement, death and disability benefits. Benefits vest after completion of a given number of years of credited service based on age. Benefits are determined by the application of stipulated benefit ratios to the members final average salary, which is the highest average over three years. The Retirement Annuity is a minimum of \$300 per month and a maximum of 75% of final average salary.

Funding Policy:

A member is required to contribute to the plan 7% of total salary. The Commonwealth matches the member's contribution at a rate of 8.5% of total salary. Contribution rates are established by law, and are not actuarially determined.

Membership:

	ERS	JRS	TRS
Retirees and beneficiaries currently receiving benefits	72,500	248	19,500
Current employees	<u>158,000</u>	<u>355</u>	<u>50,800</u>
Total	<u>230,500</u>	<u>603</u>	<u>70,300</u>

Annual Pension Cost and Net Pension Obligation:

The Commonwealth's annual pension cost and net pension obligation to the three pension plans for the year ended June 30, 1999 were as follows (expressed in thousands):

	ERS	JRS	TRS
Annual required contributions	\$ 844,961	\$ 4,536	\$ 138,472
Interest on net pension obligation	149,093	(1,386)	23,503
Adjustment to annual required contribution	<u>(225,293)</u>	<u>2,094</u>	<u>(18,172)</u>
Annual pension cost	768,761	5,244	143,803
Statutory contributions made	(491,800)	(7,900)	(91,200)
Estimated interest for six months at 8.5%	<u>(20,940)</u>	<u>(293)</u>	<u>          </u>
Increase (decrease) in net pension obligation	256,021	(2,949)	52,603
Net pension obligation (asset) at beginning of year	<u>1,754,030</u>	<u>(16,301)</u>	<u>293,785</u>
Net pension obligation (asset) at end of year	<u>\$ 2,010,051</u>	<u>\$ (19,250)</u>	<u>\$ 346,388</u>

The net pension obligation for ERS and TRS of approximately \$2.4 billion is recorded in the general long-term debt account group. (See Note 15). No asset is recognized for JRS excess of contributions over annual pension costs due to the measurement focus of the general fund.

The annual required contribution was determined by actuarial valuations for each of the pension plans as described below:

	ERS	JRS	TRS
Date of actuarial valuation	July 1, 1999	July 1, 1999	July 1, 1998
Actuarial cost method	Projected unit credit cost	Projected unit credit cost	Entry age normal
Amortization method	Level percentage of the projected payroll	Level percentage of the projected payroll	Level percentage closed
Remaining amortization period	27 years	27 years	22 years
Amortization approach	Closed	Closed	Closed
Asset valuation method	Market value	Market value	Market value
Actuarial assumptions:			
Inflation	3.5%	3.5%	3.5%
Investment rate of return	8.5%	8.5%	8.0%
Projected salary increases	5%	5%	5.0%
Cost of living adjustments	3% every three years	3% every three years	No future retiree increases assumed

Three Year Trend Information:

The three-year trend information is as follows (expressed in thousands):

<b>Annual Pension Cost (APC):</b>	ERS	JRS	TRS
Year Ended June 30, 1999	\$768,761	\$5,244	\$143,803
Year Ended June 30, 1998	709,649	3,359	131,387
Year Ended June 30, 1997	662,318	2,306	117,284
<b>Percentage of APC Contributed:</b>	ERS	JRS	TRS
Year Ended June 30, 1999	63.9%	150.6%	63.4%
Year Ended June 30, 1998	70.7%	181.6%	72.4%
Year Ended June 30, 1997	68.6%	255.8%	70.2%
<b>Net Pension Obligation (Asset):</b>	ERS	JRS	TRS
Year Ended June 30, 1999	\$2,010,051	\$(19,250)	\$346,388
Year Ended June 30, 1998	1,754,030	(16,301)	293,785
Year Ended June 30, 1997	1,567,810	(13,289)	267,519

Schedule of Funding Progress (expressed in thousands):

Employees Retirement System of the Government of Puerto Rico:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 1999	\$1,858,000	\$8,308,000	\$6,450,000	22%	\$2,575,000	250%
July 1, 1998	1,675,000	7,638,000	5,963,000	22%	2,366,000	252%
July 1, 1997	1,444,000	6,914,000	5,470,000	21%	2,363,000	231%

Puerto Rico Judiciary Retirement System:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 1999	\$73,900	\$118,200	\$44,300	63%	\$26,300	168%
July 1, 1998	67,200	95,600	28,400	70%	18,000	158%
July 1, 1997	57,300	76,500	19,200	75%	18,000	107%

Teachers Retirement System:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 1998	\$2,135,000	\$3,155,000	\$1,019,000	68%	\$1,091,000	93%
July 1, 1997	1,887,000	2,863,000	976,000	66%	1,003,000	97%
July 1, 1996	1,653,000	2,616,000	963,000	63%	838,000	115%

**D. University of Puerto Rico Retirement System**

Plan Description:

The University of Puerto Rico (the University) contributes to the University of Puerto Rico Retirement System (UPRRS), a single-employer defined benefit public employee retirement system that acts as a common investment and administrative agent for the University. The System is the administrator of the plan created under Act No. 135, approved on May 7, 1942, which became effective on January 1, 1945. UPRRS covers all employees of the University, except hourly, temporary, part time, contract and substitute employees, and visiting professionals.

The System provides retirement, disability, and death benefits. Cost-of-living adjustments are provided at the discretion of the Board of Trustees. Benefits vest after completion of a given number of years of credited service based on age. Benefits are determined by the application of stipulated benefit ratios of the members average compensation.

Funding Policy:

University employees are required to contribute 4% to 8% of their annual salary to the System, depending on certain qualifications. The University was required to contribute 15% of applicable payroll in 1998. The contributions are established by law, and are not actuarially determined. Although the University has not expressed any intent to terminate the Plan administered by the System, it may do so at any time. In the event of termination, the rights of participants and beneficiaries are non-forfeitable to the extent funded.

Membership:

Retirees and beneficiaries currently receiving benefits	5,343
Terminated-vested	7,228
Current employees	<u>12,074</u>
	<u>24,645</u>

Annual Pension Cost and Net Pension Obligation:

The University's annual pension cost and net pension obligation to the System for the year ended June 30, 1999 is as follows (expressed in thousands):

Annual required contributions	\$38,631
Interest on net pension obligation	1,824
Adjustment to annual required contribution	<u>(1,793)</u>
Annual pension cost	38,662
Contributions made	<u>(53,042)</u>
Decrease in net pension obligation	(14,380)
Net pension obligation at beginning of year	<u>22,801</u>
Net pension obligation at end of year	<u>\$ 8,421</u>

The annual required contribution was determined as part of the June 30, 1999 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return and (b) projected salary increases of 5% per year. The assumptions did not include postemployment benefit increases, which are funded by the University when granted. The actuarial value of assets is equal to the fair value of the assets. The unfunded accrued liability is being amortized as a level dollar on a declining basis from 40 to 30 years starting on June 30, 1995. The remaining amortization period at June 30, 1999 is 36 years.

Three Year Trend Information (expressed in thousands):

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 1999	\$38,662	137.3%	\$ 8,421
June 30, 1998	40,383	121.0%	22,801
June 30, 1997	43,614	106.8%	31,273

Schedule of Funding Progress (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll*	UAAL as a Percentage of Covered Payroll
June 30, 1999	\$650,295	\$1,161,101	\$510,806	56.0%	\$333,153	153.3%
June 30, 1998	586,095	1,037,282	451,187	56.5%	322,232	140.0%
June 30, 1997	505,467	957,716	452,249	52.8%	305,498	148.0%

\* Rate of pay as of the valuation date.

**23. SEGMENT INFORMATION - Enterprise Funds**

**Health Facilities and Services Administration of Puerto Rico (HFSA)**

Health Facilities and Services Administration of Puerto Rico (HFSA) was created as an executive agency in 1975 to lease and operate hospitals and other health facilities and to provide for the improvement, alteration or repair of such facilities. HFSA is authorized to borrow money and issue notes or other obligations for the purpose of financing the costs of improvements and providing health services to the general public. Patients, admitted to an institution under the jurisdiction of HFSA who are indigent, receive hospital and medical services free of charge; otherwise, payments for services rendered are required.

On August 7, 1998, the Legislature of the Commonwealth of Puerto Rico enacted Act No. 187, which has the effect of repealing the law that created HFSA effective on or before June 30, 1999 and consolidating it with the Department of Health. (See Note 24).

**Lottery of Puerto Rico (Lottery)**

The Lottery was created in 1947 and is an operational unit of the Commonwealth's Treasury Department. It was created to provide authorized agents with an additional source of revenues and to supplement revenues for the general fund of the Commonwealth. It is engaged in the sale of tickets through authorized agents. The Lottery's revenues from the sale of tickets are distributed pursuant to the approved budget to cover the payment of prizes and general and administrative expenses. The excess of revenues over prizes and expenses must be transferred to the general fund of the Commonwealth.

### The Additional Lottery System (Additional Lottery)

The Additional Lottery was created in 1989 as an operational unit of the Commonwealth's Treasury Department. Presently, two games (Pick 3 and Lotto) with several betting alternatives are offered. The Additional Lottery is required to distribute the excess of revenues over expenses to the Commonwealth. Deficits are not allowed to be offset against the excess of revenues over expenses. The remittances are earmarked as follows: \$4 million to the Fund for Rent and Home Improvement Subsidy Program for the Low Income Qualifying Elderly, 35% of the net balance (net revenues over expenses less the amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low Income Qualifying Elderly) will be earmarked to the municipalities of which a maximum of \$26 million, on an annual basis, will be distributed to the Municipal Equalization Fund, to cover operating expenses and permanent improvements of the municipalities and the remaining, but not exceeding \$16 million, on an annual basis to cover accumulated municipal appropriations up to June 30, 1997, for the implementation of the Health Reform. Any amount exceeding the annual \$16 million will be distributed to Municipal Equalization Fund, provided it is within the 35% corresponding to the municipalities. When the accumulated municipal appropriations up to June 30, 1997, from the municipalities Health Reform is covered, these resources will be assigned to the Health Insurance Administration, a discrete component unit. The remaining net revenues over expenses from the Additional Lottery operations after covering all the items described above, will be distributed to the Commonwealth. Prizes expire in 180 days. Expired prizes transferred to the general fund during 1999 approximated \$3.8 million.

Segment information for the enterprise funds is as follows (expressed in thousands):

	HFSA	Lottery of PR	Additional Lottery
Operating revenues	\$194,872	\$461,457	\$253,961
Depreciation and amortization	20,191	1,250	18
Operating income (loss)	(423,022)	59,527	88,163
Non-operating revenues (expenses)	19,892	1,137	
Operating transfers-in (out)	183,983	(57,469)	(88,163)
Net income (loss)	(258,931)	3,195	
Current capital:			
Contribution		4,445	
Depreciation on contributed fixed assets		1,250	
Property, plant and equipment:			
Additions and adjustments		9,959	46
Deletions and adjustments	106,999	11	
Net working capital (deficit)	(127,068)	15,177	1,682
Long-term liabilities	172,054	19,149	235,780
Total assets	321,286	56,214	249,589
Total equity (deficit)	(1,153,346)	6,009	(1,365)

## 24. SUBSEQUENT EVENTS

### Primary Government

During January 2000, the Commonwealth issued \$600 million of tax and revenue anticipation notes due in July 2000.

On August 7, 1998, the Legislature of the Commonwealth of Puerto Rico enacted Act No. 187 which has the effect to repeal the law that created the Health Facilities and Services Administration (HFSA) effective on or before June 30, 1999 and consolidate it with the Department of Health of the Commonwealth of Puerto Rico. Said Act empowers the Secretary of Health in conjunction with the Management and Budget Office and the approval of the Governor of Puerto Rico, to carry out the necessary measures to consolidate the facilities and obligations of the HFSA with the Department. In addition, the Law authorizes the Secretary of Health and the Secretary of Transportation and Public Works to dispose of health facilities either through sale or lease in accordance with the regulations established for those purposes.

Prior to June 30, 1999, the HFSA was authorized to operate independently from the Department of Treasury and empowered, among other things, to lease and operate hospitals, clinics, health care centers and any other health facilities acquired in the future and to provide for the improvements, alteration or repair of such facilities. In addition, it was empowered to borrow money and issue notes or other obligations for the purpose of financing the cost of improvements and providing health services to the general public. The following represent the beginning balances to be included in the general fund; general fixed assets account group and the general long-term debt account group at July 1, 1999 (expressed in thousands):

Current assets	\$ 88,128
Current liabilities	292,548
Fixed assets	374,203
Long-term debt	1,182,084

As a result of these changes, \$160 million of the deficit will be transferred to the general fund.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the Employees Retirement System of the Government of Puerto Rico and its Instrumentalities, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity will be 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 in an account which will either: (1) earn a fixed rate based on the two-year

Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employers' contribution (9.275% of the employee's salary) will be used to fund the current plan.

#### **Component Units - Other**

##### **Puerto Rico Highway and Transportation Authority (PRHTA)**

On July 8, 1999, Puerto Rico Highway and Transportation Authority (PRHTA) entered into a loan agreement of \$8 million with the Government Development Bank for Puerto Rico (GDB), a discrete component unit. The loan has a variable interest rate, and both interest and principal shall be paid on July 1, 2000.

##### **Puerto Rico Infrastructure Financing Authority (PRIFA)**

On July 2, 1999, PRIFA entered into a loan agreement with the Government Development Bank for Puerto Rico (GDB), a discretely presented component unit whereby GDB will provide interim financing to PRIFA in an amount not to exceed \$50 million for the purpose of paying additional costs incurred or to be incurred by PRIFA in the acquisition, construction, equipping, installation and development of certain aqueduct and sewer projects of Puerto Rico Aqueduct and Sewer Authority. The loan matures on July 1, 2002 and will be repaid from the proceeds of bonds to be issued by PRIFA under a trust agreement or from any other available moneys of the Authority. The loan bears a variable interest rate equal to 1% over GDB's cost of funds and will be paid semiannually.

##### **Puerto Rico Ports Authority (PRPA)**

Effective July 1, 1999, the Legislature of Puerto Rico approved an operational subsidy of approximately \$19 million to finance the operations and maintenance of all transportation services. The Board of Directors of PRPA approved a plan to lease the operations of four regional airports (Arecibo, Patillas, Humacao and Mayaguez).

##### **Puerto Rico Aqueduct and Sewer Authority (PRASA)**

On August 15, 1999, the Commonwealth of Puerto Rico approved a guarantee for a new line of credit in the amount of \$180 million, to cover the cash flow deficit of PRASA for the fiscal year ended June 30, 1999. In addition, a line of credit of \$100 million was also approved to cover cash flow needs for fiscal year 2000. Any unused amount in fiscal years 1999 and 2000 may be used to cover the cash flow deficit, if any, for fiscal year 2001.

## 25. SALE OF PUERTO RICO TELEPHONE AUTHORITY

On April 7, 1997, the Commonwealth announced a plan to privatize Puerto Rico Telephone Company, Inc. (PRTC) and Celulares Telefonica, Inc. (CT) through a competitive bidding process. On July 22, 1998, after the conclusion of the bidding process, a consortium led by GTE Corporation (the "GTE Group") was awarded the right to purchase a controlling interest in PRTC and CT. Under the provision of the acquisition agreement, Telecomunicaciones de Puerto Rico, Inc. ("TELPRI"), a Puerto Rico Corporation, was utilized for the purpose of acquiring the stock of PRTC and CT from Puerto Rico Telephone Authority (PRTA) in connection with the privatization. On March 1, 1999, pursuant to the terms of the acquisition agreement, TELPRI acquired 100% of the common stock of PRTC and CT. Prior to the acquisition, PRTA owned 100% of the shares of common stock of TELPRI.

The acquisition was completed on March 2, 1999 under the following terms:

- A subsidiary of GTE Corporation (member of the GTE Group) acquired 40.01%, plus one share of the TELPRI stock and Popular Inc. ("Popular") acquired 9.99%.
- PRTA obtained 43% less one share of the shares of the stock of TELPRI in exchange for its remaining interests in PRT and CT.
- PRT received approximately \$2.040 billion from the transaction, a portion of which was paid by TELPRI from a special dividend amounting to approximately \$1.570 billion. Also, PRTA agreed to contribute cash or stock worth a total of \$200 million as a capital contribution in even installments over five years beginning on March 2, 1999, to reduce unfunded pension and other post-employment benefit obligations. The contribution must be in cash for the first two installments and cash or stock for the last three installments. On March 2, 1999, PRTA deposited \$173 million in an escrow account to satisfy the \$200 million commitment, and recorded a liability for the same amount, \$173 million.

In conjunction with the acquisition, PRTA contributed 3% of the TELPRI's shares to TELPRI's newly created employee stock ownership plan (the "ESOP") (\$26.1 million), and the GTE Group purchased an additional 1% of the shares of TELPRI from PRTA and contributed them to the ESOP. The ESOP also acquired an additional 3% with funds borrowed from TELPRI.

The Authority used approximately \$808.6 million of the proceeds from the transactions effected on March 2, 1999 to defease the debt outstanding at that date of \$797.6 million. The following bonds of the Authority were defeased: The Revenue Refunding Bonds, REA Series A: the Revenue Bonds, Series L; the Revenue Refunding Bonds, Series M (Fixed Rate Bonds); the Revenue Refunding Bonds, Series M (BPO); Revenue Refunding Bonds, Series M (RIBS/SAVRS); Revenue Refunding Bonds, Series M (IFRNs) and the Revenue Bonds, Series N. The defeasance of the debt outstanding as of March 2, 1999 resulted in a net loss of approximately \$14.3 million.

## **26. PARTIAL SETTLEMENT OF CONTINGENCY**

On January 22, 1996, the US District Court in Puerto Rico consolidated all cases against the Commonwealth related to the complaints filed in 1979 by the inmates of the correctional facilities in Puerto Rico. The Court ruled a permanent order requiring the Commonwealth to comply with the requirement of the minimum fixed living space per inmate. In the opinion of management, based on advice of legal counsel, this order will limit the imposition of further fines and the fines already paid together with the accrued liability in the general long-term debt account group, (which amounts to approximately \$200 million at June 30, 1999) shall be sufficient to carry out the Court's requirements.

## **27. SUGAR CORPORATION OF PUERTO RICO (SCPR)**

On September 5, 1996, the Commonwealth enacted Law No. 189 to authorize the negotiation for the transfer of certain assets, liabilities and operations of the Sugar Corporation of Puerto Rico (SCPR), for a nominal value, to the sugar cane farmers.

On December 28, 1997, the Commonwealth enacted Law No. 202 amending Law No. 189. Under the amendment, Mercedita refinery will remain in the hands of SCPR up to the year 2000, and the sugar mills were transferred to the sugar cane growers during 1998. The refinery will be subjected to a renewal and repair process, which cost, estimated at \$13 million, is dependent on obtaining from the government subsidies/financing for these purposes. No such subsidies/financing has been obtained as of November 30, 1998 and accordingly not included as part of the estimated costs for the liquidation of SCPR. On year 2001 the refinery will be transferred to the sugar cane growers and SCPR remaining assets and liabilities will be transferred to SCPR's parent, Land Authority of Puerto Rico (LAPR), a discrete component unit. Such transfers are subject to the approval of SCPR's Executive Director or LAPR Executive Director and the Governing Board of such Authority.

The assets transferred can be used only for the sugar cane operations and if not used for such purposes, must be returned to SCPR. The assets cannot be sold, transferred or ceded for 25 years unless prior payment is made to SCPR of certain stipulated amounts.

On February 4, 1998, SCPR ceased the manufacturing operation of raw sugar at the remaining sugar mills of Coloso and Roig. Simultaneously, and in accordance with Law No. 189, as amended by Law No. 202, SCPR transferred most of the assets of Coloso and Roig sugar mills, including certain land needed for mills' operations, the machinery and equipment of the Mercedita and Plata mills to a group of private entities created and owned by the sugar cane growers for this purpose.

To provide support to these newly created private entities assuming the operation and production of raw sugar in Puerto Rico, the Commonwealth, through SCPR, assumed the losses of the 1998 crop. Such losses, along with all other estimated costs associated with the orderly liquidation of SCPR's assets as of December 31, 1998 as follows (expressed in thousands):

Description	Amount
Reserve for legal cases and environmental clean-up	\$ 35,780
Reserve for operating losses up to year 2000	54,672
Reserve for Mercedita Refinery repairs	12,761
Reserve for Mercedita Refinery employees severance costs	6,959
Reserve for 1998 crop losses	<u>5,108</u>
 Total	 <u>\$ 115,280</u>

The law provides that SCPR should from time to time request the Legislature to approve the funds necessary for the orderly liquidation of all liabilities of SCPR.

At December 31, 1998, SCPR has an accumulated deficit of approximately \$318 million, and contributed capital of approximately \$169 million.

# COMMONWEALTH OF PUERTO RICO

## **REQUIRED YEAR 2000 SUPPLEMENTARY INFORMATION (UNAUDITED)**

The Commonwealth has conducted a comprehensive review of its computer systems to identify those that could be affected by the Year 2000 Issue. The year 2000 Issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Commonwealth's programs that have time-sensitive software may recognize date using "00" as the year 1900 rather than the year 2000. This could result in a major system failure or miscalculations. The Commonwealth presently believes that, with modification to existing software and converting to new software, the Year 2000 Issue will not pose significant operational problems for the computer systems as so modified and converted. However, if such modifications and conversions are not completed on a timely basis, the Year 2000 Issue may have a material impact on the operations of the Commonwealth.

As of June 30, 1999, in connection with the Commonwealth's Year 2000 Compliance Project (the "Project"), the Commonwealth established a project plan and a budget for dealing with the Year 2000 Issue. The Commonwealth has also identified mission-critical systems and equipment and is in the process of converting certain existing systems and switching others to compliant systems. Completion of the above, however, is not a guarantee that systems and equipment will be year 2000 compliant.

As of June 30, 1999 the Commonwealth's Year 2000 Compliance Project's stages and their stage of completion reported by the Commonwealth's with mission critical systems are as follows:

Awareness Stage	100%
Assessment State	99%
Renovation Stage	87%
Validation Stage	69%
Implementation Stage	66%

As of June 30, 1999, the Commonwealth has incurred expenses amounting to approximately \$50.9 million in equipment upgrades and consulting fees related specifically to the Project. The Commonwealth estimates that it will enter into contracts amounting to approximately \$28 million related to services required to complete the Project.

**COMBINING, INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES**

## **GENERAL FUND**

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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. Following is the Supplemental Schedule of Expenditures - Budget and Actual - Budget Basis - General Fund.

**COMMONWEALTH OF PUERTO RICO**

**SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY - BUDGET AND ACTUAL -  
 STATUTORY BASIS - GENERAL FUND  
 YEAR ENDED JUNE 30, 1999 (Expressed in Thousands)**

	Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES:			
Current:			
General Government			
Senate of Puerto Rico	\$ 20,296	\$ 20,296	\$
House of Representatives of Puerto Rico	27,570	27,570	
Comptroller's Office	19,028	19,028	
General Court of Justice	1,206	1,206	
Governor's Office	13,044	13,044	
Office of Management and Budget	36,675	34,802	1,873
Planning Board	9,802	9,208	594
Constructions and Land Subdivisions Appeals Board	800	800	
Department of State	7,511	7,511	
Department of the Treasury	199,205	161,280	37,925
Puerto Rico Government Employees Retirement Systems Administration	22,257	22,257	
Central Office of Personnel Administration	4,597	4,538	59
Commonwealth Elections Commission	30,176	30,143	33
Federal Affairs Administration	8,528	8,528	
General Services Administration	1,678	1,582	96
Rural Housing Administration	817	812	5
Civil Rights Commission	625	625	
Department of Justice	11,348	11,348	
Office of the Citizen's Ombudsman	1,841	1,838	3
Department of Health	160	160	

**COMMONWEALTH OF PUERTO RICO**

**SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY - BUDGET AND ACTUAL -  
STATUTORY BASIS - GENERAL FUND  
YEAR ENDED JUNE 30, 1999 (Expressed in Thousands)**

	Budget	Actual	Variance Favorable (Unfavorable)
Department of Housing	71	71	
Public Personnel Administration System Appeals Board	938	938	
Rules and Permits Administration	8,885	8,786	99
State Commission for the Ventilation of Municipal Complaints	127	126	1
Legislative Assembly	995	490	505
Public Housing Administration	21	21	
Public Policy and Organization Bureau	807	807	
Strategic Development Bureau	303	303	
Public Service Commission	447	447	
Central Communications Office	2,274	2,274	
Government Ethics Board	3,416	3,416	
Independent Special Prosecutor Panel Office	4	4	
Contributions to Political Parties	900	900	
Pre-Trial Services Office	54	54	
Legislative Affairs Office	6,762	6,733	29
Office of the Superintendent of the Capitol	3,724	3,692	32
Comptroller's Special Reports Joint Commission	171	171	
Legislative Donation Commission	400	298	102
<b>Total General Government</b>	<b>447,463</b>	<b>406,107</b>	<b>41,356</b>
<b>Public Safety</b>			
Puerto Rico General Court of Justice	153,184	153,184	
State Civil Defense Agency	3,572	3,542	30
Commission of Investigation, Processing and Appeals Board	489	484	5
Civil Rights Commission	2	2	
Department of Justice	80,515	77,228	3,287
Puerto Rico Police Department	477,183	476,956	227
Puerto Rico Firefighters Corps	37,908	37,802	106
Puerto Rico National Guard	9,140	9,135	5

**COMMONWEALTH OF PUERTO RICO**

**SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY - BUDGET AND ACTUAL -  
STATUTORY BASIS - GENERAL FUND  
YEAR ENDED JUNE 30, 1999 (Expressed in Thousands)**

	Budget	Actual	Variance Favorable (Unfavorable)
Public Service Commission	8,568	8,568	
Consumer Affairs Department	10,667	10,667	
Juvenile Institutions Administration	68,387	68,306	81
Women's Affairs Commission	1,274	1,274	
Corrections Administration	300,050	299,942	108
Security and Public Protection Commission	763	763	
Family and Children Administration	4,676	4,676	
Natural Resources Administration	1,422	1,422	
Department of Correction and Rehabilitation	1,910	1,909	1
Institutional Trust of the National Guard of Puerto Rico	10	10	
Parole Board	2,817	2,803	14
Forensic Sciences Institute	8,198	8,198	
Special Independent Prosecutor Selections Board	1,963	1,963	
Pre-Trial Services Office	2,719	2,719	
Correctional Health	57,984	57,655	329
Medical Emergencies Service	13,536	13,502	34
<b>Total Public Safety</b>	<b>1,246,937</b>	<b>1,242,710</b>	<b>4,227</b>
<b>Health</b>			
Health Facilities and Services Administration	40,515	40,515	
Environmental Quality Board	7,333	7,276	57
Department of Health	57,617	49,245	8,372
Medical Center Services Corporation	18,510	18,510	
Mental Health and Drug Addiction Services Administration	94,815	94,499	316
Cardiovascular Center Corporation	904	904	
<b>Total Health</b>	<b>219,694</b>	<b>210,949</b>	<b>8,745</b>

**COMMONWEALTH OF PUERTO RICO**

**SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY - BUDGET AND ACTUAL -  
 STATUTORY BASIS - GENERAL FUND  
 YEAR ENDED JUNE 30, 1999 (Expressed in Thousands)**

	Budget	Actual	Variance Favorable (Unfavorable)
Public Housing and Welfare			
Minor's Support Administration	3,537	3,521	16
Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities	7,135	7,135	
Housing Development and Improvement Administration	5,291	5,277	14
Puerto Rico Volunteers Service Corps	8,572	8,572	
Puerto Rico Police Department	8,868	8,828	40
Department of Labor and Human Resources	6,074	5,973	101
Labor Relations Board	1,071	1,071	
Juvenile Institutions Administration	3,082	3,078	4
Department of Housing	7,311	7,249	62
Department of Recreation and Sports	30,074	29,908	166
Administration for the Horse Racing Sport and Industry	2,453	2,423	30
Women's Affairs Commission	3,038	1,550	1,488
Public Housing Administration	1,151	1,151	
Citizens Rights Commission	265	265	
Office of the Veteran's Ombudsman	1,017	1,017	
Department of Family	29,928	24,830	5,098
Family and Children Administration	69,751	68,606	1,145
Minors Support Administration	7,767	7,301	466
Vocational Revitalization Administration	14,766	14,398	368
Social Economic Development Administration	73,205	68,071	5,134
Office of the Disabled Persons Ombudsman	1,752	1,752	
Office for Elderly Affairs	1,563	1,563	
Cantera's Peninsula Integral Development Company	200	200	
Trust for the Development, Operations and Conservation of National Parks of Puerto Rico	2,150	2,150	
Communities Rehabilitation Administration	3,472	3,472	
Legislative Affairs Office	275	135	140
<b>Total Public Housing and Welfare</b>	<b>293,768</b>	<b>279,496</b>	<b>14,272</b>

**COMMONWEALTH OF PUERTO RICO**

**SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY - BUDGET AND ACTUAL -  
 STATUTORY BASIS - GENERAL FUND  
 YEAR ENDED JUNE 30, 1999 (Expressed in Thousands)**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Education</b>			
Planning Board	207	207	
General Services Administration	575	497	78
Department of Justice	20	20	
Department of Transportation and Public Works	60	60	
Department of Education	1,523,461	1,486,530	36,931
Puerto Rico Culture Institute	33	21	12
Puerto Rico System of Annuities and Pensions for Teachers	845	37	808
Rules and Permits Administration	59	58	1
State Office for Historic Preservation	914	909	5
General Education Council	2,350	1,724	626
Musical Arts Corporation	5,850	5,850	
Puerto Rico Public Broadcasting Corporation	480	480	
Athenaeum of Puerto Rico	300	300	
Municipal Contributions	108	108	
Music Conservatory Corporation	3,270	3,270	
Ninty-eight Century Commision	400	400	
<b>Total Education</b>	<b>1,538,932</b>	<b>1,500,471</b>	<b>38,461</b>
<b>Economic Development</b>			
Environmental Quality Board	47	47	
Department of State	20	20	
Department of the Treasury	324	324	
Department of Transportation and Public Works	60,827	60,742	85
Department of Natural and Environmental Resources	595	594	1
Department of Agriculture	17,360	16,819	541
Commercial Development Administration	13,034	10,887	2,147

**COMMONWEALTH OF PUERTO RICO**

**SUPPLEMENTAL SCHEDULE OF EXPENDTURES BY AGENCY - BUDGET AND ACTUAL -  
STATUTORY BASIS - GENERAL FUND  
YEAR ENDED JUNE 30, 1999 (Expressed in Thousands)**

	Budget	Actual	Variance Favorable (Unfavorable)
Cooperative Enterprises Development Administration	2,531	2,531	
Cooperative Enterprises Inspector's Office	445	445	
Rural Development Corporation	2,040	2,028	12
Department of Economic Development and Commerce	4,290	4,286	4
Natural Resources Administration	24,150	24,150	
Corporation for the Development of the Film Industry in Puerto Rico	998	996	2
Industrial Development Company	17,000	17,000	
Ports Authority	2,739	2,700	39
Puerto Rico Land Administration	550	550	
Tourism Company of Puerto Rico	30,085	30,085	
Culebra Conservation and Development Authority	288	288	
<b>Total Economic Development</b>	<b>177,323</b>	<b>174,492</b>	<b>2,831</b>
<b>Intergovernmental</b>			
Municipal Services Administration	3,911	3,911	
Municipal Earnings Recollection Center	65	65	
Municipal Contributions	222,219	222,167	52
<b>Total Intergovernmental</b>	<b>226,195</b>	<b>226,143</b>	<b>52</b>
<b>Debt service:</b>			
Principal	251,015	251,015	
Interest and other	128,575	128,575	
<b>Total expenditures</b>	<b>\$4,529,902</b>	<b>\$4,419,958</b>	<b>\$ 109,944</b>
<b>OTHER FINANCING USES:</b>			
Operating transfers-out to other funds:			
Senate of Puerto Rico	\$ 1,495	\$ 1,495	\$
Comptroller's Office	54	54	
Health Facilities and Services Administration of Puerto Rico	144,268	144,268	
General Court of Justice	2,162	2,162	
Minors Support Administration	166	166	

**COMMONWEALTH OF PUERTO RICO**

**SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY - BUDGET AND ACTUAL -  
 STATUTORY BASIS - GENERAL FUND  
 YEAR ENDED JUNE 30, 1999 (Expressed in Thousands)**

	Budget	Actual	Variance Favorable (Unfavorable)
Environmental Quality Board	615	615	
Governor's Office	580	580	
Office of Management and Budget	161,220	161,220	
Planning Board	1,261	1,261	
Constructions and Land Subdivisions Appeals Board	18	18	
Civil Defense State Agency	225	225	
Department of State	337	337	
Department of Treasury	117,822	117,822	
Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities	23,593	23,593	
Personnel Administration Central Office	481	481	
Commonwealth Electoral Commission	108	108	
Federal Affairs Administration	570	570	
General Services Administration	30	30	
Housing Development and Improvement Administration	199	199	
Investigation, Prosecution, and Appeals Commission	11	11	
Municipal Services Administration	307	307	
Civil Rights Commission	73	73	
Department of Justice	9,013	9,013	
Puerto Rico Volunteers Service Corps	1,886	1,886	
Puerto Rico Police Department	3,608	3,608	
Puerto Rico Firefighters Corps and Medical Emergency Services	1,275	1,275	
Puerto Rico National Guard	184	184	
Department of Transportation and Public Works	380	380	
Department of Natural and Environmental Resources	111	111	
Department of Agriculture	37	37	
Commercial Development Administration	101	101	
Economic Development Administration	245	245	
Public Service Commission	110	110	
Department of Labor and Human Resources	1,194	1,194	
Labor Relations Board	60	60	
Consumer Affairs Department	33	33	
Juvenile Institutions Administration	13,115	13,115	

**COMMONWEALTH OF PUERTO RICO**

**SUPPLEMENTAL SCHEDULE OF EXPENDTURES BY AGENCY - BUDGET AND ACTUAL -  
 STATUTORY BASIS - GENERAL FUND  
 YEAR ENDED JUNE 30, 1999 (Expressed in Thousands)**

	Budget	Actual	Variance Favorable (Unfavorable)
Cooperative Inspector's Office	1	1	
Department of Housing	194	194	
Puerto Rico Culture Institute	20,117	20,117	
Rural Development Corporation	43	43	
Department of Recreation and Sports	189	189	
Administration for the Horse Racing Sport and Industry	240	240	
Puerto Rico System of Annuities and Pensions for Teachers	13,108	13,108	
Personnel Administration System Appeals Board	50	50	
Regulations and Permits Administration	206	206	
Mental Health and Drug Addiction Services Administration	1,033	1,033	
Women's Affairs Commission	80	80	
Municipal Complaints Hearing Commission	32	32	
Correction Administration	4,612	4,612	
Legislative Assembly	30	30	
Public Housing Administration	122	122	
Puerto Rico Plastic Arts School	1,268	1,268	
Public Safety and Protection Commission	194	194	
Citizens Rights Commission	1	1	
Department of Economic Development and Commerce	1,588	1,588	
Office of the Veterans Ombudsman	33	33	
Department of Family	48	48	
Public Policy and Organization Bureau	49	49	
Strategic Development Secretariat	14	14	
Natural Resources Administration	205	205	
Cinematography Development Corporation	9	9	
Department of Correction and Rehabilitation	157	157	
Parole Board	317	317	
Office of the Disabled Persons Ombudsman	12	12	
Elderly Affairs Office	157	157	
State Office for Historic Preservation	96	96	
General Education Council	447	447	
Central Communications Office	209	209	

**COMMONWEALTH OF PUERTO RICO**

**SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY - BUDGET AND ACTUAL -  
STATUTORY BASIS - GENERAL FUND  
YEAR ENDED JUNE 30, 1999 (Expressed in Thousands)**

	Budget	Actual	Variance Favorable (Unfavorable)
Contributions to Political Parties	900	900	
Communities Rehabilitation Administration	642	642	
Pre-Trial Services Office	3,267	3,267	
Correctional Health	2,016	2,016	
Legislative Affairs Office	577	577	
Office of the Superintendent of the Capitol	185	185	
Comptroller's Special Reports Joint Commission	107	107	
	<hr/>	<hr/>	
Total operating transfers-out to other funds	<u>\$ 539,502</u>	<u>\$ 539,502</u>	<u>\$</u>
Transfers-out to component units:			
Institutional Trust of the National Guard of Puerto Rico	\$ 554	\$ 554	\$
Puerto Rico Infrastructure Financing Agency	87,879	87,879	
Puerto Rico Aqueduct and Sewer Authority	120,979	120,979	
Right to Employment Administration	26,009	26,009	
Land Authority of Puerto Rico	2,032	2,032	
Puerto Rico Industrial Development Company	14,278	14,278	
Puerto Rico Metropolitan Bus Authority	3,640	3,640	
Industries for the Blind, Mentally Retarded, and Other Disabled Persons of Puerto Rico	147	147	
University of Puerto Rico	521,290	521,290	
Puerto Rico Council of Higher Education	8,900	8,900	
Solid Waste Authority of Puerto Rico	4,967	4,967	
Agricultural Services and Development Administration	100,751	100,751	
Puerto Rico Health Insurance Administration	719,561	719,561	
Puerto Rico and Caribbean Cardiovascular Center Corporation	4,998	4,998	
Fine Arts Center Corporation	2,225	2,225	
Puerto Rico Public Broadcasting Corporation	21,347	21,347	
Farm Credit Guarantee Fund and Guarantee Loan Fund for Eligible Business of Puerto Rico	4,000	4,000	
	<hr/>	<hr/>	
Total transfers-out to component units	<u>\$ 1,643,557</u>	<u>\$ 1,643,557</u>	<u>\$</u>

## **DEBT SERVICE FUNDS**

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The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs other than bonds payable from the operations of proprietary fund types, nonexpendable trust funds and discretely presented component units.

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**Debt Redemption Fund:** This fund is used to account for the accumulation of resources for the payment of general obligation bonds issued by the Commonwealth's central government and is separately budgeted by the Commonwealth of Puerto Rico.

**Public Buildings Authority:** 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:** 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 maritime operations. This fund is mainly subsidized from appropriations and operating transfers-in from the general fund.

**Office for the Improvements of the Public Schools:** Created by the Joint Resolution No. 3 of August 28, 1990. Its debt service fund is used to account for the payment of principal and interest on debt used to finance the construction and improvement of the public schools in Puerto Rico. The debt service is budgeted in the general fund.

**COMMONWEALTH OF PUERTO RICO**

**COMBINING BALANCE SHEET - DEBT SERVICE FUNDS**

**JUNE 30, 1999**

**(Expressed in Thousands)**

	Debt Redemption Fund	Public Buildings Authority	Puerto Rico Maritime Shipping Authority	Office for the Improvement of Public Schools	Totals
<b>ASSETS</b>					
Cash and cash equivalents	\$	\$	\$	\$	\$
Cash and cash equivalents in governmental banks	298,397	37,554	2,548		40,102
Investments		2,371	1,666		300,063
Receivables, net:					2,371
Accounts	64,429	49,637	6		114,072
Loans and advances			13,625		13,625
Accrued interest	5,143				5,143
Due from other funds		28,647			28,647
Other assets			5,840		5,840
<b>TOTAL ASSETS</b>	<u>\$ 367,969</u>	<u>\$ 118,209</u>	<u>\$ 23,685</u>	<u>\$</u>	<u>\$ 509,863</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$	\$	\$	\$	\$
Interest payable	125,104	46,114	7,830		179,048
Bonds payable	213,730	72,095			285,825
Other liabilities	7,692				7,692
Other long-term liabilities					
Total liabilities	<u>346,526</u>	<u>118,209</u>	<u>12,066</u>		<u>476,801</u>
<b>Fund balances:</b>					
Unreserved	<u>21,443</u>		<u>11,619</u>		<u>33,062</u>
Total fund balances	<u>21,443</u>		<u>11,619</u>		<u>33,062</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 367,969</u>	<u>\$ 118,209</u>	<u>\$ 23,685</u>	<u>\$</u>	<u>\$ 509,863</u>

**COMMONWEALTH OF PUERTO RICO**

**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
DEBT SERVICE FUNDS  
YEAR ENDED JUNE 30, 1999**

	Debt Redemption Fund	Public Buildings Authority	Puerto Rico Maritime Shipping Authority	Office for the Improvement of Public Schools	Totals
<b>REVENUES:</b>					
Excise taxes	\$ 13,879	\$	\$	\$	\$ 13,879
Charges for services		238,689			238,689
Intergovernmental	125,778				125,778
Interest	6,820				6,820
	<u>146,477</u>	<u>238,689</u>	<u></u>	<u></u>	<u>385,166</u>
Total revenues					
<b>EXPENDITURES:</b>					
Debt Service:					
Principal	213,739	52,455	5,360	6,280	277,834
Interest and other	255,231	76,912	18,902	19,938	370,983
	<u>468,970</u>	<u>129,367</u>	<u>24,262</u>	<u>26,218</u>	<u>648,817</u>
Total expenditures					
<b>EXCESS/DEFICIENCY OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(322,493)</u>	<u>109,322</u>	<u>(24,262)</u>	<u>(26,218)</u>	<u>(263,651)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from refunding bonds	117,529				117,529
Operating transfers-in from other funds	359,604		25,776	26,218	411,598
Operating transfers-out to other funds	(13,891)	(109,322)			(123,213)
Payment to refunded bond escrow agent	(117,529)				(117,529)
	<u>345,713</u>	<u>(109,322)</u>	<u>25,776</u>	<u>26,218</u>	<u>288,385</u>
Total other financing sources (uses)					
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	23,220		1,514		24,734
<b>FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR, (as restated)</b>	<u>(1,777)</u>	<u></u>	<u>10,105</u>	<u></u>	<u>8,328</u>
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 21,443</u>	<u>\$</u>	<u>\$ 11,619</u>	<u>\$</u>	<u>\$ 33,062</u>

## CAPITAL PROJECTS FUNDS

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Capital projects funds are used to account for the financial resources used for acquisition or construction of major capital facilities not being financed by proprietary fund types, nonexpendable trust funds and discretely presented component units.

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**Public Improvements Funds and Other Funds:** These funds present the activities of the capital improvements program of the Commonwealth, financed with the proceeds of general obligation bonds.

**Public Buildings Authority:** A blended component unit. Its capital projects fund is used to account for the construction activities, and related financing means, for buildings and facilities that, when completed, are leased to the Commonwealth's primary government agencies.

**Office for the Improvements of the Public Schools:** Created by the Joint Resolution No. 3 of August 28, 1990. The primary functions of the office are the development and implementation of a repairs and improvement plan of the public schools in Puerto Rico.

**Electronic Information Systems Fund:** Created pursuant to the provisions of Law No. 259 of December 29, 1995. The primary purpose of the fund is to finance the capital improvement program, which consists of the acquisition and installation of computer equipment and software and the development of computer systems to be used in the establishment of a wide area network and remote communication network connecting all government agencies.

COMMONWEALTH OF PUERTO RICO  
 COMBINING BALANCE SHEET - CAPITAL PROJECTS FUNDS  
 JUNE 30, 1999  
 (Expressed in Thousands)

	1998 Public Improvements Fund	1997 Public Improvements Fund	1996 Public Improvements Fund	1995 Public Improvements Fund	Electronic Inf. Systems Fund
<b>ASSETS</b>					
Cash and cash equivalents	\$ 142,475	\$ 132,398	\$ 27,104	\$ 13,277	\$ 16,813
Cash and cash equivalents in governmental banks					
Investments					
Receivables, net:			663	8	
Accounts					
Loans and advances			12		
Accrued interest					
Other					
Due from other funds	4,900	2,516	3,906	2,822	
Other restricted assets					
Other assets					
<b>TOTAL ASSETS</b>	<u>\$ 147,375</u>	<u>\$ 134,914</u>	<u>\$ 31,685</u>	<u>\$ 16,107</u>	<u>\$ 16,813</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 16,424	\$ 1,080	\$ 2,609	\$ 1,202	\$ 15,273
Due to other funds					
Advances from component units					
Other liabilities	567	3,669	1,546	1,830	
Total liabilities	<u>16,991</u>	<u>4,749</u>	<u>4,155</u>	<u>3,032</u>	<u>15,273</u>
<b>Fund balances:</b>					
Reserved for encumbrances	3,238	13,692	7,924	1,292	4,207
Reserved for public improvements	127,146	116,473	19,606	11,783	(2,667)
Total fund balances	<u>130,384</u>	<u>130,165</u>	<u>27,530</u>	<u>13,075</u>	<u>1,540</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 147,375</u>	<u>\$ 134,914</u>	<u>\$ 31,685</u>	<u>\$ 16,107</u>	<u>\$ 16,813</u>

**COMMONWEALTH OF PUERTO RICO**

**COMBINING BALANCE SHEET - CAPITAL PROJECTS FUNDS**

**JUNE 30, 1999**

**(Expressed in Thousands)**

	Public Buildings Authority	Office for the Improvement of Public Schools	Other Funds	Totals
<b>ASSETS</b>				
Cash and cash equivalents	\$ 226,246	\$ 31,514	\$ 54,612	\$ 257,760
Cash and cash equivalents in governmental banks	60,868			447,547
Investments	112,665	73,958		186,623
Receivables, net:				
Accounts				671
Loans and advances			36	36
Accrued interest				12
Other	10,778			10,778
Due from other funds	21,558		3,809	39,511
Other restricted assets	58,002			58,002
Other assets	13,654			13,654
<b>TOTAL ASSETS</b>	<b><u>\$ 503,771</u></b>	<b><u>\$ 105,472</u></b>	<b><u>\$ 58,457</u></b>	<b><u>\$ 1,014,594</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 115,426	\$ 3,100	\$ 1,155	\$ 156,269
Due to other funds	28,647			28,647
Advances from component units	77,231			77,231
Other liabilities			2,148	9,760
Total liabilities	<u>221,304</u>	<u>3,100</u>	<u>3,303</u>	<u>271,907</u>
<b>Fund balances:</b>				
Reserved for encumbrances		56,579	481	87,413
Reserved for public improvements	282,467	45,793	54,673	655,274
Total fund balances	<u>282,467</u>	<u>102,372</u>	<u>55,154</u>	<u>742,687</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 503,771</u></b>	<b><u>\$ 105,472</u></b>	<b><u>\$ 58,457</u></b>	<b><u>\$ 1,014,594</u></b>

**COMMONWEALTH OF PUERTO RICO**

**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
CAPITAL PROJECTS FUNDS  
YEAR ENDED JUNE 30, 1999  
(Expressed in Thousands)**

	1998 Public Improvements Fund	1997 Public Improvements Fund	1996 Public Improvements Fund	1995 Public Improvements Fund	Electronic Inf. Systems Fund
<b>REVENUES:</b>					
Charges for services	\$ 40	\$ 12	\$ 10	\$ 1,343	\$
Intergovernmental					
Interest					
Other	2	70	4		
<b>Total revenues</b>	<b>42</b>	<b>82</b>	<b>14</b>	<b>1,343</b>	
<b>EXPENDITURES:</b>					
Capital outlay	156,158	104,825	38,708	10,539	46,653
<b>Total expenditures</b>	<b>156,158</b>	<b>104,825</b>	<b>38,708</b>	<b>10,539</b>	<b>46,653</b>
Deficiency of revenues under expenditures	(156,116)	(104,743)	(38,694)	(9,196)	(46,653)
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from long-term debt issues	479,598				
Operating transfers-in from other funds				2	
Operating transfers-out to other funds	(33,746)	(216)		(19,475)	
Transfers-out to component units	(159,352)				
<b>Total other financing sources (uses)</b>	<b>286,500</b>	<b>(216)</b>		<b>(19,473)</b>	
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	130,384	(104,959)	(38,694)	(28,669)	(46,653)
<b>FUND BALANCES AT BEGINNING OF YEAR, (as restated)</b>		235,124	66,224	41,744	48,193
<b>RESIDUAL EQUITY TRANSFER</b>					
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ 130,384</b>	<b>\$ 130,165</b>	<b>\$ 27,530</b>	<b>\$ 13,075</b>	<b>\$ 1,540</b>

**COMMONWEALTH OF PUERTO RICO**

**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
CAPITAL PROJECTS FUNDS  
YEAR ENDED JUNE 30, 1999  
(Expressed in Thousands)**

	Public Buildings Authority	Office for the Improvement of Public Schools	Other Funds	Totals
<b>REVENUES:</b>				
Charges for services	\$	\$	13	\$ 1,418
Intergovernmental		20,171		20,171
Interest	23,647	6,951		30,598
Other	2,820	9	2	2,907
	<u>26,467</u>	<u>27,131</u>	<u>15</u>	<u>55,094</u>
<b>EXPENDITURES:</b>				
Capital outlay	<u>133,857</u>	<u>101,754</u>	<u>22,136</u>	<u>614,630</u>
Total expenditures	<u>133,857</u>	<u>101,754</u>	<u>22,136</u>	<u>614,630</u>
Deficiency of revenues under expenditures	<u>(107,390)</u>	<u>(74,623)</u>	<u>(22,121)</u>	<u>(559,536)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from long-term debt issues			12	479,610
Operating transfers-in from other funds	109,322	3,413		112,737
Operating transfers-out to other funds			(14,600)	(68,037)
Transfers-out to component units				<u>(159,352)</u>
Total other financing sources (uses)	<u>109,322</u>	<u>3,413</u>	<u>(14,588)</u>	<u>364,958</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	1,932	(71,210)	(36,709)	(194,578)
<b>FUND BALANCES AT BEGINNING OF YEAR, (as restated)</b>	317,607	173,582	91,863	974,337
<b>RESIDUAL EQUITY TRANSFER</b>	<u>(37,072)</u>			<u>(37,072)</u>
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 282,467</u>	<u>\$ 102,372</u>	<u>\$ 55,154</u>	<u>\$ 742,687</u>

COMMONWEALTH OF PUERTO RICO

SCHEDULE OF COMMONWEALTH CAPITAL PROJECTS EXPENDITURES AND AUTHORIZATIONS  
 JUNE 30, 1999  
 (Expressed in Thousands)

Bond Issuance	Authorization	Bond Proceeds	Cumulative Expenditures	Current Expenditures	Year to Date		Remaining Authorization
					Expenditures	Encumbrances	
Electronic Information Systems Fund	\$ 150,000	\$ 152,395	\$ 104,184	\$ 46,653	\$ 150,837	\$ 4,207	(2,649)
1998 Public Improvements Bond	475,000	479,598		349,256	349,256	3,238	127,104
1997 Public Improvements Bond	500,000	505,618	270,495	105,041	375,536	13,692	116,390
1996 Public Improvements Bond	369,000	374,457	308,317	38,708	347,025	7,924	19,508
1995 Public Improvements Bond	355,000	356,526	319,919	30,014	349,933	1,292	5,301
1994 Public Improvements Bond	325,000	327,058	316,119	12,697	328,816	481	(2,240)
1993 Public Improvements Bond	305,000	306,595	280,322	12,012	292,334		14,260
1992 Public Improvements Bond	310,000	305,616	298,226		298,226		7,390
1991 Public Improvements Bond	305,000	298,065	292,156		292,156		5,909
1990 Public Improvements Bond	250,000	252,914	248,547	1,350	249,897		3,017
1989 Public Improvements Bond	275,000	271,719	271,327	64	271,391		328
1988 Public Improvements Bond	245,000	244,408	243,301	489	243,790		618
Prior to 1988				10,124			
				<u>\$ 606,408</u>		<u>\$ 30,834</u>	

## ENTERPRISE FUNDS

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Enterprise 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.

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**Health Facilities and Services Administration of Puerto Rico:** Created as an executive agency in 1975 to lease, operate hospitals and other health facilities and to provide for the improvement, alteration or repair of such facilities. Accounts for the cost of providing health services to the general public.

**The Additional Lottery System:** Created by Law No. 10 of May 24, 1989, as amended, and commenced operations on June 1, 1990. The Additional Lottery is an operational unit of the Commonwealth of Puerto Rico Treasury Department. Presently, two games (Pick 3 and Lotto) with several betting alternatives are offered by the Additional Lottery.

**Lottery of Puerto Rico:** Created under Law No. 465 of May of 1947. The Lottery is an operational unit of the Commonwealth of Puerto Rico Treasury Department and is engaged in the sales of tickets to authorized agents throughout the Commonwealth. It was created to help those authorized agents with an additional source of revenues and to supplement revenues for the general fund of the Commonwealth.

**COMMONWEALTH OF PUERTO RICO**  
**COMBINING BALANCE SHEET - ENTERPRISE FUNDS**  
**JUNE 30, 1999**  
(Expressed in Thousands)

	Health Facilities and Services Administration of Puerto Rico	The Additional Lottery System	Lottery of Puerto Rico	Totals
<b>ASSETS</b>				
Cash and cash equivalents	\$ 15,641	\$ 14,954	\$ 29,192	\$ 59,787
Cash and cash equivalents in governmental banks	75		16,787	16,862
Receivables, net:				
Accounts	46,715	1,703	36	48,454
Other	12,015			12,015
Due from other funds	4,674			4,674
Inventories	8,662		218	8,880
Restricted assets:				
Cash and cash equivalents	346			346
Other restricted assets		232,873		232,873
Fixed assets, net	233,158	54	9,981	243,193
Other assets		5		5
<b>TOTAL ASSETS</b>	<b>\$ 321,286</b>	<b>\$ 249,589</b>	<b>\$ 56,214</b>	<b>\$ 627,089</b>
<b>LIABILITIES AND FUND EQUITY (DEFICIT)</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 205,079	\$ 9,760	\$ 1,131	\$ 215,970
Due to:				
Other funds		5,215	19,565	24,780
Component units	42,949			42,949
Advances from component units	1,010,030			1,010,030
Interest payable	33,178			33,178
Deferred revenues			10,360	10,360
Lottery prizes payable		235,780	14,226	250,006
Accrued compensated absences	11,342	199	1,098	12,637
Other liabilities			3,827	3,827
Other long-term liabilities	172,054			172,054
<b>Total liabilities</b>	<b>1,474,632</b>	<b>250,954</b>	<b>50,205</b>	<b>1,775,791</b>
<b>Fund Equity (Deficit):</b>				
Contributed capital			5,969	5,969
Retained earnings (deficit)	(1,153,346)	(1,365)	40	(1,154,671)
<b>Total fund equity (deficit)</b>	<b>(1,153,346)</b>	<b>(1,365)</b>	<b>6,009</b>	<b>(1,148,702)</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 321,286</b>	<b>\$ 249,589</b>	<b>\$ 56,214</b>	<b>\$ 627,089</b>

COMMONWEALTH OF PUERTO RICO  
 COMBINING STATEMENT OF REVENUES, EXPENSES AND  
 CHANGES IN RETAINED EARNINGS (DEFICIT) - ENTERPRISE FUNDS  
 YEAR ENDED JUNE 30, 1999  
 (Expressed in Thousands)

	Health Facilities and Services Administration of Puerto Rico	The Additional Lottery System	Lottery of Puerto Rico	Totals
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 194,872	\$ 253,961	\$ 461,457	\$ 910,290
Total operating revenues	194,872	253,961	461,457	910,290
<b>OPERATING EXPENSES:</b>				
Cost of services	597,703	165,780	400,680	1,164,163
Depreciation and amortization	20,191	18	1,250	21,459
Total operating expenses	617,894	165,798	401,930	1,185,622
<b>OPERATING INCOME (LOSS)</b>	<b>(423,022)</b>	<b>88,163</b>	<b>59,527</b>	<b>(275,332)</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Interest income			894	894
Interest expense	(53,068)		(11)	(53,079)
Other, net	33,176		254	33,430
Total non-operating revenues (expenses), net	(19,892)		1,137	(18,755)
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS</b>	<b>(442,914)</b>	<b>88,163</b>	<b>60,664</b>	<b>(294,087)</b>
<b>TRANSFERS:</b>				
Operating transfers from other funds	184,983			184,983
Operating transfers to other funds	(1,000)	(88,163)	(57,469)	(146,632)
Total transfers, net	183,983	(88,163)	(57,469)	38,351
<b>NET INCOME (LOSS)</b>	<b>(258,931)</b>		<b>3,195</b>	<b>(255,736)</b>
<b>DEPRECIATION ON FIXED ASSETS ACQUIRED THROUGH CAPITAL CONTRIBUTIONS</b>			<b>1,250</b>	<b>1,250</b>
<b>INCREASE (DECREASE) IN RETAINED EARNINGS (DEFICIT)</b>	<b>(258,931)</b>		<b>4,445</b>	<b>(254,486)</b>
<b>RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR</b>	<b>(930,415)</b>	<b>(1,365)</b>	<b>40</b>	<b>(931,740)</b>
<b>TRANSFERS TO CONTRIBUTED CAPITAL</b>			<b>(4,445)</b>	<b>(4,445)</b>
<b>RESIDUAL EQUITY TRANSFER</b>	<b>36,000</b>			<b>36,000</b>
<b>RETAINED EARNINGS (DEFICIT) AT END OF YEAR</b>	<b>\$ (1,153,346)</b>	<b>\$ (1,365)</b>	<b>\$ 40</b>	<b>\$ (1,154,671)</b>

COMMONWEALTH OF PUERTO RICO  
 COMBINING STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS  
 YEAR ENDED JUNE 30, 1999  
 (Expressed in Thousands)

	Health Facilities and Services Administration of Puerto Rico	The Additional Lottery System	Lottery of Puerto Rico	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ (423,022)	\$ 88,163	\$ 59,527	\$ (275,332)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	20,191	18	1,250	21,459
Provision for uncollectible accounts	45,311			45,311
Other			254	254
Increase in:				
Receivables		(1,529)	(12)	(1,541)
Accounts payable and accrued liabilities	23,930	4,326	312	28,568
Lottery prizes payable		25,848	1,781	27,629
Accrued compensated absences			70	70
Other liabilities	95,798			95,798
Decrease in:				
Receivables	115,718			115,718
Inventories	9,089		43	9,132
Other assets		117		117
Deferred revenues			(3,857)	(3,857)
Due to other funds		(1,026)		(1,026)
<b>Total adjustments</b>	<b>310,037</b>	<b>27,754</b>	<b>(159)</b>	<b>337,632</b>
<b>Net cash provided by (used in) operating activities</b>	<b>(112,985)</b>	<b>115,917</b>	<b>59,368</b>	<b>62,300</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Operating grants received	105			105
Operating transfers-in from other funds	81,013			81,013
Operating transfers-out to other funds	(1,000)	(88,163)	(61,588)	(150,751)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>80,118</b>	<b>(88,163)</b>	<b>(61,588)</b>	<b>(69,633)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition and construction of capital assets		(46)	(6,014)	(6,060)
Principal paid on bonds and notes			(431)	(431)
Interest paid on bonds and notes			(11)	(11)
Capital contributions			2,000	2,000
<b>Net cash used in capital and related financing activities</b>		<b>(46)</b>	<b>(4,456)</b>	<b>(4,502)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of investments securities		(25,698)		(25,698)
Interest and dividends on investments	33,143		894	34,037
<b>Net cash provided by (used in) investing activities</b>	<b>33,143</b>	<b>(25,698)</b>	<b>894</b>	<b>8,339</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>276</b>	<b>2,010</b>	<b>(5,782)</b>	<b>(3,496)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>15,786</b>	<b>12,944</b>	<b>51,761</b>	<b>80,491</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 16,062</b>	<b>\$ 14,954</b>	<b>\$ 45,979</b>	<b>\$ 76,995</b>

## TRUST AND AGENCY FUNDS

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Trust funds are used to account for assets held by the government in a trustee capacity. Agency funds are used to account for assets held by the government as an agent for individuals, private organizations, other governments and/or other funds.

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**Pension Trust Funds:** These funds are used to account for the accumulation of resources for pension benefit payments of qualified public employees. The pension trust funds included are the:

**Employees Retirement System of the Government of Puerto Rico and its Instrumentalities:**

Is the administrator of a single-employer retirement system established by the Commonwealth. The System was created under Act 477, approved on May 15, 1951, as amended, and became effective on January 1, 1952. The System covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and component units not covered by their own retirement systems.

**Judiciary Retirement System:** Is a single-employer defined benefit plan which is administered by the Employee Retirement System mentioned above. It was created under Act 12, approved on October 19, 1954. The membership includes all individuals holding a position as Justice of the Supreme Court, Judge of the Superior Court or the District Court or Municipal Judge of the Commonwealth of Puerto Rico. The System provides retirement as well as death and disability benefits.

**Annuity and Pension System for the Teachers of Puerto Rico:** Is a single-employer plan which was created under Act 218 approved on May 6, 1951. The System provides retirement benefits to all teachers of the Department of Education of the Commonwealth, those holding positions in the Retirement Board, all pensioned teachers transferred to an administrative position in the Department of Education, teachers who worked in the Teachers' Association of Puerto Rico, and those who practice in private institutions accredited by the Department of Education.

**Expendable Trust Funds:** These funds are used to account for the following activities:

- **Health Facilities and Services Administration of Puerto Rico Trust Fund:** This specific purpose fund accounts for monies received by the Administration on a fiduciary basis to acquire certain goods or render certain services, or monies to be kept on behalf of inpatients or outpatients attended in the facilities administered by the Administration. The patient funds are used to acquire personal goods or services for specific patients.

- **Unemployment Trust Fund:** The unemployment trust funds account for funds received from the United States Department of Labor to reimburse fifty percent of the administrative costs of extended benefits paid under the provisions of Puerto Rico laws, which conform to the provisions of the Federal Social Security and Unemployment Tax Acts. Also, they account for contributions received to reimburse the benefits paid to unemployed ex-military and civilian ex-federal employees, whose unemployment is caused by a presidential declared disaster under the Disaster Relief Act, and adversely affected works under the Trade Act.

**Agency Fund** - This fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations.

- **Special Deposits Fund:** This agency fund acts in a fiduciary capacity in order to account for monies received with specific purposes for which the law does not address any other fund. It mainly includes deposits under the custody of the courts of justice for alimony payments.

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET -  
TRUST AND AGENCY FUNDS  
JUNE 30, 1999  
(Expressed in Thousands)

	Pension Trust	Expendable Trust	Agency	Totals
<b>ASSETS</b>				
Cash and cash equivalents	\$ 29,751	\$ 375,676	\$ 569,773	\$ 975,200
Cash and cash equivalents in governmental banks	81,740	335,917	499	418,156
Investments	3,514,613	32,704	11,103	3,558,420
Receivables, net:				
Taxes		73,864		73,864
Accounts	39,037	15,310	10,173	64,520
Loans and advances	563,584			563,584
Accrued interest	10,395	668	3	11,066
Other	13,448			13,448
Due from other funds		6,313		6,313
Restricted assets:				
Cash and cash equivalents	3,105		50	3,155
Other restricted assets	39,977			39,977
Fixed assets, net	23,308			23,308
Other assets	33,652		482	34,134
<b>TOTAL ASSETS</b>	<b>\$ 4,352,610</b>	<b>\$ 840,452</b>	<b>\$ 592,083</b>	<b>\$ 5,785,145</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 77,412	\$ 43,803	\$ 64,954	\$ 186,169
Due to other funds		4,674	1,835	6,509
Bonds payable	25,435			25,435
Accrued compensated absences	4,595			4,595
Other liabilities		33,441	525,294	558,735
<b>Total liabilities</b>	<b>107,442</b>	<b>81,918</b>	<b>592,083</b>	<b>781,443</b>
<b>Fund balances:</b>				
<b>Reserved for:</b>				
Encumbrances		2,357		2,357
Unemployment benefits		741,844		741,844
Employees' pension benefits	4,245,168			4,245,168
Advances and other specified purposes		5,007		5,007
Unreserved		9,326		9,326
<b>Total fund balances</b>	<b>4,245,168</b>	<b>758,534</b>		<b>5,003,702</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 4,352,610</b>	<b>\$ 840,452</b>	<b>\$ 592,083</b>	<b>\$ 5,785,145</b>

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF PLAN NET ASSETS AVAILABLE  
FOR PENSION BENEFITS - PENSION TRUST FUNDS

JUNE 30, 1999

(Expressed in Thousands)

	Employees Retirement System	Teachers Retirement System	Judiciary Retirement System	Eliminations	Totals
<b>ASSETS</b>					
Cash and cash equivalents	\$ 22,792	\$ 5,324	\$ 1,635	\$	\$ 29,751
Cash and cash equivalents in governmental banks	69,206	10,747	1,787		81,740
Investments	1,479,405	1,962,670	72,538		3,514,613
Receivables, net:					
Accounts	36,309	2,728			39,037
Loans and advances	248,288	315,052	244		563,584
Accrued interest		10,049	346		10,395
Other	12,465	403	580		13,448
Due from other funds	3,100			(3,100)	
Restricted assets:					
Cash and cash equivalents	883	2,222			3,105
Other restricted assets		39,977			39,977
Fixed assets, net	8,679	14,629			23,308
Other assets	19,548	14,104			33,652
<b>TOTAL ASSETS</b>	<b>\$ 1,900,675</b>	<b>\$ 2,377,905</b>	<b>\$ 77,130</b>	<b>\$ (3,100)</b>	<b>\$ 4,352,610</b>
<b>LIABILITIES:</b>					
Accounts payable and accrued liabilities	\$ 40,175	\$ 37,114	\$ 123		\$ 77,412
Due to other funds			3,100	(3,100)	
Bonds payable		25,435			25,435
Accrued compensated absences	2,969	1,626			4,595
Reserved for employee's pension benefits					
<b>TOTAL LIABILITIES</b>	<b>43,144</b>	<b>64,175</b>	<b>3,223</b>	<b>(3,100)</b>	<b>107,442</b>
<b>NET ASSETS AVAILABLE FOR PENSION BENEFITS</b>	<b>\$ 1,857,531</b>	<b>\$ 2,313,730</b>	<b>\$ 73,907</b>	<b>\$</b>	<b>\$ 4,245,168</b>

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS  
 AVAILABLE FOR PENSION BENEFITS - PENSION TRUST FUNDS  
 YEAR ENDED JUNE 30, 1999  
 (Expressed in Thousands)

	Employees Retirement System	Teachers Retirement System	Judiciary Retirement System	Totals
<b>ADDITIONS:</b>				
Contributions:				
Employer	\$ 280,111	\$ 81,055	\$ 5,744	\$ 346,910
Employees	217,179	67,807	2,115	287,101
Special	14,547	10,100		24,647
Total contributions	<u>491,837</u>	<u>158,962</u>	<u>7,859</u>	<u>658,658</u>
Investment income(expense):				
Interest	31,093	97,625	1,534	130,252
Dividends	9,500		398	9,898
Net appreciation of investments	198,622	149,542	5,557	353,721
Investment expense	(3,812)	(5,388)	(447)	(9,647)
Total investment income	<u>235,403</u>	<u>241,779</u>	<u>7,042</u>	<u>484,224</u>
Other income	2,725	419		3,144
Total additions	<u>729,965</u>	<u>401,160</u>	<u>14,901</u>	<u>1,146,026</u>
<b>DEDUCTIONS:</b>				
Benefits	497,254	191,516	7,099	695,869
Refunds of contributions	18,739	14,881		33,620
General and administrative	31,871	16,469	1,074	49,414
Total deductions	<u>547,864</u>	<u>222,866</u>	<u>8,173</u>	<u>778,903</u>
<b>NET INCREASE</b>	<u>182,101</u>	<u>178,294</u>	<u>6,728</u>	<u>367,123</u>
<b>NET ASSETS AVAILABLE FOR PENSION BENEFITS AT BEGINNING OF YEAR</b>	<u>1,675,430</u>	<u>2,135,436</u>	<u>67,179</u>	<u>3,878,045</u>
<b>NET ASSETS AVAILABLE FOR PENSION BENEFITS AT END OF YEAR</b>	<u>\$ 1,857,531</u>	<u>\$ 2,313,730</u>	<u>\$ 73,907</u>	<u>\$ 4,245,168</u>

**COMMONWEALTH OF PUERTO RICO**

**COMBINING BALANCE SHEET -  
EXPENDABLE TRUST FUNDS  
JUNE 30, 1999  
(Expressed in Thousands)**

	Unemployment Trust Fund	Health Facilities and Services Administration of Puerto Rico Trust Fund	Other Funds	Totals
<b>ASSETS</b>				
Cash and cash equivalents	\$ 362,694	\$ 5,989	\$ 6,993	\$ 375,676
Cash and cash equivalents in governmental banks	321,197		14,720	335,917
Investments	32,704			32,704
Receivables, net:				
Taxes	73,864			73,864
Accounts		4,685	10,625	15,310
Accrued interest	330		338	668
Due from other funds			6,313	6,313
<b>TOTAL ASSETS</b>	<u>\$ 790,789</u>	<u>\$ 10,674</u>	<u>\$ 38,989</u>	<u>\$ 840,452</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 28,151	\$ 993	\$ 14,659	\$ 43,803
Due to other funds		4,674		4,674
Other liabilities	18,632		14,809	33,441
<b>Total liabilities</b>	<u>46,783</u>	<u>5,667</u>	<u>29,468</u>	<u>81,918</u>
<b>Fund balances:</b>				
<b>Reserved for:</b>				
Encumbrances	2,162		195	2,357
Unemployment benefits	741,844			741,844
Advances and other specified purposes		5,007		5,007
Unreserved			9,326	9,326
<b>Total fund balances</b>	<u>744,006</u>	<u>5,007</u>	<u>9,521</u>	<u>758,534</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 790,789</u>	<u>\$ 10,674</u>	<u>\$ 38,989</u>	<u>\$ 840,452</u>

**COMMONWEALTH OF PUERTO RICO**

**COMBINING STATEMENTS OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES -  
EXPENDABLE TRUST FUNDS  
YEAR ENDED JUNE 30, 1999  
(Expressed in Thousands)**

	Unemployment Trust Fund	Health Facilities and Services Administration of Puerto Rico Trust Fund	Other Funds	Totals
<b>REVENUES:</b>				
Unemployment taxes	\$ 247,339	\$	\$	\$ 247,339
Charges for services	200	191	2,466	2,857
Intergovernmental	8,654		23,012	31,666
Interest	31,401		12,303	43,704
	<u>287,594</u>	<u>191</u>	<u>37,781</u>	<u>325,566</u>
Total revenues				
<b>EXPENDITURES:</b>				
Current:				
General government	560			560
Public safety	14,475			14,475
Health		1,662	1,045	2,707
Public housing and welfare	347,019		1,746	348,765
Education	1,108			1,108
Economic development			239	239
Net decrease in fair market value of investments	401			401
Debt service:				
Principal	362			362
Interest and other	902			902
	<u>364,827</u>	<u>1,662</u>	<u>3,030</u>	<u>369,519</u>
Total expenditures				
Excess (deficiency) of revenues under expenditures	<u>(77,233)</u>	<u>(1,471)</u>	<u>34,751</u>	<u>(43,953)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers-in from other funds	766		60	826
Operating transfers-out to other funds	(37,539)			(37,539)
	<u>(36,773)</u>		<u>60</u>	<u>(36,713)</u>
Total other financing sources (uses)				
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(114,006)	(1,471)	34,811	(80,666)
<b>FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR</b>	<u>858,012</u>	<u>6,478</u>	<u>(25,290)</u>	<u>839,200</u>
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 744,006</u>	<u>\$ 5,007</u>	<u>\$ 9,521</u>	<u>\$ 758,534</u>

**COMMONWEALTH OF PUERTO RICO**

**COMBINING BALANCE SHEET -  
AGENCY FUNDS  
JUNE 30, 1999  
(Expressed in Thousands)**

	<b>Special Deposit Funds</b>	<b>Other Funds</b>	<b>Totals</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 554,920	\$ 14,853	\$ 569,773
Cash and cash equivalents in governmental banks	357	142	499
Investments	11,103		11,103
Receivables, net:			
Accounts	5,748	4,425	10,173
Accrued interest	3		3
Restricted assets	50		50
Other assets	482		482
<b>TOTAL ASSETS</b>	<b>\$ 572,663</b>	<b>\$ 19,420</b>	<b>\$ 592,083</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	\$ 63,988	\$ 966	\$ 64,954
Due to other funds		1,835	1,835
Other liabilities	508,675	16,619	525,294
<b>TOTAL LIABILITIES</b>	<b>\$ 572,663</b>	<b>\$ 19,420</b>	<b>\$ 592,083</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 572,663</b>	<b>\$ 19,420</b>	<b>\$ 592,083</b>

**COMMONWEALTH OF PUERTO RICO**

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -  
SPECIAL DEPOSITS FUND  
YEAR ENDED JUNE 30, 1999  
(Expressed in Thousands)**

	<b>Balance July 1, 1998</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 1999</b>
<b>Assets:</b>				
Cash and cash equivalents	\$ 414,470	\$ 1,003,369	\$ (862,919)	\$ 554,920
Cash and cash equivalents in governmental banks		357		357
Investments	10,594	509		11,103
Receivables, net:				
Accounts	1,519	4,229		5,748
Accrued interest	1	2		3
Restricted assets		50		50
Accrued interest		482		482
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total Assets</b>	<u><u>\$ 426,584</u></u>	<u><u>\$ 1,008,998</u></u>	<u><u>\$ (862,919)</u></u>	<u><u>\$ 572,663</u></u>
<b>Liabilities:</b>				
Accounts payables and accrued liabilities	\$ 57,507	\$ 1,498,404	\$ (1,491,923)	\$ 63,988
Other liabilities	369,077	259,330	(119,732)	508,675
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total Liabilities</b>	<u><u>\$ 426,584</u></u>	<u><u>\$ 1,757,734</u></u>	<u><u>\$ (1,611,655)</u></u>	<u><u>\$ 572,663</u></u>

**COMMONWEALTH OF PUERTO RICO**

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -  
OTHER AGENCY FUNDS  
YEAR ENDED JUNE 30, 1999  
(Expressed in Thousands)**

	<b>Balance July 1, 1998</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 1999</b>
<b>Assets:</b>				
Cash and cash equivalents	\$ 16,724	\$ 147,290	\$ (149,161)	\$ 14,853
Cash and cash equivalents in governmental banks		142		142
Accounts receivable	23,415		(18,990)	4,425
<b>Total Assets</b>	<b>\$ 40,139</b>	<b>\$ 147,432</b>	<b>\$ (168,151)</b>	<b>\$ 19,420</b>
<b>Liabilities:</b>				
Accounts payables and accrued liabilities	\$ 14,139	\$ 5,502	\$ (18,675)	\$ 966
Due to other fund	3,660		(1,825)	1,835
Other liabilities	22,340	51,693	(57,414)	16,619
<b>Total Liabilities</b>	<b>\$ 40,139</b>	<b>\$ 57,195</b>	<b>\$ (77,914)</b>	<b>\$ 19,420</b>

## **PUBLIC UNIVERSITY FUNDS**

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The public university funds are used to account for the activities of the public university and the public employee retirement system of the university. Funds are an aggregate of the funds required by the American Institute of Certified Public Accountants, Industry Audit Guide, *Audits of Colleges and Universities*.

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**University of Puerto Rico:** The University of Puerto Rico is the largest institution of higher education in Puerto Rico.

**University of Puerto Rico Retirement System** The University of Puerto Rico Retirement System is the administrator of the retirement system of the employee of the University of Puerto Rico, created under Act No. 135 approved on May 7, 1942 and became effective on January 1, 1945. Its a single-employer defined-benefit retirement system.

**COMMONWEALTH OF PUERTO RICO**

**COMBINING BALANCE SHEET - PUBLIC UNIVERSITY FUNDS**

**JUNE 30, 1999**

**(Expressed in Thousands)**

	University of Puerto Rico	University of Puerto Rico Retirement System	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 79,041	\$ 13,250	\$ 92,291
Cash and cash equivalents in governmental banks		73	73
Investments		570,359	570,359
Receivables, net:			
Accounts	1,310		1,310
Loans and advances		91,650	91,650
Accrued interest	427	3,130	3,557
Other	2,674	5,298	7,972
Due from:			
Primary government	17		17
Component units	2,700		2,700
Inventories	5,686		5,686
Restricted assets:			
Cash and cash equivalents	15,518		15,518
Other restricted assets	175,552	222	175,774
Fixed assets, net	775,153	353	775,506
Other assets	67		67
<b>TOTAL ASSETS</b>	<b><u>\$ 1,058,145</u></b>	<b><u>\$ 684,335</u></b>	<b><u>\$ 1,742,480</u></b>
<b>LIABILITIES, FUND BALANCE AND OTHER CREDITS</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	\$ 77,723	\$ 30,538	\$ 108,261
Deposits		3,296	3,296
Advances from component units	36,152		36,152
Interest payable	1,516		1,516
Notes payable	2,700		2,700
Bonds payable	300,757		300,757
Accrued compensated absences	85,809	206	86,015
Deferred compensation payable	25,341		25,341
Other liabilities	7		7
Net pension obligation	8,421		8,421
<b>Total liabilities</b>	<b><u>538,426</u></b>	<b><u>34,040</u></b>	<b><u>572,466</u></b>
<b>Fund Balance and Other Credits:</b>			
Investment in general fixed assets	438,245		438,245
Fund balance:			
Reserved for:			
Encumbrances	28,193		28,193
Debt service	31,416		31,416
Employee's pension benefits		650,295	650,295
Advances and other specified purposes	12,653		12,653
Unreserved	9,212		9,212
<b>Total fund balance and other credits</b>	<b><u>519,719</u></b>	<b><u>650,295</u></b>	<b><u>1,170,014</u></b>
<b>TOTAL LIABILITIES, FUND BALANCE AND OTHER CREDITS</b>	<b><u>\$ 1,058,145</u></b>	<b><u>\$ 684,335</u></b>	<b><u>\$ 1,742,480</u></b>

## COMPONENT UNITS

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These entities are presented because the nature and significance of their relationship with the primary government are such that their exclusion would cause the general purpose financial statements to be misleading. These are discretely presented in a separate column in the general purpose financial statements due to the 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 these are involved (i.e. banking, construction, public utilities, etc.). Major component units are presented in separate columns. The component units - other column is a combination of all of the non-major public corporations that should be reported in the general purpose financial statements as required by generally accepted accounting principles. 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, pages 15 to 29 of the general purpose financial statements included in the Financial Section of this report.

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COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET - COMPONENT UNITS - OTHER

JUNE 30, 1999

(Expressed in Thousands)

	Government Development Bank for Puerto Rico and Subsidiaries	Puerto Rico Highway and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	Puerto Rico Infrastructure Financing Authority
<b>ASSETS AND OTHER DEBITS</b>					
<b>Assets:</b>					
Cash and cash equivalents	\$ 206,648	\$	\$ 73,848	\$ 31,327	\$ 12,454
Cash and cash equivalents in governmental banks	3		2,317	779	
Investments	3,457,212				
Receivables, net:					
Intergovernmental		82,338			
Accounts	308,758	2,261	370,260	80,531	
Loans and advances	213,620				
Accrued interest	144,345		2,936		
Other		9,202			
Due from:					
Primary government					
Component units					
Other governmental entities					
Advances to:					
Primary government	918,512		50,731		
Component units	1,477,975				
Other governmental entities	705,533	19,359			
Inventories			193,967	16,625	
Restricted assets:					
Cash and cash equivalents		60,352			43,778
Other restricted assets	717,342	540,051	674,960	33,628	1,230,482
Housing units and land lots held for sale					
Fixed assets, net		940,522	3,749,578	3,921,925	1,012
Other assets	94,881	1,365	54,562	15,151	76
<b>Other Debits:</b>					
Amount available in debt service funds		366,048			43,778
Amount to be provided for retirement of bonds and notes payable		3,139,827			962,647
Amount to be provided for payment of accrued compensated absences and other long-term liabilities		20,849			
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<u>\$ 8,244,829</u>	<u>\$ 5,182,174</u>	<u>\$ 5,173,159</u>	<u>\$ 4,099,966</u>	<u>\$ 2,294,227</u>

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET - COMPONENT UNITS - OTHER

JUNE 30, 1999

(Expressed in Thousands)

	Puerto Rico Housing Bank and Finance Agency	State Insurance Fund Corporation	Economic Development Bank for Puerto Rico	Puerto Rico Ports Authority	Puerto Rico Municipal Finance Agency
<b>ASSETS AND OTHER DEBITS</b>					
<b>Assets:</b>					
Cash and cash equivalents	\$ 42,643	\$ 4,470	\$ 6,357	\$ 57	\$
Cash and cash equivalents in governmental banks	49	2,771	446	47	10,999
Investments	55,215	690,998	612,802		
Receivables, net:					
Intergovernmental					
Accounts	7,933	87,243		35,240	
Loans and advances	83,524		112,017		
Accrued interest		11,187	3,706		17,722
Other			22,637		
Due from:					
Primary government Component units			580		
Other governmental entities					
Advances to:					
Primary government Component units			14,850		
Other governmental entities					
Inventories	4,052	5,782		1,823	
Restricted assets:					
Cash and cash equivalents	313,322		285	63,613	
Other restricted assets	580,837	303,685		8,246	674,032
Housing units and land lots held for sale					
Fixed assets, net	917	112,026	13,947	629,986	
Other assets	6,367		7,951	10,508	6,952
<b>Other Debits:</b>					
Amount available in debt service funds	22,861				
Amount to be provided for retirement of bonds and notes payable					
Amount to be provided for payment of accrued compensated absences and other long-term liabilities	326,939				
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<u>\$ 1,444,659</u>	<u>\$ 1,218,162</u>	<u>\$ 795,578</u>	<u>\$ 749,520</u>	<u>\$ 709,705</u>

**COMMONWEALTH OF PUERTO RICO**

**COMBINING BALANCE SHEET - COMPONENT UNITS - OTHER**

**JUNE 30, 1999**

**(Expressed in Thousands)**

	Puerto Rico Industrial Development Company	Puerto Rico Telephone Authority	Automobile Accident Compensation Administration	Puerto Rico Land Administration	Recreational Development Company of Puerto Rico
<b>ASSETS AND OTHER DEBITS</b>					
<b>Assets:</b>					
Cash and cash equivalents	\$ 8,817	\$	\$ 5,042	\$	\$ 2,771
Cash and cash equivalents in governmental banks	1,600	84,005	4	3,236	3,150
Investments		168,549	279,066	50,524	17,738
Receivables, net:					
Intergovernmental					
Accounts	23,426		6,750	827	145
Loans and advances				3,509	
Accrued interest	2,099		1,836	255	
Other			37,290	1,533	
Due from:					
Primary government Component units					
Other governmental entities					2,302
Advances to:					
Primary government Component units					
Other governmental entities					
Inventories					
Restricted assets:					
Cash and cash equivalents	13,460				4,567
Other restricted assets	31,374	173,526			61,356
Housing units and land lots held for sale				127,046	
Fixed assets, net	544,771		7,614	8,030	102,010
Other assets	10,419	191	49	32,706	672
<b>Other Debits:</b>					
Amount available in debt service funds					869
Amount to be provided for retirement of bonds and notes payable					107
Amount to be provided for payment of accrued compensated absences and other long-term liabilities					2,702
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<u>\$ 635,966</u>	<u>\$ 426,271</u>	<u>\$ 337,651</u>	<u>\$ 227,666</u>	<u>\$ 198,389</u>

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET - COMPONENT UNITS - OTHER

JUNE 30, 1999

(Expressed in Thousands)

	Puerto Rico Medical Services Administration	Puerto Rico Exports Development Corporation	Tourism Company of Puerto Rico	Puerto Rico and Caribbean Cardiovascular Center Corporation	Agricultural Services and Development Administration
<b>ASSETS AND OTHER DEBITS</b>					
<b>Assets:</b>					
Cash and cash equivalents	\$ 5,335	\$ 162	\$ 24,240	\$ 3,169	\$ 3,264
Cash and cash equivalents in governmental banks	19,785	422	1,242		1,836
Investments		23,666	18,033		
Receivables, net:					
Intergovernmental					
Accounts	68,997	1,119		25,764	1,401
Loans and advances			8,757		
Accrued interest		179			
Other	342		6,406	1,175	
Due from:					
Primary government			981		
Component units		1,591			
Other governmental entities					
Advances to:					
Primary government	6,000				
Component units					
Other governmental entities	5,000				
Inventories	5,976		12,105	2,557	5,851
Restricted assets:					
Cash and cash equivalents	3,074		956		24,692
Other restricted assets		13,641			
Housing units and land lots held for sale					
Fixed assets, net	36,146	94,945	18,730	53,052	26,583
Other assets	513	968	26,894	429	309
<b>Other Debits:</b>					
Amount available in debt service funds					
Amount to be provided for retirement of bonds and notes payable			4,751		19,522
Amount to be provided for payment of accrued compensated absences and other long-term liabilities			3,840		
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<u>\$ 151,168</u>	<u>\$ 136,693</u>	<u>\$ 126,935</u>	<u>\$ 86,146</u>	<u>\$ 83,458</u>

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET - COMPONENT UNITS - OTHER  
JUNE 30, 1999

(Expressed in Thousands)

	Land Authority of Puerto Rico	Puerto Rico Metropolitan Bus Authority	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority	Trust for the Conservation, Operation and Maintenance of the Puerto Rico National Parks	Solid Waste Authority of Puerto Rico
<b>ASSETS AND OTHER DEBITS</b>					
<b>Assets:</b>					
Cash and cash equivalents	\$ 84	\$ 1,584	\$	\$ 287	\$ 720
Cash and cash equivalents in governmental banks	12,679	3,609	26,105		1
Investments	84				1,146
Receivables, net:					
Intergovernmental		2,892			286
Accounts	11,887			327	2,423
Loans and advances	2,138				
Accrued interest			103		
Other		409			
Due from:					
Primary government	5,127	3,666			
Component units					
Other governmental entities					
Advances to:					
Primary government					
Component units					
Other governmental entities					
Inventories	139	4,643			
Restricted assets:					
Cash and cash equivalents	262	8,390	1,763	13,515	21,062
Other restricted assets					534
Housing units and land lots held for sale					
Fixed assets, net	37,505	47,657	44,387	53,088	32,186
Other assets	3,198	42	30	13	
<b>Other Debits:</b>					
Amount available in debt service funds					
Amount to be provided for retirement of bonds and notes payable					
Amount to be provided for payment of accrued compensated absences and other long-term liabilities				576	
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<b>\$ 73,103</b>	<b>\$ 72,892</b>	<b>\$ 72,388</b>	<b>\$ 67,806</b>	<b>\$ 58,358</b>

**COMMONWEALTH OF PUERTO RICO**

**COMBINING BALANCE SHEET - COMPONENT UNITS - OTHER**

**JUNE 30, 1999**

(Expressed in Thousands)

	Sugar Corporation of Puerto Rico	Corporation of Stocks and Deposits Insurance for the Savings and Loans Cooperatives	Right to Employment Administration	Puerto Rico Public Broadcasting Corporation	Fine Arts Center Corporation
<b>ASSETS AND OTHER DEBITS</b>					
<b>Assets:</b>					
Cash and cash equivalents	\$ 12,141	\$	\$ 1,756	\$ 546	\$ 902
Cash and cash equivalents in governmental banks		852	24,792	10	2
Investments		49,454			
Receivables, net:					
Intergovernmental			8,876		
Accounts	2,755		626	864	40
Loans and advances					
Accrued interest		381			
Other			184		
Due from:					
Primary government					
Component units					
Other governmental entities				260	
Advances to:					
Primary government					
Component units					
Other governmental entities					
Inventories	10,827		110		
Restricted assets:					
Cash and cash equivalents				3,573	175
Other restricted assets					
Housing units and land lots held for sale					
Fixed assets, net	189	517	2,210	12,412	19,266
Other assets	28,602	293	15	3,903	389
<b>Other Debits:</b>					
Amount available in debt service funds					
Amount to be provided for retirement of bonds and notes payable					
Amount to be provided for payment of accrued compensated absences and other long-term liabilities			1,773		
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<b>\$ 54,514</b>	<b>\$ 51,497</b>	<b>\$ 40,342</b>	<b>\$ 21,568</b>	<b>\$ 20,774</b>

**COMMONWEALTH OF PUERTO RICO**  
**COMBINING BALANCE SHEET - COMPONENT UNITS - OTHER**  
**JUNE 30, 1999**  
**(Expressed in Thousands)**

	Institutional Trust of the National Guard of Puerto Rico	Puerto Rico Health Insurance Administration	Farm Credit Guarantee Fund and Guarantee Loan Fund for Eligible Business of Puerto Rico	Puerto Rico Council on Higher Education	Farm Insurance Corporation of Puerto Rico
<b>ASSETS AND OTHER DEBITS</b>					
<b>Assets:</b>					
Cash and cash equivalents	\$ 3,470	\$ 476	\$ 6,329	\$ 253	\$ 491
Cash and cash equivalents in governmental banks	358	8,325		257	
Investments					
Receivables, net:					
Intergovernmental					2,725
Accounts	1,001			3,868	2,924
Loans and advances					
Accrued interest			27		
Other		61	2		
Due from:					
Primary government		806			
Component units			303		
Other governmental entities					
Advances to:					
Primary government					
Component units					
Other governmental entities					
Inventories					
Restricted assets:					
Cash and cash equivalents	1,465			462	173
Other restricted assets	3,262				
Housing units and land lots held for sale					
Fixed assets, net	5,884	1,444	442	1,887	94
Other assets	2,173	17			20
<b>Other Debits:</b>					
Amount available in debt service funds					
Amount to be provided for retirement of bonds and notes payable					
Amount to be provided for payment of accrued compensated absences and other long-term liabilities				323	
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<u>\$ 17,613</u>	<u>\$ 11,129</u>	<u>\$ 7,103</u>	<u>\$ 7,050</u>	<u>\$ 6,427</u>

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET - COMPONENT UNITS - OTHER

JUNE 30, 1999

(Expressed in Thousands)

	Employment and Training Enterprises Corporation	Medical University Services, Inc.	Caribbean Basin Projects Financing Authority	Puerto Rico Conservatory of Music Corporation	Musical Arts Corporation and Subsidiaries
<b>ASSETS AND OTHER DEBITS</b>					
<b>Assets:</b>					
Cash and cash equivalents	\$	\$	\$	\$	\$
Cash and cash equivalents in governmental banks	747	438	4,530	294	1,485
Investments				244	
Receivables, net:					
Intergovernmental				38	
Accounts	2,064	3,224		463	1,212
Loans and advances			17		
Accrued interest					
Other				35	
Due from:					
Primary government					
Component units					
Other governmental entities					
Advances to:					
Primary government					
Component units					
Other governmental entities					
Inventories	1,407	729			
Restricted assets:					
Cash and cash equivalents	890			392	139
Other restricted assets				1,567	
Housing units and land lots held for sale					
Fixed assets, net	469	140		1,446	522
Other assets	3	379		32	1
<b>Other Debits:</b>					
Amount available in debt service funds					
Amount to be provided for retirement of bonds and notes payable					
Amount to be provided for payment of accrued compensated absences and other long-term liabilities					
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<b>\$ 5,580</b>	<b>\$ 4,910</b>	<b>\$ 4,547</b>	<b>\$ 4,511</b>	<b>\$ 3,359</b>

COMMONWEALTH OF PUERTO RICO  
 COMBINING BALANCE SHEET - COMPONENT UNITS - OTHER  
 JUNE 30, 1999  
 (Expressed in Thousands)

	Puerto Rico School of Plastic Arts	Industries for the Blind, Mentally Retarded and Other Disabled Persons Puerto Rico	Total
<b>ASSETS AND OTHER DEBITS</b>			
<b>Assets:</b>			
Cash and cash equivalents	\$ 533	\$ 8	\$ 439,362
Cash and cash equivalents in governmental banks			237,382
Investments	123		5,425,469
Receivables, net:			97,155
Intergovernmental			
Accounts		147	1,054,480
Loans and advances			423,565
Accrued interest			184,793
Other			79,276
Due from:			10,580
Primary government			2,474
Component units			2,562
Other governmental entities			
Advances to:			975,243
Primary government			1,492,825
Component units			729,892
Other governmental entities			266,739
Inventories		146	
Restricted assets:			580,659
Cash and cash equivalents	299		5,048,523
Other restricted assets			127,046
Housing units and land lots held for sale			10,524,817
Fixed assets, net	1,269	9	310,073
Other assets			
<b>Other Debits:</b>			433,556
Amount available in debt service funds			4,126,854
Amount to be provided for retirement of bonds and notes payable			
Amount to be provided for payment of accrued compensated absences and other long-term liabilities	157		357,159
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<u>\$ 2,381</u>	<u>\$ 310</u>	<u>\$ 32,930,484</u>

**COMMONWEALTH OF PUERTO RICO**

**COMBINING BALANCE SHEET - COMPONENT UNITS - OTHER  
JUNE 30, 1999**

(Expressed in Thousands)

	Government Development Bank for Puerto Rico and Subsidiaries	Puerto Rico Highway and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	Puerto Rico Infrastructure Financing Authority
<b>LIABILITIES, EQUITY (DEFICIT) AND OTHER CREDITS</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 88,284	\$ 192,313	\$ 306,625	\$ 189,993	\$
Deposits	3,878,129		108,664	51,096	
Due to :					
Primary government					
Component units					
Other governmental entities					
Advances from component units		95,406	35,000	581,229	
Securities lending transactions and reverses repurchases	77,194				
Interest payable	70,649	87,066	100,434	10,114	
Deferred revenues			29,556		
Notes payable	1,081,694		130,000	101,079	
Bonds payable	1,484,633	3,477,059	3,851,823	425,271	1,006,425
Accrued compensated absences	3,356	20,830	194,511	52,690	
Other liabilities	16,241	3,947			42,930
Other long-term liabilities		18,000			
Net pension obligation			15,294		
<b>Total liabilities</b>	<b>6,700,180</b>	<b>3,894,621</b>	<b>4,771,907</b>	<b>1,411,472</b>	<b>1,049,355</b>
<b>Equity (Deficit) and Other Credits:</b>					
Investment in general fixed assets		55,632			1,011
Contributed capital	1,325,000	818,007	139,983	2,495,713	
Retained earnings (deficit)	219,649		261,269	192,781	
Fund balances:					
Reserved for:					
Encumbrances					
Debt service					43,778
Advances and other specified purposes		21,806			1,208,454
Unreserved		392,108			(8,371)
<b>Total equity (deficit) and other credits</b>	<b>1,544,649</b>	<b>1,287,553</b>	<b>401,252</b>	<b>2,688,494</b>	<b>1,244,872</b>
<b>TOTAL LIABILITIES, EQUITY (DEFICIT) AND OTHER CREDITS</b>	<b>\$ 8,244,829</b>	<b>\$ 5,182,174</b>	<b>\$ 5,173,159</b>	<b>\$ 4,099,966</b>	<b>\$ 2,294,227</b>

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET - COMPONENT UNITS - OTHER  
 JUNE 30, 1999  
 (Expressed in Thousands)

	Puerto Rico Housing Bank and Finance Agency	State Insurance Fund Corporation	Economic Development Bank for Puerto Rico	Puerto Rico Ports Authority	Puerto Rico Municipal Finance Agency
<b>LIABILITIES, EQUITY (DEFICIT) AND OTHER CREDITS</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 20,735	\$ 991,726	\$ 6,436	\$ 99,939	\$ 532
Deposits			326,976	1,898	
Due to :					
Primary government	12,715				
Component units					
Other governmental entities					
Advances from component units	99,618		14,060	220,377	
Securities lending transactions and reverses repurchases	250,000	77,400	303,935		
Interest payable			3,447	3,746	15,754
Deferred revenues		51,408	17,192	18,347	2,761
Notes payable		60,150	33,800		
Bonds payable	725,086			110,511	556,987
Accrued compensated absences	664	25,680	1,714	8,379	
Other liabilities				1,704	
Other long-term liabilities	3,329				81,903
Net pension obligation					
<b>Total liabilities</b>	<b>1,112,147</b>	<b>1,206,364</b>	<b>707,560</b>	<b>464,901</b>	<b>657,937</b>
<b>Equity (Deficit) and Other Credits:</b>					
Investment in general fixed assets					
Contributed capital	138,828		61,554	376,392	
Retained earnings (deficit)		11,798	26,464	(91,773)	51,768
Fund balances:					
Reserved for:					
Encumbrances					
Debt service	22,861				
Advances and other specified purposes	18,361				
Unreserved	152,462				
<b>Total equity (deficit) and other credits</b>	<b>332,512</b>	<b>11,798</b>	<b>88,018</b>	<b>284,619</b>	<b>51,768</b>
<b>TOTAL LIABILITIES, EQUITY (DEFICIT) AND OTHER CREDITS</b>	<b>\$ 1,444,659</b>	<b>\$ 1,218,162</b>	<b>\$ 795,578</b>	<b>\$ 749,520</b>	<b>\$ 709,705</b>

**COMMONWEALTH OF PUERTO RICO**

**COMBINING BALANCE SHEET - COMPONENT UNITS - OTHER  
JUNE 30, 1999**

(Expressed in Thousands)

	Puerto Rico Industrial Development Company	Puerto Rico Telephone Authority	Automobile Accident Compensation Administration	Puerto Rico Land Administration	Recreational Development Company of Puerto Rico
<b>LIABILITIES, EQUITY (DEFICIT) AND OTHER CREDITS</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 27,090	\$ 190,398	\$ 111,610	\$ 9,495	\$ 7,466
Deposits				37,073	
Due to :					
Primary government					9,611
Component units					
Other governmental entities					
Advances from component units	1,160			1,970	
Securities lending transactions and reverses repurchases			50,490		
Interest payable	5,701				
Deferred revenues			33,872		
Notes payable	14,695		1,745		
Bonds payable	200,568				
Accrued compensated absences	6,666		1,701	726	1,802
Other liabilities					1,199
Other long-term liabilities					
Net pension obligation					
<b>Total liabilities</b>	<b>255,880</b>	<b>190,398</b>	<b>199,418</b>	<b>49,264</b>	<b>20,078</b>
<b>Equity (Deficit) and Other Credits:</b>					
Investment in general fixed assets					102,010
Contributed capital	321,589	24,962		81,934	
Retained earnings (deficit)	58,497	210,911	138,233	96,468	
Fund balances:					
Reserved for:					
Encumbrances					75
Debt service					869
Advances and other specified purposes					67,136
Unreserved					8,221
<b>Total equity (deficit) and other credits</b>	<b>380,086</b>	<b>235,873</b>	<b>138,233</b>	<b>178,402</b>	<b>178,311</b>
<b>TOTAL LIABILITIES, EQUITY (DEFICIT) AND OTHER CREDITS</b>	<b>\$ 635,966</b>	<b>\$ 426,271</b>	<b>\$ 337,651</b>	<b>\$ 227,666</b>	<b>\$ 198,389</b>

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET - COMPONENT UNITS - OTHER  
 JUNE 30, 1999  
 (Expressed in Thousands)

	Puerto Rico Medical Services Administration	Puerto Rico Exports Development Corporation	Tourism Company of Puerto Rico	Puerto Rico and Caribbean Cardiovascular Center Corporation	Agricultural Services and Development Administration
<b>LIABILITIES, EQUITY (DEFICIT) AND OTHER CREDITS</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 56,658	\$ 2,194	\$ 43,861	\$ 16,169	\$ 32,918
Deposits					
Due to :					
Primary government			11,645		
Component units		539	3,613		
Other governmental entities					
Advances from component units	10,000	28,850	115,136		29,187
Securities lending transactions and reverses repurchases					
Interest payable		160		3,087	
Deferred revenues					628
Notes payable		1,589	1,900		
Bonds payable					
Accrued compensated absences	6,347	509	4,349	1,182	5,378
Other liabilities		3,373			
Other long-term liabilities	2,148	672	500	60,852	
Net pension obligation					
<b>Total liabilities</b>	<b>75,153</b>	<b>37,886</b>	<b>181,004</b>	<b>81,290</b>	<b>68,111</b>
<b>Equity (Deficit) and Other Credits:</b>					
Investment in general fixed assets			18,398		22,788
Contributed capital	72,513	107,300	149,698	11,373	4,556
Retained earnings (deficit)		(8,493)	(231,283)	(6,517)	(14,775)
Fund balances:					
Reserved for:					
Encumbrances			912		
Debt service					
Advances and other specified purposes	719		9,275		25,274
Unreserved	2,783		(1,069)		(22,496)
<b>Total equity (deficit) and other credits</b>	<b>76,015</b>	<b>98,807</b>	<b>(54,069)</b>	<b>4,856</b>	<b>15,347</b>
<b>TOTAL LIABILITIES, EQUITY (DEFICIT) AND OTHER CREDITS</b>	<b>\$ 151,168</b>	<b>\$ 136,693</b>	<b>\$ 126,935</b>	<b>\$ 86,146</b>	<b>\$ 83,458</b>

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET - COMPONENT UNITS - OTHER

JUNE 30, 1999

(Expressed in Thousands)

	Land Authority of Puerto Rico	Puerto Rico Metropolitan Bus Authority	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority	Trust for the Conservation, Operation and Maintenance of the Puerto Rico National Parks	Solid Waste Authority of Puerto Rico
<b>LIABILITIES, EQUITY (DEFICIT) AND OTHER CREDITS</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 71,429	\$ 12,611	\$ 3,351	\$ 1,123	\$ 6,301
Deposits	6,322				
Due to :					
Primary government			5,031		
Component units					
Other governmental entities		1,444			
Advances from component units	70,926	5,260	38,137		
Securities lending transactions and reverses repurchases					
Interest payable		279	1,207		
Deferred revenues					
Notes payable					
Bonds payable					
Accrued compensated absences	962	2,792	44	575	634
Other liabilities		1,221			
Other long-term liabilities					
Net pension obligation					
<b>Total liabilities</b>	<b>149,639</b>	<b>23,607</b>	<b>47,770</b>	<b>1,698</b>	<b>6,935</b>
<b>Equity (Deficit) and Other Credits:</b>					
Investment in general fixed assets				53,088	
Contributed capital	78,354	98,719			48,462
Retained earnings (deficit)	(154,890)	(49,434)	24,618		2,961
Fund balances:					
Reserved for:					
Encumbrances				178	
Debt service					
Advances and other specified purposes				12,842	
Unreserved					
<b>Total equity (deficit) and other credits</b>	<b>(76,536)</b>	<b>49,285</b>	<b>24,618</b>	<b>66,108</b>	<b>51,423</b>
<b>TOTAL LIABILITIES, EQUITY (DEFICIT) AND OTHER CREDITS</b>	<b>\$ 73,103</b>	<b>\$ 72,892</b>	<b>\$ 72,388</b>	<b>\$ 67,806</b>	<b>\$ 58,358</b>

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET - COMPONENT UNITS - OTHER  
 JUNE 30, 1999  
 (Expressed in Thousands)

	Sugar Corporation of Puerto Rico	Corporation of Stocks and Deposits Insurance for the Savings and Loans Cooperatives	Right to Employment Administration	Puerto Rico Public Broadcasting Corporation	Fine Arts Center Corporation
<b>LIABILITIES, EQUITY (DEFICIT) AND OTHER CREDITS</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 155,858	\$ 22,384	\$ 9,683	\$ 3,237	\$ 742
Deposits					58
Due to :					
Primary government					
Component units					
Other governmental entities					
Advances from component units	47,384				1,082
Securities lending transactions and reverses repurchases					
Interest payable					
Deferred revenues			23,273	686	685
Notes payable		464			
Bonds payable					
Accrued compensated absences		339	1,773	1,074	297
Other liabilities				254	3
Other long-term liabilities					
Net pension obligation					
<b>Total liabilities</b>	<b>203,242</b>	<b>23,187</b>	<b>34,729</b>	<b>5,251</b>	<b>2,867</b>
<b>Equity (Deficit) and Other Credits:</b>					
Investment in general fixed assets			2,210		
Contributed capital	168,981	38,840		6,093	18,207
Retained earnings (deficit)	(317,709)	(10,530)		10,224	(300)
Fund balances:					
Reserved for:					
Encumbrances					
Debt service					
Advances and other specified purposes			110		
Unreserved			3,293		
<b>Total equity (deficit) and other credits</b>	<b>(148,728)</b>	<b>28,310</b>	<b>5,613</b>	<b>16,317</b>	<b>17,907</b>
<b>TOTAL LIABILITIES, EQUITY (DEFICIT) AND OTHER CREDITS</b>	<b>\$ 54,514</b>	<b>\$ 51,497</b>	<b>\$ 40,342</b>	<b>\$ 21,568</b>	<b>\$ 20,774</b>

**COMMONWEALTH OF PUERTO RICO**

**COMBINING BALANCE SHEET - COMPONENT UNITS - OTHER**

**JUNE 30, 1999**

**(Expressed in Thousands)**

	Institutional Trust of the National Guard of Puerto Rico	Puerto Rico Health Insurance Administration	Farm Credit Guarantee Fund and Guarantee Loan Fund for Eligible Business of Puerto Rico	Puerto Rico Council on Higher Education	Farm Insurance Corporation of Puerto Rico
<b>LIABILITIES, EQUITY (DEFICIT) AND OTHER CREDITS</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 255	\$ 8,262	\$	\$ 514	\$ 3,204
Deposits					
Due to :					
Primary government				2,341	
Component units			1,590		
Other governmental entities				1,288	
Advances from component units	4,208				
Securities lending transactions and reverses repurchases					
Interest payable					
Deferred revenues		822			1,637
Notes payable	790				
Bonds payable					
Accrued compensated absences	64	1,382		323	206
Other liabilities			171		
Other long-term liabilities		52			
Net pension obligation					
<b>Total liabilities</b>	<b>5,317</b>	<b>10,518</b>	<b>1,761</b>	<b>4,466</b>	<b>5,047</b>
<b>Equity (Deficit) and Other Credits:</b>					
Investment in general fixed assets				1,887	
Contributed capital	3,100	608			
Retained earnings (deficit)	8,965	3	5,342		1,380
Fund balances:					
Reserved for:					
Encumbrances				262	
Debt service					
Advances and other specified purposes	231				
Unreserved				435	
<b>Total equity (deficit) and other credits</b>	<b>12,296</b>	<b>611</b>	<b>5,342</b>	<b>2,584</b>	<b>1,380</b>
<b>TOTAL LIABILITIES, EQUITY (DEFICIT) AND OTHER CREDITS</b>	<b>\$ 17,613</b>	<b>\$ 11,129</b>	<b>\$ 7,103</b>	<b>\$ 7,050</b>	<b>\$ 6,427</b>

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET - COMPONENT UNITS - OTHER

JUNE 30, 1999

(Expressed in Thousands)

	Employment and Training Enterprises Corporation	Medical University Services, Inc.	Caribbean Basin Projects Financing Authority	Puerto Rico Conservatory of Music Corporation	Musical Arts Corporation and Subsidiaries
<b>LIABILITIES, EQUITY (DEFICIT) AND OTHER CREDITS</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 2,354	\$ 4,012	\$ 1	\$ 288	\$ 1,593
Deposits					
Due to :					
Primary government	7,108				
Component units		2,700			
Other governmental entities					
Advances from component units					
Securities lending transactions and reverses repurchases					
Interest payable					85
Deferred revenues	890				
Notes payable					
Bonds payable					
Accrued compensated absences	204			555	177
Other liabilities					
Other long-term liabilities					
Net pension obligation					
<b>Total liabilities</b>	<b>10,556</b>	<b>6,712</b>	<b>1</b>	<b>843</b>	<b>1,855</b>
<b>Equity (Deficit) and Other Credits:</b>					
Investment in general fixed assets					
Contributed capital	504			2,263	188
Retained earnings (deficit)	(5,480)		4,546	1,405	1,316
Fund balances:					
Reserved for:					
Encumbrances					
Debt service					
Advances and other specified purposes					
Unreserved		(1,802)			
<b>Total equity (deficit) and other credits</b>	<b>(4,976)</b>	<b>(1,802)</b>	<b>4,546</b>	<b>3,668</b>	<b>1,504</b>
<b>TOTAL LIABILITIES, EQUITY (DEFICIT) AND OTHER CREDITS</b>	<b>\$ 5,580</b>	<b>\$ 4,910</b>	<b>\$ 4,547</b>	<b>\$ 4,511</b>	<b>\$ 3,359</b>

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET - COMPONENT UNITS - OTHER  
 JUNE 30, 1999  
 (Expressed in Thousands)

	Puerto Rico School of Plastic Arts	Industries for the Blind, Mentally Retarded and Other Disabled Persons Puerto Rico	Total
<b>LIABILITIES, EQUITY (DEFICIT) AND OTHER CREDITS</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	\$ 3	\$ 335	\$ 2,699,788
Deposits			4,412,410
Due to :			
Primary government			48,451
Component units			8,442
Other governmental entities			2,732
Advances from component units			1,398,990
Securities lending transactions and reverses repurchases			759,019
Interest payable			301,644
Deferred revenues	1		181,843
Notes payable			1,427,906
Bonds payable			11,838,363
Accrued compensated absences	157	92	348,134
Other liabilities			71,043
Other long-term liabilities			167,456
Net pension obligation			15,294
<b>Total liabilities</b>	<b>161</b>	<b>427</b>	<b>23,681,515</b>
<b>Equity (Deficit) and Other Credits:</b>			
Investment in general fixed assets	1,269		258,293
Contributed capital			6,593,721
Retained earnings (deficit)		(117)	437,297
Fund balances:			
Reserved for:			
Encumbrances			1,427
Debt service			67,508
Advances and other specified purposes	473		1,364,681
Unreserved	478		526,042
<b>Total equity (deficit) and other credits</b>	<b>2,220</b>	<b>(117)</b>	<b>9,248,969</b>
<b>TOTAL LIABILITIES, EQUITY (DEFICIT) AND OTHER CREDITS</b>	<b>\$ 2,381</b>	<b>\$ 310</b>	<b>\$ 32,930,484</b>

**COMMONWEALTH OF PUERTO RICO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN**  
**RETAINED EARNINGS (DEFICIT) / FUND BALANCES -**  
**COMPONENT UNITS - OTHER**  
**Year Ended June 30, 1999**  
**(Expressed in Thousands)**

	Government Development Bank for Puerto Rico and Subsidiaries	Puerto Rico Highway and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	Puerto Rico Infrastructure Financing Authority
<b>OPERATING REVENUES:</b>					
Charges for services	\$	\$ 2,551	\$ 1,530,354	\$ 319,661	\$
Financing income	157,257				
Investment earnings	231,405				19,378
Other	31,765				
Total operating revenues	420,427	2,551	1,530,354	319,661	19,378
<b>OPERATING EXPENSES:</b>					
Cost of services	59,312	18,159	1,054,991	362,974	
Interest	281,578				
Depreciation and amortization	1,477	1,381	189,831	114,904	
Other					
Total operating expenses	322,367	19,540	1,254,822	477,878	
<b>OPERATING INCOME (LOSS)</b>	<b>98,060</b>	<b>(16,989)</b>	<b>275,532</b>	<b>(158,217)</b>	<b>19,378</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>					
Intergovernmental					
Interest income			49,766	51,581	
Interest expense			(233,846)	(58,392)	
Other, net	8,633		(71,447)		
Total non-operating revenues (expenses)	8,633		(255,527)	(6,811)	
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>106,693</b>	<b>(16,989)</b>	<b>20,005</b>	<b>(165,028)</b>	<b>19,378</b>
<b>TRANSFERS:</b>					
From component units - other				35,000	
From (to) primary government					
<b>TRANSFERS, net</b>				<b>35,000</b>	
<b>NET INCOME (LOSS)</b>	<b>106,693</b>	<b>(16,989)</b>	<b>20,005</b>	<b>(130,028)</b>	<b>19,378</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES FROM GOVERNMENTAL OPERATIONS</b>		<b>(97,008)</b>			<b>(120,083)</b>
<b>DEPRECIATION ON FIXED ASSETS ACQUIRED THROUGH CAPITAL CONTRIBUTIONS</b>		<b>1,381</b>		<b>62,387</b>	
<b>INCREASE (DECREASE) IN RETAINED EARNINGS/FUND BALANCES</b>	<b>106,693</b>	<b>(112,616)</b>	<b>20,005</b>	<b>(67,641)</b>	<b>(100,705)</b>
<b>RETAINED EARNINGS (DEFICIT) / FUND BALANCE AT BEGINNING OF YEAR (as restated)</b>	<b>112,956</b>	<b>832,776</b>	<b>241,264</b>	<b>260,422</b>	<b>144,566</b>
<b>RESIDUAL EQUITY TRANSFER</b>		<b>(306,246)</b>			<b>1,200,000</b>
<b>TRANSFER TO CONTRIBUTED CAPITAL</b>					
<b>RETAINED EARNINGS (DEFICIT) / FUND BALANCE AT END OF YEAR</b>	<b>\$ 219,649</b>	<b>\$ 413,914</b>	<b>\$ 261,269</b>	<b>\$ 192,781</b>	<b>\$ 1,243,861</b>

**COMMONWEALTH OF PUERTO RICO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN**  
**RETAINED EARNINGS (DEFICIT) / FUND BALANCES -**  
**COMPONENT UNITS - OTHER**  
**Year Ended June 30, 1999**  
**(Expressed in Thousands)**

	Puerto Rico Housing Bank and Finance Agency	State Insurance Fund Corporation	Economic Development Bank for Puerto Rico	Puerto Rico Ports Authority	Puerto Rico Municipal Finance Agency
<b>OPERATING REVENUES:</b>					
Charges for services	\$ 3,525	\$ 496,719	\$ 9,146	\$ 138,416	\$
Financing income			53,643		35,064
Investment earnings	44,872				
Other					
Total operating revenues	<u>48,397</u>	<u>496,719</u>	<u>62,789</u>	<u>138,416</u>	<u>35,064</u>
<b>OPERATING EXPENSES:</b>					
Cost of services	4,091	563,551	13,493	108,854	
Interest	45,902		49,501		39,079
Depreciation and amortization	107	8,352	1,025	27,172	
Other			5,497		
Total operating expenses	<u>50,100</u>	<u>571,903</u>	<u>69,516</u>	<u>134,026</u>	<u>39,079</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(1,703)</u>	<u>(75,184)</u>	<u>(6,727)</u>	<u>4,390</u>	<u>(4,015)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>					
Intergovernmental				7,046	
Interest income		52,816		285	
Interest expense				(18,267)	
Other, net		6,083	9,691		(96)
Total non-operating revenues (expenses)		<u>58,899</u>	<u>9,691</u>	<u>(10,936)</u>	<u>(96)</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>(1,703)</u>	<u>(16,285)</u>	<u>2,964</u>	<u>(6,546)</u>	<u>(4,111)</u>
<b>TRANSFERS:</b>					
From component units - other					
From (to) primary government		(24,236)			
<b>TRANSFERS, net</b>		<u>(24,236)</u>			
<b>NET INCOME (LOSS)</b>	<u>(1,703)</u>	<u>(40,521)</u>	<u>2,964</u>	<u>(6,546)</u>	<u>(4,111)</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES FROM GOVERNMENTAL OPERATIONS</b>	29,986				
<b>DEPRECIATION ON FIXED ASSETS ACQUIRED THROUGH CAPITAL CONTRIBUTIONS</b>					
<b>INCREASE (DECREASE) IN RETAINED EARNINGS/FUND BALANCES</b>	28,283	(40,521)	2,964	(6,546)	(4,111)
<b>RETAINED EARNINGS (DEFICIT) / FUND BALANCE AT BEGINNING OF YEAR (as restated)</b>	165,401	52,319	23,500	(85,227)	55,879
<b>RESIDUAL EQUITY TRANSFER</b>					
<b>TRANSFER TO CONTRIBUTED CAPITAL</b>					
<b>RETAINED EARNINGS (DEFICIT) / FUND BALANCE AT END OF YEAR</b>	<u>\$ 193,684</u>	<u>\$ 11,798</u>	<u>\$ 26,464</u>	<u>\$ (91,773)</u>	<u>\$ 51,768</u>

**COMMONWEALTH OF PUERTO RICO**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
RETAINED EARNINGS (DEFICIT) / FUND BALANCES -  
COMPONENT UNITS - OTHER  
Year Ended June 30, 1999  
(Expressed in Thousands)**

	Puerto Rico Industrial Development Company	Puerto Rico Telephone Authority	Automobile Accident Compensation Administration	Puerto Rico Land Administration	Recreational Development Company of Puerto Rico
<b>OPERATING REVENUES:</b>					
Charges for services	\$ 51,649	\$ 1,471,702	\$ 65,547	\$ 27,067	\$
Financing income					
Investment earnings				37	
Other					
Total operating revenues	51,649	1,471,702	65,547	27,104	
<b>OPERATING EXPENSES:</b>					
Cost of services	43,213	907,439	101,552	16,007	
Interest					
Depreciation and amortization	13,432	346,886	2,286	1,338	
Other					
Total operating expenses	56,645	1,254,325	103,838	17,345	
<b>OPERATING INCOME (LOSS)</b>	<b>(4,996)</b>	<b>217,377</b>	<b>(38,291)</b>	<b>9,759</b>	
<b>NON-OPERATING REVENUES (EXPENSES):</b>					
Intergovernmental					
Interest income	16,816	22,473	11,200	2,352	
Interest expense	(14,559)	(54,499)	(202)	(107)	
Other, net	2,552	(44,157)	14,282		
Total non-operating revenues (expenses)	4,809	(76,183)	25,280	2,245	
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>(187)</b>	<b>141,194</b>	<b>(13,011)</b>	<b>12,004</b>	
<b>TRANSFERS:</b>					
From component units - other					
From (to) primary government	14,291				
<b>TRANSFERS, net</b>	<b>14,291</b>				
<b>NET INCOME (LOSS)</b>	<b>14,104</b>	<b>141,194</b>	<b>(13,011)</b>	<b>12,004</b>	
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES FROM GOVERNMENTAL OPERATIONS</b>					48,811
<b>DEPRECIATION ON FIXED ASSETS ACQUIRED THROUGH CAPITAL CONTRIBUTIONS</b>					
<b>INCREASE (DECREASE) IN RETAINED EARNINGS/FUND BALANCES</b>	14,104	141,194	(13,011)	12,004	48,811
<b>RETAINED EARNINGS (DEFICIT) / FUND BALANCE AT BEGINNING OF YEAR (as restated)</b>	44,393	1,269,717	151,244	84,464	27,490
<b>RESIDUAL EQUITY TRANSFER</b>		(1,200,000)			
<b>TRANSFER TO CONTRIBUTED CAPITAL</b>					
<b>RETAINED EARNINGS (DEFICIT) / FUND BALANCE AT END OF YEAR</b>	<b>\$ 58,497</b>	<b>\$ 210,911</b>	<b>\$ 138,233</b>	<b>\$ 96,468</b>	<b>\$ 76,301</b>

**COMMONWEALTH OF PUERTO RICO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN**  
**RETAINED EARNINGS (DEFICIT) / FUND BALANCES -**  
**COMPONENT UNITS - OTHER**  
**Year Ended June 30, 1999**  
**(Expressed in Thousands)**

	Puerto Rico Medical Services Administration	Puerto Rico Exports Development Corporation	Tourism Company of Puerto Rico	Puerto Rico and Caribbean Cardiovascular Center Corporation	Agricultural Services and Development Administration
<b>OPERATING REVENUES:</b>					
Charges for services	\$ 117,905	\$ 13,128	\$ 176,316	\$ 43,517	\$ 49,414
Financing income					
Investment earnings		2,217			
Other					
Total operating revenues	<u>117,905</u>	<u>15,345</u>	<u>176,316</u>	<u>43,517</u>	<u>49,414</u>
<b>OPERATING EXPENSES:</b>					
Cost of services	123,795	7,658	83,381	43,095	65,575
Interest		1,983	7,721		
Depreciation and amortization	4,331	2,354	2,510	3,872	1,150
Other					
Total operating expenses	<u>128,126</u>	<u>11,995</u>	<u>93,612</u>	<u>46,967</u>	<u>66,725</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(10,221)</u>	<u>3,350</u>	<u>82,704</u>	<u>(3,450)</u>	<u>(17,311)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>					
Intergovernmental					
Interest income	892			(4,750)	(1,537)
Interest expense	(233)			957	394
Other, net		954			
Total non-operating revenues (expenses)	<u>659</u>	<u>954</u>		<u>(3,793)</u>	<u>(1,143)</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>(9,562)</u>	<u>4,304</u>	<u>82,704</u>	<u>(7,243)</u>	<u>(18,454)</u>
<b>TRANSFERS:</b>					
From component units - other					
From (to) primary government			(64,139)	4,998	17,420
<b>TRANSFERS, net</b>			<u>(64,139)</u>	<u>4,998</u>	<u>17,420</u>
<b>NET INCOME (LOSS)</b>	<u>(9,562)</u>	<u>4,304</u>	<u>18,565</u>	<u>(2,245)</u>	<u>(1,034)</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES FROM GOVERNMENTAL OPERATIONS</b>			(29,603)		2,708
<b>DEPRECIATION ON FIXED ASSETS ACQUIRED THROUGH CAPITAL CONTRIBUTIONS</b>					35
<b>INCREASE (DECREASE) IN RETAINED EARNINGS/FUND BALANCES</b>	<u>(9,562)</u>	<u>4,304</u>	<u>(11,038)</u>	<u>(2,245)</u>	<u>1,709</u>
<b>RETAINED EARNINGS (DEFICIT) / FUND BALANCE AT BEGINNING OF YEAR (as restated)</b>	13,443	(12,797)	(211,127)	(4,272)	(13,708)
<b>RESIDUAL EQUITY TRANSFER</b>					
<b>TRANSFER TO CONTRIBUTED CAPITAL</b>	<u>(379)</u>				
<b>RETAINED EARNINGS (DEFICIT) / FUND BALANCE AT END OF YEAR</b>	<u>\$ 3,502</u>	<u>\$ (8,493)</u>	<u>\$ (222,165)</u>	<u>\$ (6,517)</u>	<u>\$ (11,997)</u>

**COMMONWEALTH OF PUERTO RICO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN**  
**RETAINED EARNINGS (DEFICIT) / FUND BALANCES -**  
**COMPONENT UNITS - OTHER**  
**Year Ended June 30, 1999**  
**(Expressed in Thousands)**

	Land Authority of Puerto Rico	Puerto Rico Metropolitan Bus Authority	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority	Trust for the Conservation, Operation and Maintenance of the Puerto Rico National Parks	Solid Waste Authority of Puerto Rico
<b>OPERATING REVENUES:</b>					
Charges for services	\$ 8,118	\$ 17,185	\$ 3,384	\$	\$ 1,133
Financing income					
Investment earnings					
Other	3,273				
Total operating revenues	11,391	17,185	3,384		1,133
<b>OPERATING EXPENSES:</b>					
Cost of services	17,169	40,281	1,398		8,174
Interest					
Depreciation and amortization	633	5,284			1,364
Other					
Total operating expenses	17,802	45,565	1,398		9,538
<b>OPERATING INCOME (LOSS)</b>	<b>(6,411)</b>	<b>(28,380)</b>	<b>1,986</b>		<b>(8,405)</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>					
Intergovernmental		1,626			548
Interest income	491	660	1,254		881
Interest expense	(4,895)	(289)			(15)
Other, net	3,136	1,005			223
Total non-operating revenues (expenses)	(1,268)	3,002	1,254		1,637
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>(7,679)</b>	<b>(25,378)</b>	<b>3,240</b>		<b>(6,768)</b>
<b>TRANSFERS:</b>					
From component units - other					
From (to) primary government	2,032	22,291			6,141
<b>TRANSFERS, net</b>	<b>2,032</b>	<b>22,291</b>			<b>6,141</b>
<b>NET INCOME (LOSS)</b>	<b>(5,647)</b>	<b>(3,087)</b>	<b>3,240</b>		<b>(627)</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES FROM GOVERNMENTAL OPERATIONS</b>				(1,388)	
<b>DEPRECIATION ON FIXED ASSETS ACQUIRED THROUGH CAPITAL CONTRIBUTIONS</b>		3,428			699
<b>INCREASE (DECREASE) IN RETAINED EARNINGS/FUND BALANCES</b>	<b>(5,647)</b>	<b>341</b>	<b>3,240</b>	<b>(1,388)</b>	<b>72</b>
<b>RETAINED EARNINGS (DEFICIT) / FUND BALANCE AT BEGINNING OF YEAR (as restated)</b>	<b>(149,243)</b>	<b>(49,775)</b>	<b>24,708</b>	<b>14,408</b>	<b>2,889</b>
<b>RESIDUAL EQUITY TRANSFER</b>			(3,330)		
<b>TRANSFER TO CONTRIBUTED CAPITAL</b>					
<b>RETAINED EARNINGS (DEFICIT) / FUND BALANCE AT END OF YEAR</b>	<b>\$ (154,890)</b>	<b>\$ (49,434)</b>	<b>\$ 24,618</b>	<b>\$ 13,020</b>	<b>\$ 2,961</b>

**COMMONWEALTH OF PUERTO RICO**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
RETAINED EARNINGS (DEFICIT) / FUND BALANCES -  
COMPONENT UNITS - OTHER  
Year Ended June 30, 1999  
(Expressed in Thousands)**

	Sugar Corporation of Puerto Rico	Corporation of Stocks and Deposits Insurance for the Savings and Loans Cooperatives	Right to Employment Administration	Puerto Rico Public Broadcasting Corporation	Fine Arts Center Corporation
<b>OPERATING REVENUES:</b>					
Charges for services	\$	\$ 9,185	\$	\$ 1,318	\$ 1,702
Financing income					
Investment earnings					
Other					
Total operating revenues		9,185		1,318	1,702
<b>OPERATING EXPENSES:</b>					
Cost of services		7,254		22,351	3,103
Interest					
Depreciation and amortization		160		2,511	567
Other					
Total operating expenses		7,414		24,862	3,670
<b>OPERATING INCOME (LOSS)</b>		1,771		(23,544)	(1,968)
<b>NON-OPERATING REVENUES (EXPENSES):</b>					
Intergovernmental					
Interest income		2,608		140	64
Interest expense					(87)
Other, net	(37,487)	31		2,708	
Total non-operating revenues (expenses)	(37,487)	2,639		2,848	(23)
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	(37,487)	4,410		(20,696)	(1,991)
<b>TRANSFERS:</b>					
From component units - other				600	
From (to) primary government	8,074			21,347	2,238
<b>TRANSFERS, net</b>	8,074			21,947	2,238
<b>NET INCOME (LOSS)</b>	(29,413)	4,410		1,251	247
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES FROM GOVERNMENTAL OPERATIONS</b>			99		
<b>DEPRECIATION ON FIXED ASSETS ACQUIRED THROUGH CAPITAL CONTRIBUTIONS</b>				3	496
<b>INCREASE (DECREASE) IN RETAINED EARNINGS/FUND BALANCES</b>	(29,413)	4,410	99	1,254	743
<b>RETAINED EARNINGS (DEFICIT) / FUND BALANCE AT BEGINNING OF YEAR (as restated)</b>	(288,296)	(14,940)	3,304	8,970	(1,043)
<b>RESIDUAL EQUITY TRANSFER</b>					
<b>TRANSFER TO CONTRIBUTED CAPITAL</b>					
<b>RETAINED EARNINGS (DEFICIT) / FUND BALANCE AT END OF YEAR</b>	\$ (317,709)	\$ (10,530)	\$ 3,403	\$ 10,224	\$ (300)

**COMMONWEALTH OF PUERTO RICO**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN**  
**RETAINED EARNINGS (DEFICIT) / FUND BALANCES -**  
**COMPONENT UNITS - OTHER**  
**Year Ended June 30, 1999**  
**(Expressed in Thousands)**

	Institutional Trust of the National Guard of Puerto Rico	Puerto Rico Health Insurance Administration	Farm Credit Guarantee Fund and Guarantee Loan Fund for Eligible Business of Puerto Rico	Puerto Rico Council on Higher Education	Farm Insurance Corporation of Puerto Rico
<b>OPERATING REVENUES:</b>					
Charges for services	\$ 4,977	\$ 150,034	\$	\$	\$ 4,706
Financing income			3,574		
Investment earnings					
Other					
Total operating revenues	4,977	150,034	3,574		4,706
<b>OPERATING EXPENSES:</b>					
Cost of services	3,532	859,433	3,039		13,387
Interest					
Depreciation and amortization	270	447			27
Other					
Total operating expenses	3,802	859,880	3,039		13,414
<b>OPERATING INCOME (LOSS)</b>	<b>1,175</b>	<b>(709,846)</b>	<b>535</b>		<b>(8,708)</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>					
Intergovernmental					
Interest income	403	1,317			258
Interest expense	(336)		(209)		
Other, net					175
Total non-operating revenues (expenses)	67	1,317	(209)		433
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>1,242</b>	<b>(708,529)</b>	<b>326</b>		<b>(8,275)</b>
<b>TRANSFERS:</b>					
From component units - other					
From (to) primary government	1,235	723,134	4,000		
<b>TRANSFERS, net</b>	<b>1,235</b>	<b>723,134</b>	<b>4,000</b>		
<b>NET INCOME (LOSS)</b>	<b>2,477</b>	<b>14,605</b>	<b>4,326</b>		<b>(8,275)</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES FROM GOVERNMENTAL OPERATIONS</b>	<b>231</b>			<b>(15,811)</b>	
<b>DEPRECIATION ON FIXED ASSETS ACQUIRED THROUGH CAPITAL CONTRIBUTIONS</b>					
<b>INCREASE (DECREASE) IN RETAINED EARNINGS/FUND BALANCES</b>	<b>2,708</b>	<b>14,605</b>	<b>4,326</b>	<b>(15,811)</b>	<b>(8,275)</b>
<b>RETAINED EARNINGS (DEFICIT) / FUND BALANCE AT BEGINNING OF YEAR (as restated)</b>	<b>6,488</b>	<b>(14,602)</b>	<b>1,016</b>	<b>16,508</b>	<b>9,655</b>
<b>RESIDUAL EQUITY TRANSFER</b>					
<b>TRANSFER TO CONTRIBUTED CAPITAL</b>					
<b>RETAINED EARNINGS (DEFICIT) / FUND BALANCE AT END OF YEAR</b>	<b>\$ 9,196</b>	<b>\$ 3</b>	<b>\$ 5,342</b>	<b>\$ 697</b>	<b>\$ 1,380</b>

**COMMONWEALTH OF PUERTO RICO**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
RETAINED EARNINGS (DEFICIT) / FUND BALANCES -  
COMPONENT UNITS - OTHER  
Year Ended June 30, 1999  
(Expressed in Thousands)**

	Employment and Training Enterprises Corporation	Medical University Services, Inc.	Caribbean Basin Projects Financing Authority	Puerto Rico Conservatory of Music Corporation	Musical Arts Corporation and Subsidiaries
<b>OPERATING REVENUES:</b>					
Charges for services	\$ 3,199	\$ 5,045	\$	\$ 761	\$ 667
Financing income					
Investment earnings					
Other		82		35	
Total operating revenues	3,199	5,127		796	667
<b>OPERATING EXPENSES:</b>					
Cost of services	3,924	6,900	2	3,880	7,399
Interest					
Depreciation and amortization	212	29		195	62
Other					
Total operating expenses	4,136	6,929	2	4,075	7,461
<b>OPERATING INCOME (LOSS)</b>	(937)	(1,802)	(2)	(3,279)	(6,794)
<b>NON-OPERATING REVENUES (EXPENSES):</b>					
Intergovernmental	693				975
Interest income	151		215	11	
Interest expense					
Other, net	(1,437)		5	140	801
Total non-operating revenues (expenses)	(593)		220	151	1,776
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	(1,530)	(1,802)	218	(3,128)	(5,018)
<b>TRANSFERS:</b>					
From component units - other					
From (to) primary government				3,340	5,646
<b>TRANSFERS, net</b>				3,340	5,646
<b>NET INCOME (LOSS)</b>	(1,530)	(1,802)	218	212	628
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES FROM GOVERNMENTAL OPERATIONS</b>					
<b>DEPRECIATION ON FIXED ASSETS ACQUIRED THROUGH CAPITAL CONTRIBUTIONS</b>					
<b>INCREASE (DECREASE) IN RETAINED EARNINGS/FUND BALANCES</b>	(1,530)	(1,802)	218	212	628
<b>RETAINED EARNINGS (DEFICIT) / FUND BALANCE AT BEGINNING OF YEAR (as restated)</b>	(3,950)		4,328	1,193	688
<b>RESIDUAL EQUITY TRANSFER</b>					
<b>TRANSFER TO CONTRIBUTED CAPITAL</b>					
<b>RETAINED EARNINGS (DEFICIT) / FUND BALANCE AT END OF YEAR</b>	\$ (5,480)	\$ (1,802)	\$ 4,546	\$ 1,405	\$ 1,316

**COMMONWEALTH OF PUERTO RICO**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES  
RETAINED EARNINGS (DEFICIT) / FUND BALANCES -  
COMPONENT UNITS - OTHER  
Year Ended June 30, 1999  
(Expressed in Thousands)**

	Puerto Rico School of Plastic Arts	Industries for the Blind, Mentally Retarded and Other Disabled Persons Puerto Rico	Total
<b>OPERATING REVENUES:</b>			
Charges for services	\$	\$ 573	\$ 4,719,458
Financing income			169,977
Investment earnings			386,579
Other			35,192
Total operating revenues		573	5,311,206
<b>OPERATING EXPENSES:</b>			
Cost of services		774	4,577,140
Interest			405,764
Depreciation and amortization		3	744,172
Other			5,497
Total operating expenses		777	5,732,573
<b>OPERATING INCOME (LOSS)</b>		<b>(204)</b>	<b>(421,367)</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Intergovernmental			10,888
Interest income			216,634
Interest expense			(392,223)
Other, net		1	(102,853)
Total non-operating revenues (expenses)		1	(267,554)
<b>INCOME (LOSS) BEFORE TRANSFERS</b>		<b>(203)</b>	<b>(688,921)</b>
<b>TRANSFERS:</b>			
From component units - other			600
From (to) primary government		147	782,959
<b>TRANSFERS, net</b>		<b>147</b>	<b>783,559</b>
<b>NET INCOME (LOSS)</b>		<b>(56)</b>	<b>94,638</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES FROM GOVERNMENTAL OPERATIONS</b>	<b>173</b>		<b>(181,885)</b>
<b>DEPRECIATION ON FIXED ASSETS ACQUIRED THROUGH CAPITAL CONTRIBUTIONS</b>			<b>68,429</b>
<b>INCREASE (DECREASE) IN RETAINED EARNINGS/FUND BALANCES</b>	<b>173</b>	<b>(56)</b>	<b>(18,818)</b>
<b>RETAINED EARNINGS (DEFICIT) / FUND BALANCE AT BEGINNING OF YEAR (as restated)</b>	<b>778</b>	<b>(61)</b>	<b>2,725,728</b>
<b>RESIDUAL EQUITY TRANSFER</b>			<b>(309,576)</b>
<b>TRANSFER TO CONTRIBUTED CAPITAL</b>			<b>(379)</b>
<b>RETAINED EARNINGS (DEFICIT) / FUND BALANCE AT END OF YEAR</b>	<b>\$ 951</b>	<b>\$ (117)</b>	<b>\$ 2,396,955</b>

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS - OTHER

Year Ended June 30, 1999

(Expressed in Thousands)

	Government Development Bank for Puerto Rico and Subsidiaries	Puerto Rico Highway and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	Puerto Rico Infrastructure Financing Authority
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ 98,060	\$ (16,989)	\$ 275,532	\$ (158,217)	\$ 19,378
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	1,477	1,381	199,831	114,904	
Provision for uncollectible accounts	3,386		5,230	27,064	
Amortization of debt discount				(241)	
Net loss (gain) on disposition of fixed assets					
Net (gain) on sale of investments and fixed assets	(1,571)				
Contribution in lieu of taxes			(69,059)		
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating income (loss)	(98,530)			1,203	(19,378)
Other	(31,721)				(10,924)
Change in assets and liabilities:					
Increase in:					
Receivables	(73)			(17,219)	
Inventories			(8,792)	(4,098)	
Other assets	(430)		(4,303)	(2,074)	
Accounts payable and accrued liabilities			16,354		
Deposits			6,919	2,006	
Interest payable					
Deferred revenues					
Other liabilities	18,890		37,347		
Decrease in:					
Receivables			76,043		
Inventories					
Other assets					
Accounts payable and accrued liabilities				(80,997)	
Deposits					
Interest payable					
Deferred revenues					
Accrued compensated absences				(3,090)	
Other liabilities					
<b>Total adjustments</b>	<b>(108,572)</b>	<b>1,381</b>	<b>259,570</b>	<b>37,458</b>	<b>(30,302)</b>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (10,512)</b>	<b>\$ (15,608)</b>	<b>\$ 535,102</b>	<b>\$ (120,759)</b>	<b>\$ (10,924)</b>

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS - OTHER

Year Ended June 30, 1999

(Expressed in Thousands)

	Puerto Rico Housing Bank and Finance Agency	State Insurance Fund Corporation	Economic Development Bank for Puerto Rico	Puerto Rico Ports Authority	Puerto Rico Municipal Finance Agency
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ (1,703)	\$ (75,184)	\$ (6,727)	\$ 4,390	\$ (4,015)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	107	8,352	1,025	27,172	
Provision for uncollectible accounts	(2,712)	43,266	7,476	10,017	
Amortization of debt discount	303			147	
Net loss (gain) on disposition of fixed assets	(205)				
Net (gain) on sale of investments and fixed assets	11,347		(6,723)		9,601
Contribution in lieu of taxes					
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating income (loss)		6,083	(13,287)	11,405	
Other		(312)	9,691	(15,857)	(5,683)
Change in assets and liabilities:					
Increase in:					
Receivables		(18,558)		(7,815)	
Inventories					
Other assets			(4,006)	(213)	
Accounts payable and accrued liabilities		17,048	1,519		
Deposits				157	
Interest payable					
Deferred revenues		2,847			
Other liabilities					
Decrease in:					
Receivables	2,801				
Inventories		624		65	
Other assets	59				
Accounts payable and accrued liabilities	(1,004)			(5,967)	(37)
Deposits					
Interest payable					
Deferred revenues				(1,061)	(83)
Accrued compensated absences					
Other liabilities				(334)	
Total adjustments	10,696	59,350	(4,305)	17,716	3,798
Net cash provided by (used in) operating activities	\$ 8,993	\$ (15,834)	\$ (11,032)	\$ 22,106	\$ (217)

**COMMONWEALTH OF PUERTO RICO**

**COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS - OTHER**  
**Year Ended June 30, 1999**  
**(Expressed in Thousands)**

	Puerto Rico Industrial Development Company	Puerto Rico Telephone Authority	Automobile Accident Compensation Administration	Puerto Rico Land Administration	Recreational Development Company of Puerto Rico
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ (4,996)	\$ 217,377	\$ (38,291)	\$ 9,759	\$
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	13,432	346,886	2,286	1,338	
Provision for uncollectible accounts	3,618		6,862	459	
Amortization of debt discount	2,984				
Net loss (gain) on disposition of fixed assets	(4,086)	13,638		(10,868)	
Net (gain) on sale of investments and fixed assets			(12,880)		
Contribution in lieu of taxes		(178,516)			
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating income (loss)			14,080		
Other	4,809	28,574		(37)	
Change in assets and liabilities:					
Increase in:					
Receivables		(72,715)	(3,112)		
Inventories					
Other assets	(3,049)	(580)			
Accounts payable and accrued liabilities		88,461	616	301	
Deposits					
Interest payable					
Deferred revenues			1,898		
Other liabilities					
Decrease in:					
Receivables	287			169	
Inventories		6,403			
Other assets			106	42	
Accounts payable and accrued liabilities	(5,218)				
Deposits					
Interest payable	(2,095)				
Deferred revenues					
Accrued compensated absences					
Other liabilities					
Total adjustments	10,682	232,151	9,856	(8,596)	
Net cash provided by (used in) operating activities	\$ 5,686	\$ 449,528	\$ (28,435)	\$ 1,163	\$

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS - OTHER  
 Year Ended June 30, 1999  
 (Expressed in Thousands)

	Puerto Rico Medical Services Administration	Puerto Rico Exports Development Corporation	Tourism Company of Puerto Rico	Puerto Rico and Caribbean Cardiovascular Center Corporation	Agricultural Services and Development Administration
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ (10,221)	\$ 3,350	\$ 82,704	\$ (3,450)	\$ (17,311)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	4,331	2,354	2,510	3,872	1,150
Provision for uncollectible accounts		200		497	
Amortization of debt discount					
Net loss (gain) on disposition of fixed assets	18		(7,986)		(2)
Net (gain) on sale of investments and fixed assets			8,245		
Contribution in lieu of taxes					
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating income (loss)		(234)	8,729	(3,793)	394
Other		183			
Change in assets and liabilities:					
Increase in:					
Receivables		(247)		(3,342)	
Inventories				(533)	
Other assets	(347)		(1,761)	(136)	
Accounts payable and accrued liabilities			2,965	2,209	4,191
Deposits					
Interest payable					
Deferred revenues					
Other liabilities		253			
Decrease in:					
Receivables	21,596		2,412		1,316
Inventories	56				16,879
Other assets					
Accounts payable and accrued liabilities	(4,908)				
Deposits					
Interest payable					
Deferred revenues					(339)
Accrued compensated absences					
Other liabilities					
<b>Total adjustments</b>	<b>20,746</b>	<b>2,509</b>	<b>15,114</b>	<b>(1,226)</b>	<b>23,589</b>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 10,525</b>	<b>\$ 5,859</b>	<b>\$ 97,818</b>	<b>\$ (4,676)</b>	<b>\$ 6,278</b>

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS - OTHER

Year Ended June 30, 1999

(Expressed in Thousands)

	Land Authority of Puerto Rico	Puerto Rico Metropolitan Bus Authority	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority	Trust for the Conservation, Operation and Maintenance of the Puerto Rico National Parks	Solid Waste Authority of Puerto Rico
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ (6,411)	\$ (28,380)	\$ 1,986	\$	\$ (8,405)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	633	5,284			1,364
Provision for uncollectible accounts					135
Amortization of debt discount					
Net loss (gain) on disposition of fixed assets					
Net (gain) on sale of investments and fixed assets	(2,771)				
Contribution in lieu of taxes					
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating income (loss)		1,376			
Other	2,583				
Change in assets and liabilities:					
Increase in:					
Receivables	(4,450)				(517)
Inventories		(782)			
Other assets			(6)		
Accounts payable and accrued liabilities	9,075	1,499	3,340		3,327
Deposits					
Interest payable			700		
Deferred revenues					
Other liabilities					
Decrease in:					
Receivables		2,359			
Inventories	317				
Other assets	181	21			2
Accounts payable and accrued liabilities	(1)				
Deposits					
Interest payable		(340)			
Deferred revenues					(22)
Accrued compensated absences					
Other liabilities		(115)			
Total adjustments	5,567	9,302	4,034		4,289
Net cash provided by (used in) operating activities	\$ (844)	\$ (19,078)	\$ 6,020	\$	\$ (4,116)

**COMMONWEALTH OF PUERTO RICO**

**COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS - OTHER**  
**Year Ended June 30, 1999**  
**(Expressed In Thousands)**

	Sugar Corporation of Puerto Rico	Corporation of Stocks and Deposits Insurance for the Savings and Loans Cooperatives	Right to Employment Administration	Puerto Rico Public Broadcasting Corporation	Fine Arts Center Corporation
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$	\$ 1,771	\$	\$ (23,544)	\$ (1,968)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization		160		2,511	567
Provision for uncollectible accounts				24	8
Amortization of debt discount					
Net loss (gain) on disposition of fixed assets					
Net (gain) on sale of investments and fixed assets					
Contribution in lieu of taxes					
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating income (loss)					
Other	(29,413)	31			
Change in assets and liabilities:					
Increase in:					
Receivables				(343)	
Inventories	(3,888)				
Other assets	(70)			(1,536)	
Accounts payable and accrued liabilities	16,004	2,925			
Deposits					
Interest payable					
Deferred revenues					
Other liabilities					
Decrease in:					
Receivables	6,968	5			2
Inventories					
Other assets					12
Accounts payable and accrued liabilities				(1,035)	(222)
Deposits					(1)
Interest payable					
Deferred revenues					
Accrued compensated absences					
Other liabilities					
Total adjustments	(10,400)	3,121		(379)	366
Net cash provided by (used in) operating activities	\$ (10,400)	\$ 4,892	\$	\$ (23,923)	\$ (1,602)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS - OTHER

Year Ended June 30, 1999

(Expressed in Thousands)

	Institutional Trust of the National Guard of Puerto Rico	Puerto Rico Health Insurance Administration	Farm Credit Guarantee Fund and Guarantee Loan Fund for Eligible Business of Puerto Rico	Puerto Rico Council on Higher Education	Farm Insurance Corporation of Puerto Rico
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ 1,175	\$ (709,846)	\$ 535	\$	\$ (8,708)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	270	447			27
Provision for uncollectible accounts			2,395		
Amortization of debt discount			354		
Net loss (gain) on disposition of fixed assets		13			
Net (gain) on sale of investments and fixed assets					
Contribution in lieu of taxes					
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating income (loss)					
Other					
Change in assets and liabilities:					
Increase in:					
Receivables		(806)	(1,086)		(2,560)
Inventories					
Other assets		(4)			(19)
Accounts payable and accrued liabilities	56				802
Deposits					
Interest payable					
Deferred revenues		751			
Other liabilities			139		
Decrease in:					
Receivables	255				
Inventories					
Other assets					
Accounts payable and accrued liabilities		(6,739)			
Deposits					
Interest payable					
Deferred revenues					(173)
Accrued compensated absences		(119)			
Other liabilities					
Total adjustments	581	(6,457)	1,802		(1,923)
Net cash provided by (used in) operating activities	\$ 1,756	\$ (716,303)	\$ 2,337	\$	\$ (10,631)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS - OTHER

Year Ended June 30, 1999

(Expressed in Thousands)

	Employment and Training Enterprises Corporation	Medical University Services, Inc.	Caribbean Basin Projects Financing Authority	Puerto Rico Conservatory of Music Corporation	Musical Arts Corporation and Subsidiaries
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ (937)	\$ (1,802)	\$ (2)	\$ (3,279)	\$ (6,794)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	212	29		195	62
Provision for uncollectible accounts	40	108			
Amortization of debt discount					
Net loss (gain) on disposition of fixed assets					
Net (gain) on sale of investments and fixed assets					
Contribution in lieu of taxes					
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating income (loss)			5		801
Other	(593)				
Change in assets and liabilities:					
Increase in:					
Receivables	(434)	(3,333)			(306)
Inventories	(627)	(729)			
Other assets		(379)		(9)	
Accounts payable and accrued liabilities	1,522	4,012			
Deposits					
Interest payable					
Deferred revenues					
Other liabilities					
Decrease in:					
Receivables				7	
Inventories					
Other assets	13				6
Accounts payable and accrued liabilities			(1)	(136)	(105)
Deposits					
Interest payable					
Deferred revenues					(99)
Accrued compensated absences					
Other liabilities				(13)	
Total adjustments	133	(292)	4	44	359
Net cash provided by (used in) operating activities	\$ (804)	\$ (2,094)	\$ 2	\$ (3,235)	\$ (6,435)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS - OTHER  
 Year Ended June 30, 1999  
 (Expressed in Thousands)

	Puerto Rico School of Plastic Arts	Industries for the Blind, Mentally Retarded and Other Disabled Persons Puerto Rico	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$	\$ (204)	\$ (421,367)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization		3	744,172
Provision for uncollectible accounts			108,073
Amortization of debt discount			3,547
Net loss (gain) on disposition of fixed assets			(9,478)
Net (gain) on sale of investments and fixed assets			5,248
Contribution in lieu of taxes			(247,575)
Net cash flow effect of noncapital financing, capital and related financing and investing activities included in operating income (loss)		1	(91,539)
Other			(48,275)
Change in assets and liabilities:			
Increase in:			
Receivables			(136,916)
Inventories			(19,450)
Other assets			(18,922)
Accounts payable and accrued liabilities		16	176,242
Deposits			9,082
Interest payable			700
Deferred revenues			5,496
Other liabilities			56,629
Decrease in:			
Receivables		11	114,231
Inventories		14	24,358
Other assets			442
Accounts payable and accrued liabilities			(106,370)
Deposits			(1)
Interest payable			(2,435)
Deferred revenues			(1,777)
Accrued compensated absences			(3,209)
Other liabilities			(482)
Total adjustments		45	581,811
Net cash provided by (used in) operating activities	\$	\$ (159)	\$ 140,444

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS - OTHER  
 Year Ended June 30, 1999  
 (Expressed in Thousands)

	Government Development Bank for Puerto Rico and Subsidiaries	Puerto Rico Highway and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	Puerto Rico Infrastructure Financing Authority
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Proceeds from notes and loans	\$ 974,309	\$	\$ 989,556	\$ 112,000	\$
Principal paid on notes and loans	(879,138)		(988,628)		
Interest paid on notes and loans	(219,664)		(7,867)	(2,196)	
Operating grants received				35,000	
Transfers-in from primary government		15,608			
Transfers-out to primary government					
Transfers from component units					1,200,000
Transfers to component units					
Capital contributions		323,934			
Net decrease in securities lending transactions					
Net cash provided by (used in) noncapital financing activities	(124,493)	339,542	(6,739)	144,804	1,200,000
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Acquisition and construction of capital assets	(153)	(323,934)	(298,914)	(295,704)	
Proceeds from issuance of bonds and notes			339,752	249,574	
Principal paid on bonds and notes			(421,451)	(57,854)	
Interest paid on bonds and notes			(204,237)	(14,458)	
Proceeds from sale of equipment					
Capital contributions				122,438	
Net cash used in capital and related financing activities	(153)	(323,934)	(584,850)	3,996	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of investments securities	(11,568,590)		(868,728)		(3,919,938)
Proceeds from sales and maturities of investments securities	11,928,123		865,521		2,730,529
Purchases of units in the Puerto Rico Government Investment Trust Fund					
Redemptions of units in the Puerto Rico Government Investment Trust Fund					
Interest and dividends on investments	328,213		53,622	2,497	334
Principal collected on loans to:					
Public entities of the Commonwealth of Puerto Rico	1,035,882				
Private sector	104,312				
Loans originated to:					
Public entities of the Commonwealth of Puerto Rico	(1,552,874)				
Private sector	(3,000)				
Net cash provided by (used in) investing activities	272,066		50,415	2,497	(1,189,075)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	136,908		(6,072)	30,538	1
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	69,743		82,237	1,568	
<b>CASH AND CASH EQUIVALENTS FROM GOVERNMENTAL OPERATIONS</b>		60,352			56,231
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 206,651	\$ 60,352	\$ 76,165	\$ 32,106	\$ 56,232

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS - OTHER  
 Year Ended June 30, 1999  
 (Expressed in Thousands)

	Puerto Rico Housing Bank and Finance Agency	State Insurance Fund Corporation	Economic Development Bank for Puerto Rico	Puerto Rico Ports Authority	Puerto Rico Municipal Finance Agency
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Proceeds from notes and loans	\$ 1,090,003	\$	\$ 23,213	\$ 11,000	\$
Principal paid on notes and loans	(1,182,525)				(65,432)
Interest paid on notes and loans			(50,434)		(38,690)
Operating grants received			7,132		
Transfers-in from primary government					
Transfers-out to primary government		(24,236)			
Transfers from component units					
Transfers to component units					
Capital contributions	4,755				
Net decrease in securities lending transactions		(12,637)	(34,565)		
Net cash provided by (used in) noncapital financing activities	(87,767)	(36,873)	(54,654)	11,000	(104,122)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Acquisition and construction of capital assets	(605)	(11,263)	(1,397)	(61,802)	
Proceeds from issuance of bonds and notes				31,341	
Principal paid on bonds and notes		(13,608)		(6,555)	
Interest paid on bonds and notes				(9,638)	
Proceeds from sale of equipment	888				
Capital contributions				17,782	
Net cash used in capital and related financing activities	283	(24,871)	(1,397)	(28,872)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of investments securities	(1,295,958)	(696,994)	(763,259)		(3,901)
Proceeds from sales and maturities of investments securities	1,357,342	726,323	759,128		63,276
Purchases of units in the Puerto Rico Government Investment Trust Fund					
Redemptions of units in the Puerto Rico Government Investment Trust Fund					
Interest and dividends on investments		53,363	65,840	2,566	45,823
Principal collected on loans to:					
Public entities of the Commonwealth of Puerto Rico	9,010		1,209		
Private sector			47,136		
Loans originated to:					
Public entities of the Commonwealth of Puerto Rico	(29,705)				
Private sector			(39,124)		
Net cash provided by (used in) investing activities	40,689	82,692	70,730	2,566	105,198
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(37,802)	5,114	3,847	6,800	859
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	372,302	2,127	3,441	56,917	10,140
<b>CASH AND CASH EQUIVALENTS FROM GOVERNMENTAL OPERATIONS</b>	21,514				
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 356,014	\$ 7,241	\$ 7,088	\$ 63,717	\$ 10,999

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS - OTHER  
 Year Ended June 30, 1999  
 (Expressed in Thousands)

	Puerto Rico Industrial Development Company	Puerto Rico Telephone Authority	Automobile Accident Compensation Administration	Puerto Rico Land Administration	Recreational Development Company of Puerto Rico
<b>CASH FLOWS FROM NONCAPITAL FINANCING</b>					
<b>ACTIVITIES:</b>					
Proceeds from notes and loans	\$	\$	\$	\$	\$
Principal paid on notes and loans					
Interest paid on notes and loans					
Operating grants received	14,291				
Transfers-in from primary government					
Transfers-out to primary government					
Transfers from component units					
Transfers to component units		(1,200,000)			
Capital contributions	1,094				
Net decrease in securities lending transactions					
Net cash provided by (used in) noncapital financing activities	15,385	(1,200,000)			
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Acquisition and construction of capital assets	(29,413)	(321,152)	(1,096)	(7,315)	
Proceeds from issuance of bonds and notes	1,256	1,583,044			
Principal paid on bonds and notes	(6,932)	(894,128)	(2,974)	(550)	
Interest paid on bonds and notes		(49,558)	(4)		
Proceeds from sale of equipment	6,955	8,382		21,247	
Capital contributions				550	
Net cash used in capital and related financing activities	(28,134)	326,588	(4,074)	13,932	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of investments securities		(750,922)	(177,925)		
Proceeds from sales and maturities of investments securities		1,215,195	195,417		
Purchases of units in the Puerto Rico Government Investment Trust Fund				(18,315)	
Redemptions of units in the Puerto Rico Government Investment Trust Fund					
Interest and dividends on investments		22,362	11,200	2,205	
Principal collected on loans to:					
Public entities of the Commonwealth of Puerto Rico					
Private sector					
Loans originated to:					
Public entities of the Commonwealth of Puerto Rico					
Private sector					
Net cash provided by (used in) investing activities		486,635	28,692	(16,110)	
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(7,063)	62,751	(3,817)	(1,015)	
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	30,940	21,254	8,863	4,251	
<b>CASH AND CASH EQUIVALENTS FROM GOVERNMENTAL OPERATIONS</b>					10,488
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 23,877	\$ 84,005	\$ 5,046	\$ 3,236	\$ 10,488

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS - OTHER  
Year Ended June 30, 1999

(Expressed in Thousands)

	Puerto Rico Medical Services Administration	Puerto Rico Exports Development Corporation	Tourism Company of Puerto Rico	Puerto Rico and Caribbean Cardiovascular Center Corporation	Agricultural Services and Development Administration
<b>CASH FLOWS FROM NONCAPITAL FINANCING</b>					
<b>ACTIVITIES:</b>					
Proceeds from notes and loans	\$	\$	\$ 7,961	\$	\$
Principal paid on notes and loans		(4,996)	(43,483)		(23,508)
Interest paid on notes and loans		(2,004)	(8,729)		(1,346)
Operating grants received				4,998	17,420
Transfers-in from primary government					
Transfers-out to primary government			(92,112)		
Transfers from component units					
Transfers to component units					
Capital contributions				904	4,094
Net decrease in securities lending transactions					
Net cash provided by (used in) noncapital financing activities		(7,000)	(136,363)	5,902	(3,340)
<b>CASH FLOWS FROM CAPITAL AND RELATED</b>					
<b>FINANCING ACTIVITIES:</b>					
Acquisition and construction of capital assets	(1,839)	(4,833)	(4,133)	(423)	(217)
Proceeds from issuance of bonds and notes	10,000				
Principal paid on bonds and notes	(604)			(1,049)	
Interest paid on bonds and notes	(164)				
Proceeds from sale of equipment			51,024		2
Capital contributions		3,500			
Net cash used in capital and related financing activities	7,393	(1,333)	46,891	(1,472)	(215)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of investments securities		(3,617)	(361)		
Proceeds from sales and maturities of investments securities			2,030		
Purchases of units in the Puerto Rico Government Investment Trust Fund					
Redemptions of units in the Puerto Rico Government Investment Trust Fund	820				
Interest and dividends on investments		1,247			27
Principal collected on loans to:					
Public entities of the Commonwealth of Puerto Rico		3,792			
Private sector					
Loans originated to:					
Public entities of the Commonwealth of Puerto Rico					
Private sector					
Net cash provided by (used in) investing activities	820	1,422	1,669		27
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>18,738</b>	<b>(1,052)</b>	<b>10,015</b>	<b>(246)</b>	<b>2,750</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>9,456</b>	<b>1,636</b>	<b>11,233</b>	<b>3,415</b>	<b>2,453</b>
<b>CASH AND CASH EQUIVALENTS FROM GOVERNMENTAL OPERATIONS</b>			<b>5,190</b>		<b>24,589</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 28,194</b>	<b>\$ 584</b>	<b>\$ 26,438</b>	<b>\$ 3,169</b>	<b>\$ 29,792</b>

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS - OTHER  
 Year Ended June 30, 1999  
 (Expressed in Thousands)

	Lend Authority of Puerto Rico	Puerto Rico Metropolitan Bus Authority	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority	Trust for the Conservation, Operation and Maintenance of the Puerto Rico National Parks	Solid Waste Authority of Puerto Rico
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Proceeds from notes and loans	\$	\$	\$	\$	\$
Principal paid on notes and loans					
Interest paid on notes and loans					
Operating grants received	2,032	23,917			19,981
Transfers-in from primary government					
Transfers-out to primary government					
Transfers from component units					
Transfers to component units					
Capital contributions					210
Net decrease in securities lending transactions					
Net cash provided by (used in) noncapital financing activities	2,032	23,917			20,191
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Acquisition and construction of capital assets	(2,241)	(10,931)	(32,561)		(17,969)
Proceeds from issuance of bonds and notes		1,510	28,519		1,899
Principal paid on bonds and notes		(3,854)			(31)
Interest paid on bonds and notes					(2)
Proceeds from sale of equipment	3,062				
Capital contributions		11,073			
Net cash used in capital and related financing activities	821	(2,202)	(4,042)		(16,103)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of investments securities					
Proceeds from sales and maturities of investments securities					
Purchases of units in the Puerto Rico Government Investment Trust Fund					
Redemptions of units in the Puerto Rico Government Investment Trust Fund					
Interest and dividends on investments	491		1,256		925
Principal collected on loans to:					
Public entities of the Commonwealth of Puerto Rico					
Private sector	113				
Loans originated to:					
Public entities of the Commonwealth of Puerto Rico					
Private sector					
Net cash provided by (used in) investing activities	604		1,256		925
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	2,613	2,637	3,234		897
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	10,412	10,946	24,634		20,886
<b>CASH AND CASH EQUIVALENTS FROM GOVERNMENTAL OPERATIONS</b>				13,802	
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 13,025	\$ 13,583	\$ 27,868	\$ 13,802	\$ 21,783

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS - OTHER  
 Year Ended June 30, 1999  
 (Expressed in Thousands)

	Sugar Corporation of Puerto Rico	Corporation of Stocks and Deposits Insurance for the Savings and Loans Cooperatives	Right to Employment Administration	Puerto Rico Public Broadcasting Corporation	Fine Arts Center Corporation
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Proceeds from notes and loans	\$ 28,201	\$	\$	\$	\$
Principal paid on notes and loans	(8,232)				(130)
Interest paid on notes and loans					
Operating grants received				23,953	2,225
Transfers-in from primary government					
Transfers-out to primary government					
Transfers from component units				600	
Transfers to component units					
Capital contributions		3,114			
Net decrease in securities lending transactions					
Net cash provided by (used in) noncapital financing activities	19,969	3,114		24,553	2,095
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Acquisition and construction of capital assets		(311)		(357)	(530)
Proceeds from issuance of bonds and notes					
Principal paid on bonds and notes				(13)	(15)
Interest paid on bonds and notes				(3)	
Proceeds from sale of equipment					
Capital contributions				3,000	
Net cash used in capital and related financing activities		(311)		2,627	(545)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of investments securities		(248,716)			
Proceeds from sales and maturities of investments securities		238,974			
Purchases of units in the Puerto Rico Government Investment Trust Fund					
Redemptions of units in the Puerto Rico Government Investment Trust Fund					
Interest and dividends on investments		2,409		338	64
Principal collected on loans to:					
Public entities of the Commonwealth of Puerto Rico					
Private sector					
Loans originated to:					
Public entities of the Commonwealth of Puerto Rico					
Private sector					
Net cash provided by (used in) investing activities		(7,333)		338	64
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	9,569	362		3,595	12
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	2,572	490		534	1,067
<b>CASH AND CASH EQUIVALENTS FROM GOVERNMENTAL OPERATIONS</b>			26,548		
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 12,141	\$ 852	\$ 26,548	\$ 4,129	\$ 1,079

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS - OTHER  
 Year Ended June 30, 1999  
 (Expressed in Thousands)

	Institutional Trust of the National Guard of Puerto Rico	Puerto Rico Health Insurance Administration	Farm Credit Guarantee Fund and Guarantee Loan Fund for Eligible Business of Puerto Rico	Puerto Rico Council on Higher Education	Farm Insurance Corporation of Puerto Rico
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Proceeds from notes and loans	\$ 1,208	\$	\$	\$	\$
Principal paid on notes and loans					
Interest paid on notes and loans					
Operating grants received		723,134	4,000		
Transfers-in from primary government					
Transfers-out to primary government					
Transfers from component units					
Transfers to component units					
Capital contributions					
Net decrease in securities lending transactions					
Net cash provided by (used in) noncapital financing activities	1,208	723,134	4,000		
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Acquisition and construction of capital assets	(52)	(484)			(67)
Proceeds from issuance of bonds and notes					
Principal paid on bonds and notes	(503)	(9)	(3,749)		
Interest paid on bonds and notes	(331)		(209)		
Proceeds from sale of equipment			689		
Capital contributions					
Net cash used in capital and related financing activities	(888)	(493)	(3,269)		(67)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of investments securities	(250)				
Proceeds from sales and maturities of investments securities	261				
Purchases of units in the Puerto Rico Government Investment Trust Fund	(127)				
Redemptions of units in the Puerto Rico Government Investment Trust Fund					
Interest and dividends on investments	393	1,299			432
Principal collected on loans to:					
Public entities of the Commonwealth of Puerto Rico					
Private sector					
Loans originated to:					
Public entities of the Commonwealth of Puerto Rico					
Private sector					
Net cash provided by (used in) investing activities	277	1,299			432
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,365</b>	<b>7,637</b>	<b>3,068</b>		<b>(10,288)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>2,349</b>	<b>1,164</b>	<b>3,281</b>		<b>10,930</b>
<b>CASH AND CASH EQUIVALENTS FROM GOVERNMENTAL OPERATIONS</b>	<b>231</b>			<b>715</b>	
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 4,935</b>	<b>\$ 8,801</b>	<b>\$ 6,329</b>	<b>\$ 715</b>	<b>\$ 664</b>

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS - OTHER  
 Year Ended June 30, 1999  
 (Expressed in Thousands)

	Employment and Training Enterprises Corporation	Medical University Services, Inc.	Caribbean Basin Projects Financing Authority	Puerto Rico Conservatory of Music Corporation	Musical Arts Corporation and Subsidiaries
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Proceeds from notes and loans	\$	\$	\$	\$	\$
Principal paid on notes and loans					
Interest paid on notes and loans					
Operating grants received				3,340	6,621
Transfers-in from primary government					
Transfers-out to primary government					
Transfers from component units		2,700			
Transfers to component units					
Capital contributions				2,000	
Net decrease in securities lending transactions					
Net cash provided by (used in) noncapital financing activities		2,700		5,340	6,621
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Acquisition and construction of capital assets		(168)		(253)	(180)
Proceeds from issuance of bonds and notes	(53)				
Principal paid on bonds and notes					
Interest paid on bonds and notes					
Proceeds from sale of equipment					
Capital contributions					
Net cash used in capital and related financing activities	(53)	(168)		(253)	(180)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of investments securities				(2,887)	
Proceeds from sales and maturities of investments securities				1,058	
Purchases of units in the Puerto Rico Government Investment Trust Fund					
Redemptions of units in the Puerto Rico Government Investment Trust Fund					
Interest and dividends on investments			215	169	
Principal collected on loans to:					
Public entities of the Commonwealth of Puerto Rico					
Private sector					
Loans originated to:					
Public entities of the Commonwealth of Puerto Rico					
Private sector					
Net cash provided by (used in) investing activities			215	(1,680)	
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(857)</b>	<b>438</b>	<b>217</b>	<b>192</b>	<b>6</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>2,494</b>		<b>4,313</b>	<b>494</b>	<b>1,618</b>
<b>CASH AND CASH EQUIVALENTS FROM GOVERNMENTAL OPERATIONS</b>					
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 1,637</b>	<b>\$ 438</b>	<b>\$ 4,530</b>	<b>\$ 686</b>	<b>\$ 1,624</b>

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS - OTHER  
 Year Ended June 30, 1999  
 (Expressed in Thousands)

	Puerto Rico School of Plastic Arts	Industries for the Blind, Mentally Retarded and Other Disabled Persons Puerto Rico	Total
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Proceeds from notes and loans	\$	\$	\$ 3,236,243
Principal paid on notes and loans			(3,194,864)
Interest paid on notes and loans			(330,730)
Operating grants received		147	888,191
Transfers-in from primary government			15,608
Transfers-out to primary government			(116,348)
Transfers from component units			1,203,300
Transfers to component units			(1,200,000)
Capital contributions			340,105
Net decrease in securities lending transactions			(47,202)
Net cash provided by (used in) noncapital financing activities		147	794,303
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets			(1,430,297)
Proceeds from issuance of bonds and notes			2,246,842
Principal paid on bonds and notes			(1,413,879)
Interest paid on bonds and notes			(278,604)
Proceeds from sale of equipment			92,249
Capital contributions			158,343
Net cash used in capital and related financing activities			(625,346)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investments securities			(20,302,048)
Proceeds from sales and maturities of investments securities			20,083,177
Purchases of units in the Puerto Rico Government Investment Trust Fund			(18,442)
Redemptions of units in the Puerto Rico Government Investment Trust Fund			820
Interest and dividends on investments			597,090
Principal collected on loans to:			
Public entities of the Commonwealth of Puerto Rico			1,049,893
Private sector			151,561
Loans originated to:			
Public entities of the Commonwealth of Puerto Rico			(1,582,579)
Private sector			(42,124)
Net cash provided by (used in) investing activities			(62,650)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		(12)	246,751
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		20	790,160
<b>CASH AND CASH EQUIVALENTS FROM GOVERNMENTAL OPERATIONS</b>	832		220,492
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 832	\$ 8	\$ 1,257,403

**GENERAL FIXED ASSETS ACCOUNT GROUP**

# COMMONWEALTH OF PUERTO RICO

## SCHEDULE OF GENERAL FIXED ASSETS - BY SOURCE

JUNE 30, 1999 (Expressed in Thousands)

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### General fixed assets:

Land	\$	70,143
Buildings and improvements		1,578,846
Equipment		103,259
Construction in progress		<u>401,686</u>

**Total general fixed assets** \$ 2,153,934

### Investment in general fixed assets by source:

General fund	\$	135,129
Capital projects funds		2,016,823
Debt service funds		<u>1,982</u>

**Total investment in general fixed assets** \$ 2,153,934

**COMMONWEALTH OF PUERTO RICO**

**SCHEDULE OF GENERAL FIXED ASSETS - BY FUNCTION AND ACTIVITY  
JUNE 30, 1999 (Expressed in Thousands)**

Function and Activity	Land	Buildings	Equipment	Construction in Progress	Total
<b>General Government</b>					
Public Buildings Authority	\$ 70,143	\$ 1,523,919	\$ 11,343	\$ 401,686	\$ 2,007,091
House of Representatives			240		240
General Services Administration			17,568		17,568
Municipal Services Administration			734		734
Department of Family Affairs			1,170		1,170
Office of Management and Budget			528		528
Commonwealth Electoral Commission			2,145		2,145
Planning Board			587		587
Department of the Treasury			12,905		12,905
Commissioner of Financial Institutions			185		185
Department of Transportation and Public Works			829		829
Department of Agriculture			1,000		1,000
Department of Labor and Human Resources		10,370	1,668		12,038
Industrial Commission			294		294
Department of Recreation and Sports			295		295
Environmental Quality Board			111		111
Permits and Regulations Administration			196		196
Department of Natural and Environmental Resources			945		945
<b>Total General Government</b>	<b>70,143</b>	<b>1,534,289</b>	<b>52,743</b>	<b>401,686</b>	<b>2,058,861</b>
<b>Education</b>					
Office for the Improvement of Public Schools			2,028		2,028
Department of Education			7,189		7,189
<b>Total Education</b>			<b>9,217</b>		<b>9,217</b>
<b>Public Safety</b>					
Department of Justice			1,934		1,934
Puerto Rico Volunteers Service Corporation			335		335
Correction Administration			3,982		3,982
General Court of Justice		44,557	13,075		57,632
Police Department			13,057		13,057
Pre-Trial Services Office			552		552
Puerto Rico Firefighters Corps			6,876		6,876
Juvenile Institutions Administration			1,488		1,488
<b>Total Public Safety</b>		<b>44,557</b>	<b>41,299</b>		<b>85,856</b>
<b>Total General Fixed Assets</b>	<b>\$ 70,143</b>	<b>\$ 1,578,846</b>	<b>\$ 103,259</b>	<b>\$ 401,686</b>	<b>\$ 2,153,934</b>

COMMONWEALTH OF PUERTO RICO

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS - BY FUNCTION AND ACTIVITY  
 YEAR ENDED JUNE 30, 1999 (Expressed In Thousands)

Function and Activity	Balance as of July 1, 1998 (As Restated)	Additions	Retirements	Balance as of June 30, 1999
<b>General Government</b>				
Public Buildings Authority	\$ 1,973,644	\$ 376,192	\$ (342,745)	\$ 2,007,091
House of Representatives	240			240
General Services Administration	17,568			17,568
Municipal Services Administration	734			734
Department of Family Affairs	2,757		(1,587)	1,170
Office of Management and Budget	153	375		528
Commonwealth Electoral Commission	1,813	332		2,145
Planning Board	415	172		587
Department of the Treasury	3,023	9,882		12,905
Commissioner of Financial Institutions	185			185
Department of Transportation and Public Works	503	326		829
Department of Agriculture	110	890		1,000
Department of Labor and Human Resources	12,524		(486)	12,038
Industrial Commission	1,645		(1,351)	294
Department of Recreation and Sports	295			295
Environmental Quality Board	111			111
Permits and Regulations Administration		196		196
Office of the Governor	1,207		(1,207)	
Department of Natural and Environmental Resources	1,111		(166)	945
<b>Total General Government</b>	<u>2,018,038</u>	<u>388,365</u>	<u>(347,542)</u>	<u>2,058,861</u>
<b>Education</b>				
Office for the Improvement of Public Schools	1,982	70	(24)	2,028
Department of Education	7,313		(124)	7,189
<b>Total Education</b>	<u>9,295</u>	<u>70</u>	<u>(148)</u>	<u>9,217</u>
<b>Public Safety</b>				
Department of Justice	1,934			1,934
Puerto Rico Volunteers Service Corporation	335			335
Correction Administration	3,982			3,982
General Court of Justice	49,405	8,227		57,632
Police Department	12,817	240		13,057
Pre-Trial Services Office		552		552
Puerto Rico Firefighters Corps	5,873	1,003		6,876
Juvenile Institutions Administration	1,488			1,488
<b>Total Public Safety</b>	<u>75,834</u>	<u>10,022</u>		<u>85,856</u>
<b>Total General Fixed Assets</b>	<u>\$ 2,103,167</u>	<u>\$ 398,457</u>	<u>\$ (347,690)</u>	<u>\$ 2,153,934</u>

**COMMONWEALTH OF PUERTO RICO**  
**COMBINING STATEMENT OF PRIMARY GOVERNMENT**  
**GENERAL FIXED ASSETS ACCOUNT GROUP**  
**JUNE 30, 1999**  
**(Expressed in Thousands)**

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<b>ASSETS</b>	<b>Commonwealth of Puerto Rico</b>	<b>Public Buildings Authority</b>	<b>Office for the Improvement of Public Schools</b>	<b>Totals</b>
Land	\$	\$ 70,143	\$	\$ 70,143
Building and improvements	54,927	1,523,919		1,578,846
Equipment	89,888	11,343	2,028	103,259
Construction in progress		401,686		401,686
Total Assets	<u>144,815</u>	<u>2,007,091</u>	<u>2,028</u>	<u>2,153,934</u>
<b>INVESTMENT IN GENERAL FIXED ASSETS</b>	<u>\$ 144,815</u>	<u>\$ 2,007,091</u>	<u>\$ 2,028</u>	<u>\$ 2,153,934</u>

## **GENERAL LONG-TERM DEBT ACCOUNT GROUP**

**COMMONWEALTH OF PUERTO RICO**  
**COMBINING STATEMENT OF PRIMARY GOVERNMENT**  
**GENERAL LONG TERM DEBT ACCOUNT GROUP**  
**JUNE 30, 1999**  
**(Expressed in Thousands)**

	Commonwealth of Puerto Rico	Public Buildings Authority	Puerto Rico Maritime Shipping Authority	Totals
<b>ASSETS</b>				
Amount to be provided for retirement of bonds and notes payable	\$ 5,107,932	\$ 1,745,243	\$	\$ 6,853,175
Amount to be provided for payment of accrued compensated absences, and other long-term liabilities	<u>4,640,577</u>	<u>105,748</u>	<u>289,453</u>	<u>5,035,778</u>
<b>TOTAL ASSETS</b>	<u>\$ 9,748,509</u>	<u>\$ 1,850,991</u>	<u>\$ 289,453</u>	<u>\$ 11,888,953</u>
<b>LIABILITIES</b>				
Debt payable to component units	\$ 932,830	\$	\$ 289,453	\$ 1,222,283
Notes payable	44,813			44,813
Bonds payable	5,063,119	1,745,243		6,808,362
Accrued compensated absences	811,173			811,173
Other long-term liabilities	540,135	105,748		645,883
Net pension obligation	<u>2,356,439</u>			<u>2,356,439</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 9,748,509</u>	<u>\$ 1,850,991</u>	<u>\$ 289,453</u>	<u>\$ 11,888,953</u>

## **STATISTICAL SECTION**

**Commonwealth of Puerto Rico**  
**General Governmental Expenditures by Function**  
**All Governmental Fund Types**  
**For the Last Ten Fiscal Years**  
**(Expressed in Thousands)**

Function:	1999	%	1998	1997	1996	1995	1994	1993	1992	1991	1990	Totals
General Government	\$ 526,629	5.8	\$ 484,547	\$ 499,652	\$ 661,359	\$ 451,275	\$ 341,066	\$ 412,606	\$ 388,053	\$ 453,827	\$ 317,946	\$ 4,536,960
Public Safety	1,103,606	12.2	1,241,762	1,188,814	926,498	878,673	798,367	679,354	644,666	573,443	541,705	8,576,888
Health	625,475	6.9		508,659	245,743	231,212	192,118	109,235	189,129	204,030	219,331	2,524,932
Public Housing and Welfare	2,485,092	27.3	1,902,902	2,086,828	1,701,434	1,681,688	1,524,344	1,402,358	1,447,961	1,317,881	1,555,010	17,105,498
Education	2,272,903	25.0	2,744,630	1,960,185	1,832,271	1,760,784	1,511,610	1,260,580	1,583,749	1,295,220	1,270,230	17,492,162
Economic Development	314,897	3.5	186,296	333,290	88,143	154,796	235,915	405,002	435,215	525,164	530,221	3,208,939
Intergovernmental	318,664	3.5	55,739	496,844	306,226	207,389	184,261	504,244	331,700	372,648	246,105	3,023,820
Lottery Prizes*								288,041	416,873	314,866	315,924	1,335,704
Capital Outlays	642,016	7.1	1,515,230	1,395,463	1,255,430	848,801	549,352	630,589	746,708	651,739	497,324	8,732,652
Debt Service:												
Principal	351,722	3.8	620,866	359,851	367,198	660,133	317,561	294,983	310,166	526,230	232,520	4,041,230
Interest and Other	442,614	4.9	595,053	556,835	504,480	435,549	348,260	385,664	357,645	358,546	331,548	4,316,194
<b>Total Expenditures - All Governmental Fund Types</b>	<b>\$ 9,083,618</b>	<b>100.0</b>	<b>\$ 9,347,025</b>	<b>\$ 9,386,421</b>	<b>\$ 7,888,782</b>	<b>\$ 7,310,300</b>	<b>\$ 6,002,854</b>	<b>\$ 6,372,656</b>	<b>\$ 6,851,865</b>	<b>\$ 6,593,594</b>	<b>\$ 6,057,864</b>	<b>\$ 74,894,979</b>

\* In 1994 the Commonwealth made a change in its financial reporting policy for its Lotteries (Traditional and Additional). The revenues from the Lotteries were reported within the General Fund until fiscal year 1993, and since 1994 have been reported in the Enterprise Fund. Management believes that this change adequately reflects the operations of the Lotteries.

**Commonwealth of Puerto Rico**  
**General Governmental Revenues by Source**  
**All Governmental Fund Types**  
**For the Last Ten Fiscal Years**  
**(Expressed in Thousands)**

Source:	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	Totals
<b>Taxes:</b>											
Income	\$ 4,413,860	\$ 3,989,239	\$ 3,622,988	\$ 3,396,724	\$ 3,242,876	\$ 2,876,542	\$ 2,418,006	\$ 2,478,803	\$ 2,318,144	\$ 2,050,501	\$ 30,807,683
Property							77,289	121,087	195,015	164,563	557,954
Excise	1,714,444	1,884,348	1,827,305	1,713,537	1,664,529	1,589,770	1,529,241	1,348,022	1,283,270	1,345,668	15,900,134
Other	78,926	73,426	64,910	57,662	56,556	53,521	52,787	57,125	47,456	49,249	591,618
Charges for Services	457,454	569,096	464,034	461,736	455,500	236,609	727,093	682,474	550,287	475,414	5,079,697
Intergovernmental	3,435,765	3,009,169	3,077,042	2,545,615	2,492,443	2,328,427	2,024,451	2,211,605	2,114,584	2,159,501	25,398,602
Interest	97,880	116,030	110,777	59,788							384,475
Other	162,228	189,476	134,819	186,591	170,025	144,227	116,637	207,207	218,262	220,053	1,749,525
<b>Total Revenues - All Governmental Fund Types</b>	<u>\$ 10,360,557</u>	<u>\$ 9,830,784</u>	<u>\$ 9,301,875</u>	<u>\$ 8,421,653</u>	<u>\$ 8,081,929</u>	<u>\$ 7,229,096</u>	<u>\$ 6,945,504</u>	<u>\$ 7,106,323</u>	<u>\$ 6,727,018</u>	<u>\$ 6,464,949</u>	<u>\$ 80,469,688</u>

**Commonwealth of Puerto Rico**  
**Computation of the Legal Debt Margin**  
**July 1, 1999**  
**(Expressed in Thousands)**

Statuary Margin	
Section 2, Article VI of the Constitution of Puerto Rico	
Internal Revenues for the year ended June 30, 1998	\$ 5,630,040
Internal Revenues for the year ended June 30, 1999 (p)	<u>6,228,388</u>
Total Internal Revenues for the years ended June 30, 1998-1999	<u>\$ 11,858,428</u>
Internal Revenues average for the two years	<u>\$ 5,929,214</u>
Legal Debt Limit - 15% of Internal Revenues average for the two years	\$ 889,382
Maximum Debt Service Requirement - 8.978% on Commonwealth Bonds maturing 7/1/2000	<u>532,324</u>
Additional Legal Debt Service Requirement Margin	<u>\$ 357,058</u>

(p) Preliminary

Source: Government Development Bank for Puerto Rico

**Commonwealth of Puerto Rico**  
**Ratio of Annual Debt Service for General**  
**Bonded Debt to Total General Expenditures**  
**For the Last Ten Fiscal Years**  
**(Expressed in Thousands)**

Fiscal Year	Total Debt Service	General Governmental Expenditures	Ratio (%)
1999	\$ 468,970	\$ 9,083,618	5.2
1998	435,894	10,003,523	4.4
1997	430,153	9,386,421	4.6
1996	424,753	7,888,782	5.4
1995	389,278	7,310,300	5.3
1994	362,294	6,002,854	6
1993	356,291	6,372,656	5.6
1992	331,290	6,851,865	4.8
1991	296,142	6,593,594	4.5
1990	296,141	6,057,864	4.9

**Commonwealth of Puerto Rico  
Demographic Statistics  
For the Last Ten Fiscal Years**

Fiscal Year	(1) Population *	Per Capita Income	(1) Median Age **	(2) School Enrollment	(1) Unemployment Rate (%)
1999 (p)	3,860	N/A	30.1	753,705	12.4
1998	3,819	8,817	28.0	753,428	13.6
1997	3,770	8,509	28.0	749,938	13.1
1996	3,726	8,084	28.0	770,537	13.8
1995	3,703	7,394	28.0	709,559	13.8
1994	3,654	7,079	28.0	714,705	16
1993	3,600	6,835	28.0	741,914	16.8
1992	3,564	6,429	28.0	755,009	16.5
1991	3,538	6,187	28.0	759,668	15.2
1990	3,513	6,009	28.0	782,175	14.3

\* Amounts expressed in thousands.

\*\* Estimated value using the distribution of total population.

(p) Preliminary

N/A Not Available

(1) Source: Puerto Rico Planning Board

(2) Source: Department of Education of Puerto Rico

**Commonwealth of Puerto Rico  
Construction and Bank Deposits  
For the Last Ten Fiscal Years**

Fiscal Year	Commercial Construction (1)		Residential Construction (1)		(2) Bank Deposits *	
	Number of Permits	Value *	Number of Permits	Value *		
1999	(p)	286	\$ 106,186	6,498	\$ 694,714	\$ 28,423,313
1998		351	147,486	6,732	631,465	25,354,086
1997		354	149,121	6,159	635,343	23,191,572
1996		291	89,405	6,180	582,186	24,191,572
1995		346	126,021	6,678	674,797	22,876,069
1994		37	81,087	6,677	470,158	19,350,635
1993		346	89,960	5,806	493,027	18,687,652
1992		48	26,714	5,041	357,792	18,684,334
1991		78	53,736	5,445	458,421	17,443,855
1990		67	31,973	4,702	377,158	18,592,129

\* Amounts expressed in thousands

(p) Preliminary

(1) Source: Puerto Rico Planning Board.

(2) Source: Commissioner of Financial Institutions

**Commonwealth of Puerto Rico**  
**Miscellaneous Statistics**  
**June 30, 1999**

Statistic	Quantity
Population ( millions )	3.8 (p)
Life expectancy	75
Area in square miles	3,426
<b>Fire Protection (1999):</b>	
Number of stations	92
Number of fire personnel and officers	2,004
Calls answered	28,575
Building inspections conducted	14,621
<b>Police Protection (1999):</b>	
Number of stations	236
Police personnel and officers	20,305
Total police vehicles	4,545
<b>Water System (1999):</b>	
Customers	1,163,673
Water consumption ( millions of cubic meter )	348
<b>Electric Distribution System (1999):</b>	
Customers	1,326,055
Electricity consumption ( millions of kilowatt )	16,989.2
Electricity production ( millions of kilowatt )	20,140.8
<b>Education:</b>	
<b>Enrollment in public schools (1999):</b>	
kindergarten to sixth grade	350,714
seventh to ninth grade	144,157
tenth to twelfth grade	114,684
<b>Enrollment in private schools (1998):</b>	
kindergarten to sixth grade	91,997
seventh to ninth grade	28,448
tenth to twelfth grade	23,705
<b>Enrollment in universities and colleges (1998):</b>	
Public	72,010
Private	103,623

(p) Preliminary

Source: Various Commonwealth Public Agencies

**Commonwealth of Puerto Rico  
General Fund Net Revenues  
For The Last Ten Fiscal Years  
(Expressed in Thousands)**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999 (p)
<b>TOTAL</b>	3,648,124	3,881,981	3,861,136	4,025,305	4,665,331	5,080,139	5,247,616	5,600,748	5,902,506	6,507,043
<b>FROM INTERNAL REVENUES</b>	3,345,161	3,588,810	3,573,070	3,767,832	4,357,569	4,780,492	4,974,918	5,335,879	5,630,040	6,228,392
<b>TAX REVENUES</b>	3,174,949	3,427,499	3,356,945	3,531,014	4,111,119	4,531,788	4,729,320	5,095,218	5,358,805	5,939,504
<b>PROPERTY TAXES</b>	109,227	132,360	15,003	12,877	4,567	7,889	5,107	8,286	5,673	2,214
<b>INCOME TAXES, TOTAL</b>	2,060,499	2,325,513	2,335,631	2,401,279	2,856,134	3,220,937	3,368,175	3,610,016	3,972,869	4,390,804
INDIVIDUALS	1,025,084	1,123,733	1,122,335	1,241,924	1,409,824	1,578,269	1,709,116	1,825,337	2,026,612	2,310,376
CORPORATIONS	836,337	931,912	1,019,468	975,134	1,107,265	1,304,612	1,348,160	1,440,691	1,527,415	1,544,762
PARTNERSHIPS	2,119	4,001	1,167	1,165	1,802	3,391	3,323	2,120	4,404	2,087
WITHHOLDING TO NONRESIDENTS	53,510	48,312	62,066	50,531	73,626	79,072	78,235	88,603	192,463	369,384
TOLLGATE TAX (REGULAR)	100,201	176,851	98,502	98,771	130,829	110,945	78,554	83,640	65,285	49,249
TOLLGATE TAX (PREPAYMENT)	-	-	-	-	93,527	109,928	100,900	126,605	105,668	65,284
INTEREST SUBJECT TO 17% TAXES ON DIVIDENDS	16,819	15,060	8,505	6,076	5,293	6,070	6,662	7,582	11,406	10,666
TAXES ON DIVIDENDS	26,429	25,644	23,588	27,678	33,968	28,650	43,225	35,438	39,616	38,996
<b>INHERITANCE AND GIFT TAXES</b>	820	1,421	1,148	1,072	934	1,535	1,547	4,028	1,380	1,811
<b>EXCISE TAXES, TOTAL</b>	961,785	928,722	958,321	1,067,535	1,200,400	1,252,327	1,304,024	1,419,353	1,312,716	1,473,827
<b>ALCOHOLIC BEVERAGES, TOTAL</b>	222,184	219,055	216,890	215,035	220,882	222,187	237,915	229,043	238,118	243,464
DISTILLED SPIRITS	54,528	54,634	48,537	48,535	45,864	50,586	54,934	51,855	48,034	47,519
BEER	159,394	157,258	161,484	159,471	168,555	162,630	172,425	167,321	178,465	181,348
OTHER BEVERAGES	8,262	7,163	6,869	7,029	6,463	8,971	10,556	9,867	11,619	14,597
<b>GENERAL TAXES, TOTAL</b>	739,601	709,667	741,431	852,500	979,518	1,030,140	1,066,109	1,190,310	1,074,598	1,230,363
CIGARETTES	113,809	104,454	102,400	106,740	115,453	107,943	107,177	120,287	111,094	119,105
PETROLEUM PRODUCTS	9,048	8,547	8,742	13,415	12,782	16,706	20,006	22,095	6,172	5,562
MOTOR VEHICLE	178,888	172,272	178,329	217,012	275,654	319,676	307,931	365,820	350,004	411,573
HORSE RACES	17,639	17,285	17,062	27,068	28,899	30,828	29,535	29,138	27,401	21,405
INSURANCE PREMIUMS	15,086	15,258	16,570	14,289	22,687	20,942	20,748	19,430	19,364	20,368
CEMENT	1,975	1,498	1,563	1,616	1,773	1,849	1,901	2,234	1,702	2,417
SLOT MACHINES	-	-	-	-	-	-	-	-	12,230	26,330
CRUDE OIL AND DERIVED PRODUCTS	112,790	112,166	120,374	130,465	152,911	139,594	157,742	158,739	51,636	70,056
5% GENERAL EXCISE TAX	277,663	263,868	279,812	325,056	346,015	367,545	396,689	446,500	468,425	520,351
HOTEL ROOMS	4,178	6,764	7,189	7,845	9,152	10,800	11,237	12,139	13,299	15,923
OTHERS	8,525	7,555	9,390	8,994	14,192	14,257	13,143	13,928	13,271	17,273
<b>LICENSES</b>	42,618	39,483	46,842	48,251	49,084	49,100	50,467	53,535	66,167	70,848
MOTOR VEHICLES	31,040	29,602	36,964	38,560	39,257	38,530	39,667	42,354	46,268	46,781
ENTERTAINMENT MACHINES	-	-	-	-	-	-	-	-	7,327	9,235
ALCOHOLIC BEVERAGES	1,860	1,947	2,025	2,055	2,115	2,172	2,293	2,301	2,338	4,560
OTHERS	9,718	7,934	7,853	7,636	7,712	8,398	8,507	8,880	10,234	10,272
<b>NON-TAX REVENUES</b>	170,212	161,311	216,125	236,818	246,450	248,704	245,598	240,661	271,235	288,888
TRADITIONAL LOTTERY	74,416	68,327	60,597	70,821	62,348	63,317	60,856	52,829	57,986	59,206
ELECTRONIC LOTTERY	-	-	59,091	56,284	52,193	59,414	57,008	47,994	54,681	53,013
MISCELLANEOUS	95,796	92,984	96,437	109,713	131,909	125,973	127,734	139,838	158,568	176,669
<b>FROM NON-INTERNAL REVENUES</b>	302,963	293,171	288,066	257,473	307,762	299,647	272,698	264,869	272,466	278,651
CUSTOM DUTIES	89,249	94,384	93,038	89,741	122,477	112,153	77,781	61,114	72,206	61,355
EXCISES ON OFF-SHORE SHIPMENTS	213,714	198,787	195,028	167,732	185,285	187,494	194,917	203,755	200,260	217,296

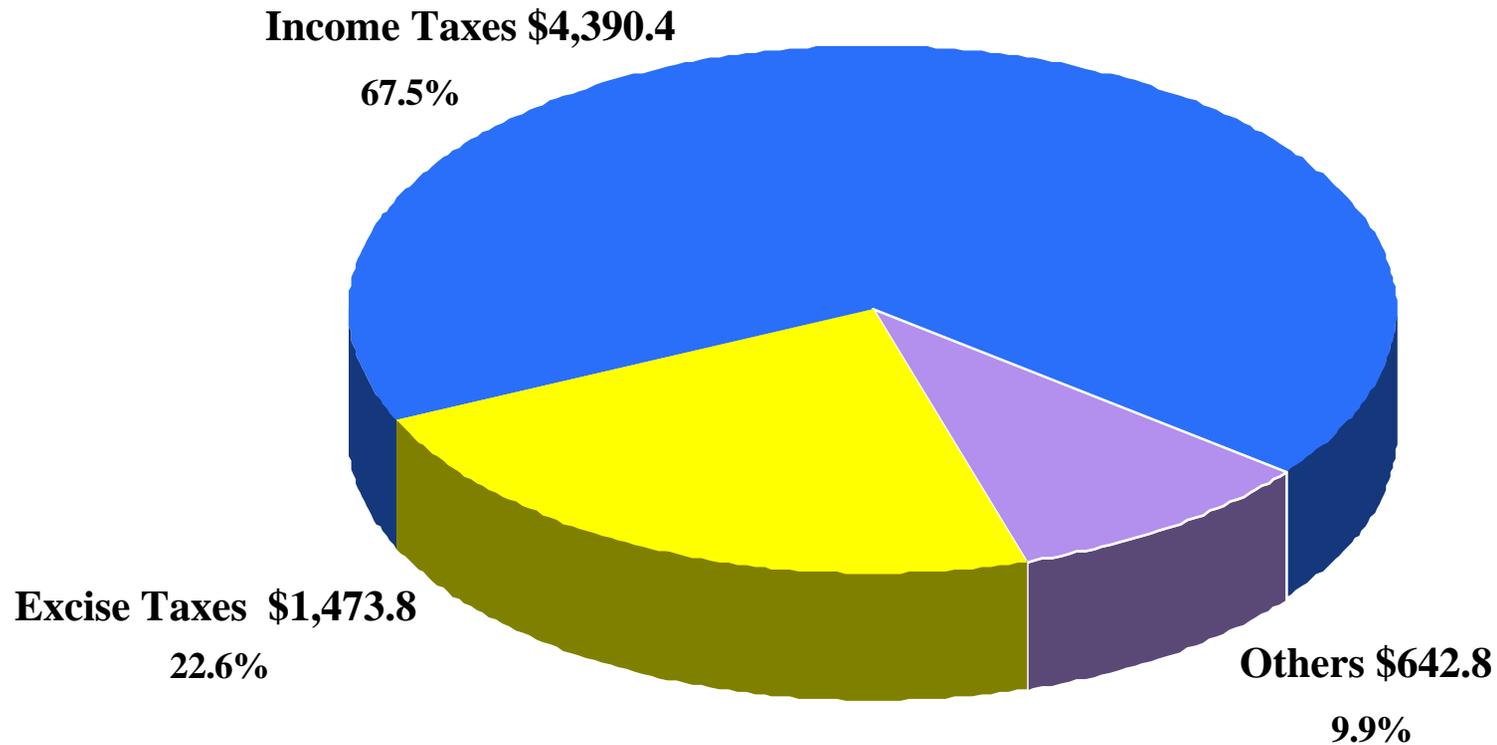
Note : The revenues in the General Fund included in financial statements reflect revenues from other sources in accordance with generally accepted accounting principles.

(p) Preliminary

Source: Puerto Rico Treasury Department

# Commonwealth of Puerto Rico General Fund Net Revenues

For the Fiscal Year 1999  
(Expressed in Millions)

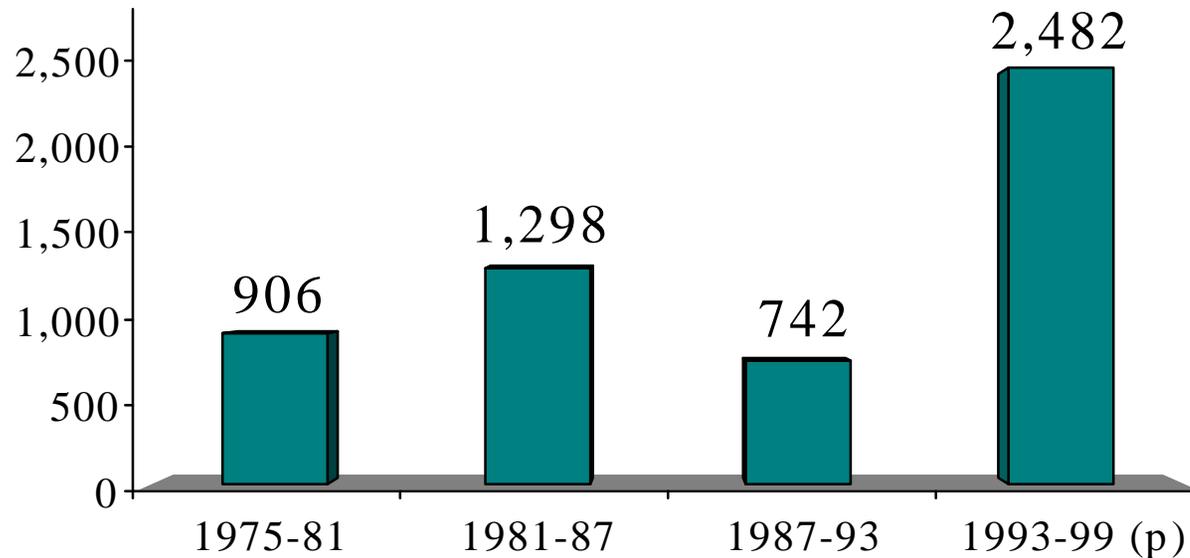


Note: The revenues in the General Fund included in financial statement reflect revenues from other sources in accordance with generally accepted accounting principles.

Source: Puerto Rico Treasury Department

# Commonwealth of Puerto Rico Six Year Term Growth in General Fund Net Revenues

(Expressed in millions of dollars)



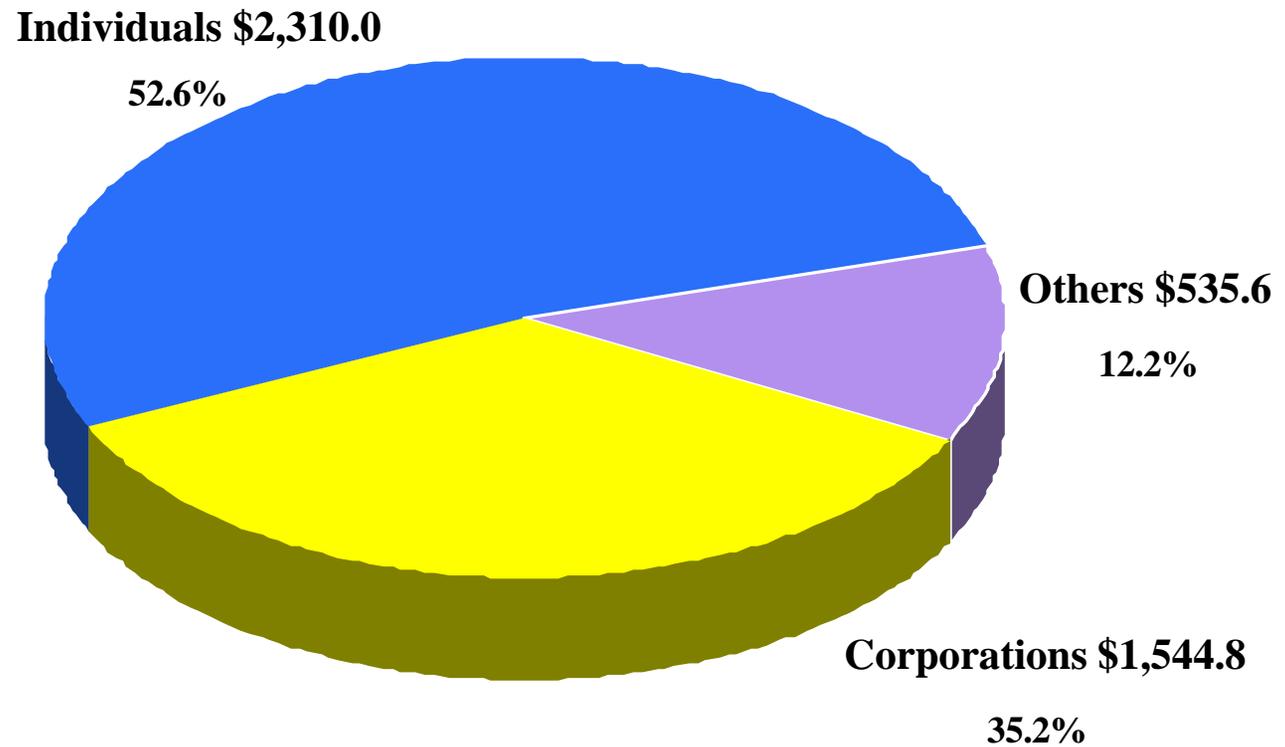
Note: The revenues in the general fund included in the general purpose financial statement reflect revenues from other sources in accordance with generally accepted accounting principles.

(p) Preliminary

Source: Puerto Rico Treasury Department

# Commonwealth of Puerto Rico Income Tax Receipts

For the Fiscal Year 1999  
(Expressed in Millions)



Source: Puerto Rico Treasury Department

**Commonwealth of Puerto Rico**  
**Gross Product**  
**For The Last Nine Fiscal Years**  
**(Expressed in millions)**

	1999 (p)	1998	1997	1996	1995	1994	1993	1992	1991
<b>Gross Product - (Current Prices) (1)</b>	\$ 38,098	\$ 34,817	\$ 32,096	\$ 30,331	\$ 28,452	\$ 26,641	\$ 25,133	\$ 23,696	\$ 22,809
<b>Real Gross Product - (1992 Prices) (2)</b>	29,728	28,539	27,671	26,825	25,965	25,101	24,481	23,696	23,510
<b>Increase in Real Gross Product (%)</b>									
<b>Puerto Rico</b>	4.2	3.1	3.2	3.3	3.4	2.5	3.3	0.8	0.9
<b>United States</b>	3.9	3.7	3.6	2.7	2.9	2.9	2.8	0.9	(0.6)

(p) Preliminary

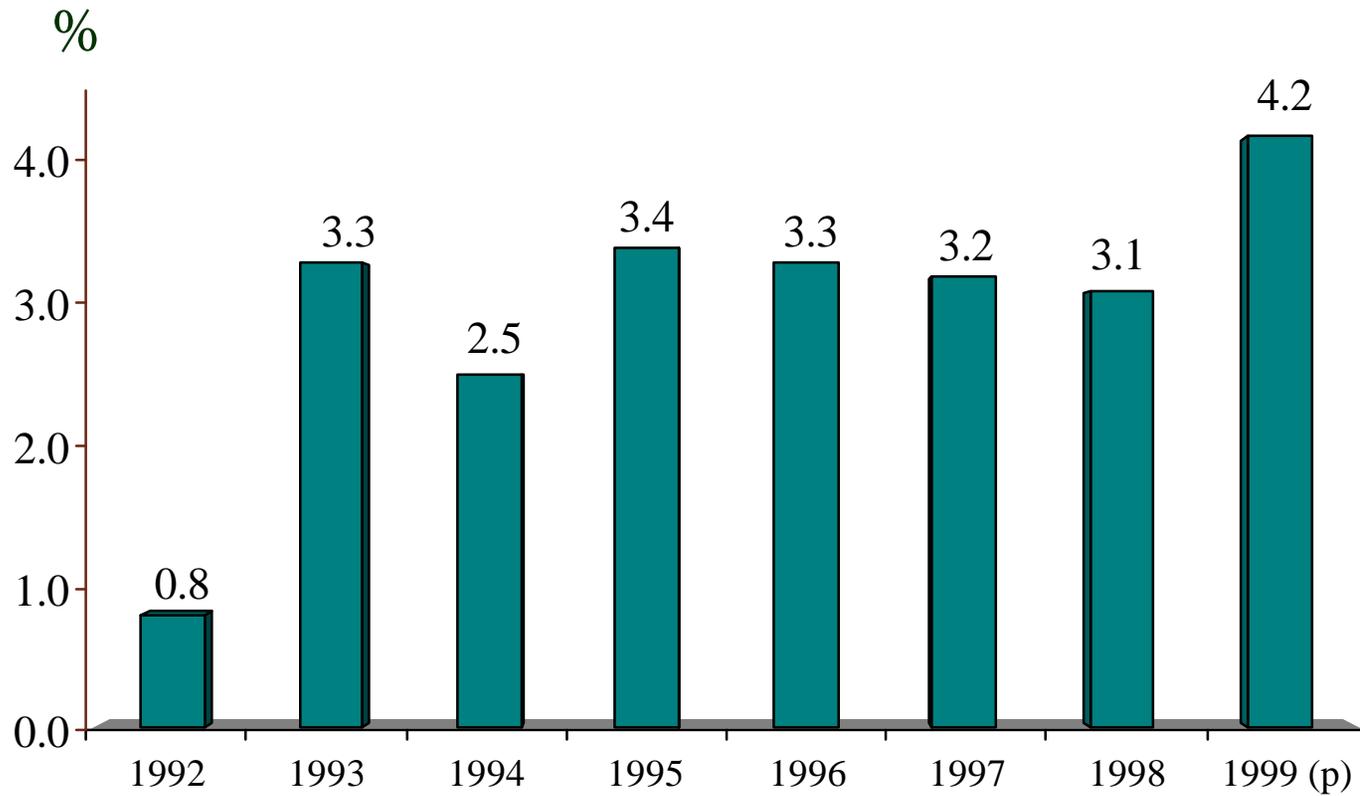
(1) Source: Puerto Rico Planning Board

(2) Source: Government Development Bank for Puerto Rico

# Commonwealth of Puerto Rico

## Real Gross Product Growth

For the Last Eight Fiscal Years



(p) Preliminary

Source: Puerto Rico Planning Board.

**Commonwealth of Puerto Rico  
Employment and Unemployment  
For the Last Ten Fiscal Years  
(Expressed in Thousands)**

<b>Fiscal Year</b>	<b>Labor Force</b>	<b>Employed</b>	<b>Unemployed</b>	<b>Unemployment Rate (%)</b>
1999	1,310	1,147	163	12.4
1998	1,316	1,137	179	13.6
1997	1,298	1,128	170	13.1
1996	1,267	1,092	175	13.8
1995	1,219	1,051	168	13.8
1994	1,203	1,011	192	16.0
1993	1,201	999	202	16.8
1992	1,170	977	193	16.5
1991	1,152	977	175	15.2
1990	1,124	963	161	14.3

Source: Department of Labor and Human Resources, Household Survey

**Commonwealth of Puerto Rico  
Average Employment by Sector  
For the Last Ten Fiscal Years  
(Expressed in Thousands)**

Sector	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Agriculture	27	31	31	32	34	34	34	34	35	36
Manufacturing	159	161	161	167	172	166	168	164	164	168
Construction (1)	78	69	64	59	57	54	59	56	55	56
Trade	229	236	228	218	211	201	201	193	195	185
Finance , Insurance and Real Estates	43	40	37	39	36	33	32	32	32	30
Transportation , Communications and Public Utilities	59	59	59	61	59	55	54	55	58	60
Services	306	297	285	270	249	244	234	224	221	206
Government (2)	246	244	263	246	233	224	217	219	217	222
<b>Total</b>	1,147	1,137	1,128	1,092	1,051	1,011	999	977	977	963

Note : Includes populations of 16 years and older

(1) Includes mining.

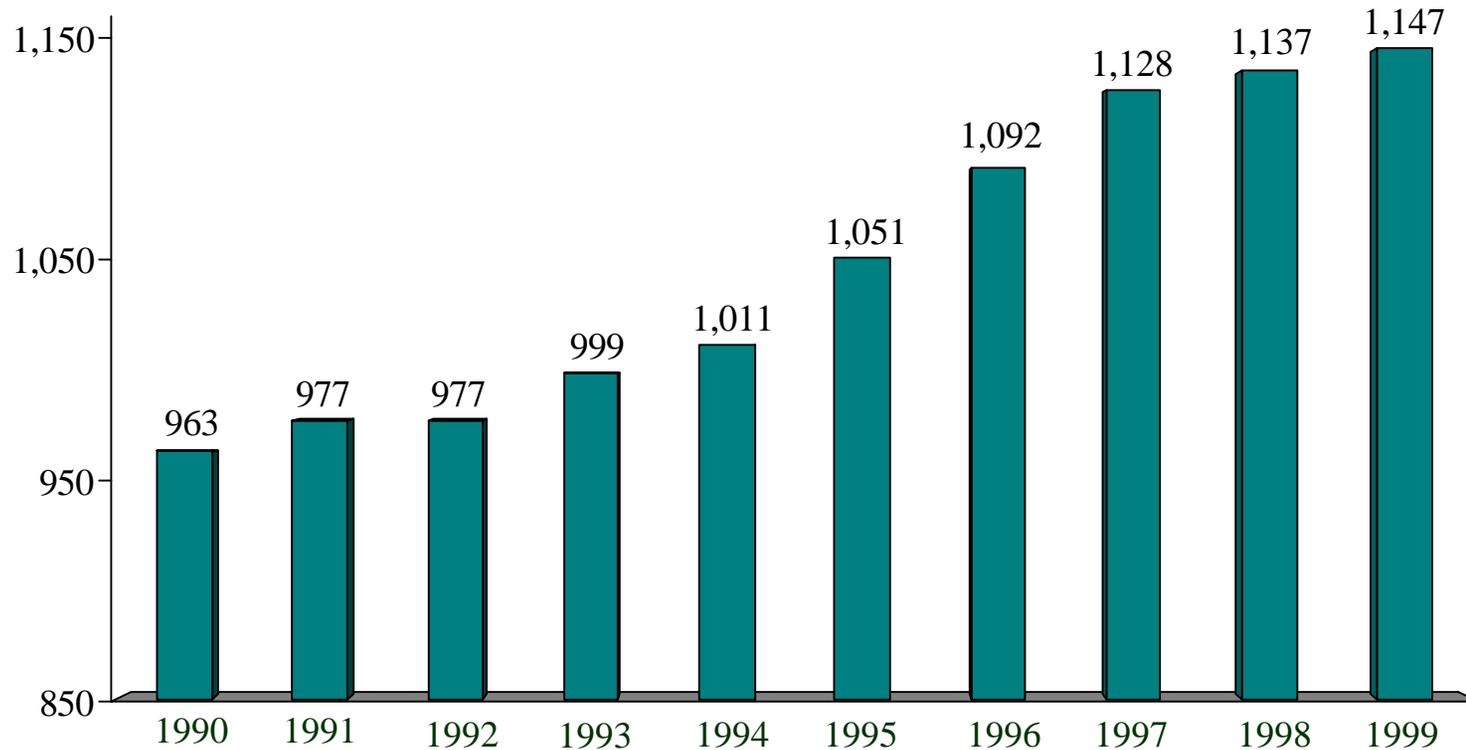
(2) Includes the Commonwealth, its municipalities and federal government, and excludes public corporations.

Sources: Department of Labor and Human Resources, Household Survey

# Commonwealth of Puerto Rico

## Employment

For the Last Ten Fiscal Years  
(Expressed in Thousands)



Source: Department of Labor and Human Resources of Puerto Rico,  
Household Survey.

**Commonwealth of Puerto Rico  
Tourism Indicators  
For the Last Eight Fiscal Years**

	1999	1998	1997	1996	1995	1994	1993	1992
<b>All Hotels and Hostelry Registration</b>	1,637,751	1,570,683	1,461,567	1,400,815	1,302,387	1,177,571	1,087,949	1,001,303
<b>Occupancy Rates</b>	71.8%	67.3%	69.8%	69.0%	68.0%	68.7%	68.5%	66.3%
<b>Numbers of Rooms</b>	11,095	11,848	10,869	10,265	10,251	9,519	8,581	8,415
<b>Visitors Expenditures*</b>	N/A	2,232	2,046	1,898	1,826	1,728	1,628	1,520

\* Amounts expressed in millions of dollars

N/A Not available.

Sources: Puerto Rico Tourism Company and Puerto Rico Planning Board



*The Commonwealth of Puerto Rico  
has been honored consecutively  
with the "Certificate of Achievement  
for Excellence in Financial  
Reporting" by the Government  
Finance Officers Association of the  
United States and Canada, for the  
fiscal years ending on June 30, 1996,  
1997 and 1998. We are proud of this  
achievement and congratulate our  
associates for their excellence.*